THE BRAZILIAN BORROWING EXPERIENCE:
From Miracle to Debacle and Back*

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Since 1981 the Brazilian economic and political system has passed through a period of crisis and upheaval. The country's foreign debt has been at the center of its economic problems, and the debt crisis has defined many of the contours of the political crisis. This article will examine Brazil's accumulation of the Third World's largest foreign debt and the consequences of both the debt and the debt crisis for the Brazilian pattern of economic and political development. The article will focus on the role of economic interests, specifically the role of different sectors of the Brazilian business community, in the borrowing boom and bust.

Brazil's borrowing experience is of interest not only to Brazilians, Brazilianists, and Brazil's creditors; it can also help clarify broader issues in the study of economic and political development. The role of foreign economic actors in developing countries has long given rise to political and theoretical controversy. It is therefore instructive to examine in detail the ways in which the Third World's largest economy has been affected by its relationship with the international financial system and to consider the political implications of this interaction.

Foreign borrowing was critical to Brazil's economic and political development after 1967. Virtually every major portion of the modern economy came to rely on foreign finance, as borrowed dollars funded everything from steel mills to soccer teams. State-owned industrial corporations and banks were the biggest borrowers. Private banks, large locally owned private industrial firms, and affiliates of multinational

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corporations followed, more or less in that order. The overwhelming majority of the borrowing went, directly or indirectly, to boost production of basic industrial products. In order to pay for the country's ever-mounting debt service, the new industrial facilities were pushed to export a portion of their output. In principle, the system was magical: foreign finance boosted industrial production, and enough of this production was exported to cover interest and principal payments. Gross domestic product (GDP) more than tripled in real terms between 1965 and 1980, industrial production quadrupled, per capita GDP doubled, and exports rose from \$1.6 billion to \$20.1 billion.

After 1980, however, Brazil spiraled downward into the deepest depression in its modern history. Between 1980 and 1983, real GDP fell by at least 8 percent, per capita GDP by over 15 percent. Industrial production dropped to 1977 levels, while manufacturing employment fell below 1976 levels. The country's showcase capital goods industry fell into especially serious trouble, closing out 1983 at barely 60 percent of 1980 production levels.[1] The massive foreign debt incurred to fuel domestic industrial growth had become a major drag on the country's economy.

The political consequences of borrowing and the subsequent financial crisis became substantial. The country's integration into a growing international financial and commercial system consolidated the position of the authoritarian coalition that took power in 1964. Debt-financed industrial growth helped to cement an alliance of the country's economic elites and ensure the passive support of large portions of the middle and working classes pulled upward by the industrialization drive. The results of the contraction of international trade and finance of the early 1980s were predictable in one sense but entirely unexpected in another. The domestic economic crisis caused a dramatic rise in popular discontent. Yet unlike many similar Latin American bouts with austerity, this one tended not to unite economic elites behind the government against mass demands but to forge an alliance between the opposition and discontented economic elites. Economic growth from 1967 to 1980 had dramatically strengthened the position of domestic industrialists whose ties to the international financial system were subordinate to their commitment to the local market.

Thus the debt crisis of the early 1980s drove powerful segments of the domestic economy, previous members and supporters of the country's ruling coalition, away from the government. By 1984 the core of the country's business community had joined most of the middle and working classes in open opposition. In these circumstances, the military could no longer maintain power, and the economic crisis of the early 1980s gave rise to an alliance of broad democratic opposition that was eventually victorious. The triumphant anti-austerity front that took

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power in March 1985 has moved continually away from the financial conservatism of the previous regime, and Brazil is undergoing an extraordinarily important process of economic and political reconstruction and reorientation.

This article will explore the relationship between foreign finance and Brazilian domestic economic and political forces. It will examine how foreign finance, foreign industrial corporations, domestic bankers and industrialists, and the state all have been involved in the economics and politics of Brazil's indebted development, traumatic climax, and current denouement. After providing an introductory summary of recent Brazilian economic development, I will look more closely at the economic and political underpinnings and consequences of Brazilian borrowing, then assess recent events and future prospects, and conclude with more general analytical observations.

RECENT BRAZILIAN ECONOMIC DEVELOPMENT

By the early 1960s, Brazil had one of the broadest and deepest industrial economies in the developing world. In 1963 such modern industrial sectors as metal products, electrical machinery, transport equipment, and chemical products accounted for 44 percent of gross industrial value added, up from 19 percent in 1939 and 23 percent in 1949. Domestic production provided 99 percent of the total domestic supply of consumer goods in 1962, 91 percent of intermediate goods, and 87 percent of capital goods.[2]

Yet major gaps existed in Brazil's economic and political system. Economically, long-term investment financing (apart from retained earnings) came almost exclusively from such multilateral lending institutions as the World Bank, via the national development bank and the Banco Nacional de Desenvolvimento Econômico e Social (the BNDES), and from foreign direct investment. The domestic financial system had atrophied under the weight of government policies aimed at favoring industry, such as a usury law that held nominal interest rates at 12 percent even as inflation soared past 50 percent. Less than 3 percent of national savings were channeled through the financial system, an extraordinarily low figure even for Latin America at the time, which averaged between 10 and 15 percent.[3] Partly as a result, much of the rapid growth of the 1950s had been financed by huge government deficits. Neither the deficits nor the resulting rampant inflation could be controlled by the Goulart government (1961–1964).

Politically, the Brazilian regimes of the period—from Juscelino Kubitschek (1956–1960) to Jânio Quadros (1961) to Goulart—relied substantially on variants of the populist coalition that had arisen in the 1930s. Support came from domestic light industrialists, segments of the traditional elites, and the urban middle and working classes. The massive entry of foreign capital and the rapid growth of heavy industry had led to major social transformations, yet the political system had changed little since 1945. Just as the new financial needs of a more mature economy went unmet, so did its new political concomitants.

By 1963 GNP growth was stagnant, inflation was uncontrolled, foreign investment had dried up, and foreign lenders had deserted the country. No political leader seemed capable of controlling the situation, and in April 1964, the military overthrew Goulart and took power.

Although the causes of the 1964 coup are many and controversial,[4] little disagreement exists as to what the military government did once in power. It repressed wages while encouraging the formation of a prosperous middle class. It revamped the financial system to ensure positive real interest rates and an adequate supply of investment finance. Also, the government reworked arrangements for the inflow of foreign finance to allow the country to take advantage of the then vibrant international financial markets.

On the wage front, the real minimum wage in Rio de Janeiro was cut by 34 percent between February 1964 and March 1967; during the same period, the real national average wage dropped by over 10 percent.[5] The regime instead encouraged the enrichment of the middle classes in the large cities, both as a crucial base of social support and as a market for the more sophisticated consumer durables then being produced. One result was a substantial deterioration in income distribution during the late 1960s, which did not improve during the subsequent period of rapid economic growth; another was a dramatic expansion in ownership of appliances and automobiles.

The domestic financial system was overhauled in the years following the 1964 coup in order to increase and institutionalize the role of the financial sector in the investment process. Indexing ("monetary correction") was introduced through a wide variety of financial instruments, which helped minimize the possibility of negative real interest rates and regularize government borrowing via index-linked treasury bonds. A modern central bank was created, along with a state-owned housing finance system funded by workers' forced savings and the state-owned savings and loan network. BNDES funding was increased to expand its long-term industrial lending. Along similar lines, an American-style division between commercial and investment banking was introduced, and the development of large and diversified financial conglomerates was encouraged. Attempts were made to develop a capital market for corporate stocks and bonds. Many of the previous obstacles to the growth of the financial system were thus removed, although the financial sector remained extensively controlled by the government, which often used it to channel credit to favored sectors or to itself.[6]

In the congenial atmosphere created by index-linking, forced saving, increased concentration, and conscious government policy, the financial system boomed, led by the new financial conglomerates. By the late 1970s, some twenty private financial conglomerates accounted for virtually all of the loans and deposits of private financial institutions. As a corollary of this concentration, increasing portions of industrial investment were financed by borrowing. By the early 1970s, half of industrial investment was financed in this manner, most by bank loans.[7]

Another important set of policy measures taken by the military government facilitated the inflow of foreign capital, especially in the form of bank loans. In fact, virtually all of the other policies adopted were directly or indirectly tied to ambitious plans to tap the burgeoning Euromarkets. The turn to borrowing from foreign banks became clear by 1970 and pronounced by 1973.[8] Between 1967 and 1980, over 15 percent of all domestic investment was financed by inflows of foreign capital, and the overwhelming majority of this inflow came in the form of bank lending.[9]

The most dynamic components of the nation's economy were indeed the heavily debt-financed parastatal firms and the financial institutions and suppliers pulled forward by the parastatal locomotive. The state enterprises' proportion of gross fixed capital formation grew steadily from 13 percent in 1965 to 29 percent in 1979 (the government itself accounted for another 15 percent), and these figures do not take into full account the major role of public development banks in financing long-term investment.[10]

Foreign direct investment also played a major part, especially in the 1960s and early 1970s. Foreign firms were particularly important in such dynamic sectors as automobiles (where they accounted for 97 percent of the sales of major firms in the industry in 1981), pharmaceuticals (72 percent), rubber products (73 percent), and tobacco (94 percent).[11]

By cutting wages, overhauling the financial system, and encouraging the inflow of foreign capital, the military government set the stage for the Brazilian "economic miracle" of 1968–1973 and for the less spectacular, but still impressive, industrial development of the succeeding seven years. A powerful grouping of economic actors was especially important to national development after 1964. The domestic banking system grew institutionally and financially stronger. The state firms expanded continually, bringing along with them networks of suppliers, especially in the capital goods industries, where the parastatals accounted for two-thirds to three-quarters of domestic orders.[12] The multinationals, which dominated the consumer durables sector, had the opportunity to tap a rapidly growing national market of middle-class consumers, many of whose purchases were financed by the vibrant financial system.

Underlying the new system was foreign finance. Domestic banks

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swelled their lending by funding their operations abroad and earning virtually ensured profits for relending dollars to domestic borrowers. The state enterprises relied on foreign finance for their investment programs. Domestic suppliers to the state enterprises, especially in capital goods, were given access to foreign finance channeled through private Brazilian banks as well as to subsidized credit from the BNDES, which often originated on the Euromarkets. Multinationals borrowed on the Euromarkets to expand their Brazilian operations, as did the largest local firms.

The new "growth coalition" of the post-1964 regime was composed, then, of domestic and foreign finance, domestic and foreign-owned modern industry, and the state sector. From 1967 until 1980, the growth coalition succeeded extraordinarily well in utilizing previously installed productive capacity, a reorganized financial system, and foreign finance to obtain impressive rates of industrial growth. The booming international trading and financial systems helped accelerate the economy's upward trend, and it was not difficult to maintain a level of political agreement among major economic interests so long as the world and local economies were growing.

The pace of economic, and especially industrial, development from 1967 until 1980 was little short of astounding. Steel production went from under four to over fifteen million tons; the domestic automobile industry's annual output grew from two hundred thousand vehicles to well over a million; and electrical capacity increased from less than 10 million kilowatts to 135 million. Major portions of the non-industrial economy—especially construction, finance, telecommunications, and some agribusiness—were significantly modernized. Brazilian manufacturers began to export in impressive quantities, becoming important factors in the world markets for steel, auto parts, footwear, aircraft, and weaponry. A modern industrial economy had unmistakably emerged by 1980, as evidenced by the fact that São Paulo was filled with factories that would have been impressive in the Rhineland or Detroit. Of course, industrial prowess coexisted with desperate poverty and depressing socioeconomic marginalism, but the military regime had never pretended that its social goals overrode its developmentalism.

Indeed, the military's implicit gamble that economic growth would dampen social unrest appeared to pay off. After three difficult years of recession and austerity, the economic miracle that began in 1968 served to moderate discontent. To be sure, political repression was widely used against striking workers and students, populist political leaders, and, eventually, urban guerrillas. Ironically, the period of harshest repression was precisely that of the "miracle," during the Costa e Silva (1967–1969) and Médici (1969–1973) presidencies. Nonetheless, the guerrillas' inability to muster active support indicated that popular opposition to the military dictatorship, although widespread, had been tempered both by fear and by the country's relative economic success.

In an attempt to construct more lasting bases of social support, the military suppressed political parties in 1966, closed the congress in 1968, then went about building a tightly controlled political system. Only two parties were permitted, the official Aliança Renovadora Nacional (ARENA) and the official opposition party, the Movimento Democrático Brasileiro (MDB). Legislative elections were held in 1974, and although ARENA easily held onto its legislative majority, the popular vote was close. In the 1978 elections, the proregime party was handed a series of humiliating defeats (the popular vote heavily favored the MDB), but judicious manipulation of the representative scheme secured a congressional majority for the military's supporters.

Yet, as Brazilians often complained, the formal political system built by the military did little more than provide make-work for politicians who otherwise would have been unemployed and perhaps restless. The existing effective political representation tended to circumvent the legislature, relying chiefly upon semicorporatist ties between key social groups and segments of the regime. In some instances, links were informal, as between certain economic leaders and military factions. In other cases, more formal vertical bonds were formed: crucial sectors of organized labor were tied to the Ministry of Labor under the corporatist labor legislation originally introduced by Getúlio Vargas during World War II, while sectoral employers' organizations fed the business community's demands to the regime. The position of the industrial sector—both industrialists and industrial labor leaders willing to cooperate with the regime—was central because of the regime's interest in industrialization and because of the larger sociopolitical ramifications of industrial capital and labor in rapidly industrializing societies.

In any case, the dozen years after 1967 comprised a period of relative prosperity and political quiescence. Analysts disagree about how much prosperity there was and how widely it was spread and about the degree to which political calm was due to repression or complacency. To be sure, opposition to the military grew steadily after 1974, as shown in the 1978 legislative elections. Yet it was not until the 1980s that broad and deep dissension developed. Before going on to discuss the recent evolution of Brazil's political and economic scenes, however, I will examine more closely the Brazilian borrowing process to demonstrate how foreign finance interacted with the most important sectors of the Brazilian economy in ways central to both economic growth from 1967 to 1980 and the subsequent economic crisis.

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BRAZIL'S FOREIGN BORROWING CLOSE UP

Brazil's borrowing was of special importance to a few clearly defined economic sectors that played crucial roles in post-1967 industrial growth. State-owned basic industrial corporations, especially in energy, steel, telecommunications, and transportation, were one such growth pole. The rapid development of parastatal industry was central to another area of growth, the locally owned private firms in basic industry that grew in tandem with the parastatals, especially those in capital goods and intermediate industrial inputs. The financial system was the third such profit center, with both the government's development banks and the large privately owned financial conglomerates participating. In virtually all cases, recourse to foreign finance accelerated through the 1970s, reaching a climax in 1980–1981, before the crisis that was to shatter the previous economic and political equilibrium.

Table 1 shows the rapid increase in foreign debt since 1970, mostly under two statutes, Law 4131 and Resolution 63.[13] Law 4131, originally enacted in 1962 and reinforced after the coup, permits domestic firms to borrow directly from foreign banks, the single most important form of foreign borrowing for Brazil.[14] Yet Law 4131 (and a short-lived allied measure, Central Bank Instruction 289) tended to favor foreign affiliates and parastatals over local private firms because the former had preferential access to the Euromarkets due to the size and creditworthiness of the ultimate guarantor of the loan (the parent firm in the case of local MNC affiliates, the Brazilian government for the state enterprises). So in 1967, Resolution 63 was introduced to permit domestic Brazilian banks to borrow abroad at medium or long term and "repass," or on-lend, the *cruzeiro* equivalent of the foreign currency to domestic borrowers at relatively short term (generally six months). Thus domestic businesses got access to foreign finance, although as ultimate borrowers, they had to absorb the exchange risk.[15]

The government consciously made foreign borrowing ever more attractive to Brazilian public and private enterprises, although at several points concern about the effects of capital inflows on the money supply led to brief attempts to restrict the flow. Generally, however, incentives ranged from exemptions from certain financial taxes or quantitative credit controls, to an exchange-rate policy that rewarded foreign borrowers, to an increase in domestic interest rates to force borrowers overseas. Perhaps most important, the government pushed state enterprises to borrow abroad in order to leave room in the domestic capital markets for treasury securities and private borrowers. This orientation responded to the general preference of foreign lenders for public or publicly guaranteed borrowers. The government also created a number

TABLE 1 Brazilian Economic Indicators, 1970–1985, in Billions of U.S. dollars

			Medium- and Long-Term Foreign Debt			*Short-Term*	*Total*
Year	*GDP*	*Current Account*	*Public*[a]	*Private*[a]	*Total*	*Foreign Debt*	*Foreign Debt*
1970	45.8	− 0.6			5.3	0.2	5.5
1971	54.0	− 1.3	3.9	2.7	6.6	0.3	7.0
1972	62.4	− 1.5			9.5	0.5	10.0
1973	79.3	− 1.7	6.5	6.1	2.6	1.2	13.8
1974	101.7	− 7.1	8.5	8.6	17.2	1.3	18.5
1975	116.8	− 6.7	11.5	9.7	21.2	1.0	22.2
1976	133.5	− 6.0	14.9	11.1	26.0	2.7	28.7
1977	148.8	− 4.0	19.3	12.7	32.0	2.8	34.9
1978	167.5	− 7.0	27.6	15.9	43.5	4.3	47.8
1979	199.8	−10.7	34.0	15.9	49.9	4.0	53.9
1980	244.1	−12.9	37.3	16.5	53.8	7.0	60.8
1981	261.7	−11.7	41.8	19.6	61.4	8.6	70.0
1982	277.3	−16.3	47.4	22.8	70.2	13.0	83.3
1983	208.7	− 6.8	60.3	21.0	81.3	10.3	91.6
1984	219.0	+ 0.5	71.8	19.3	91.1	8.7	99.8
1985[b]	230.0	− 1.6	73.1	18.4	91.5	8.2	99.7

Sources: Paulo Nogueira Batista Junior, *Mito e Realidade na Dívida Brasileira* (Rio de Janeiro: Paz e Terra), p. 198; José Eduardo Carvalho Pereira, *Financiamento Externo e Crescimento Econômico no Brasil: 1966/73* (Rio de Janeiro: IPEA/INPES, 1974), p. 80; and Mônica Baer, *La internacionalización financiera en Brasil* (Mexico City: ILET, 1983), p. 61. Additional data were supplied by IPEA/INPES, the Banco Central do Brasil, the BNDES, and the Secretaria de Planejamento from their internal records.

Note: Figures for short-term debt are notoriously unreliable. It is likely that they are understated, especially for 1978–1981. Data presented, especially for GDP, are distorted by a variety of statistical and exchange-rate anomalies, and should be taken merely as indicators of general trends. Blank spaces indicate that information was not available for those years.

[a]Debt owed or guaranteed by public or private sectors.

[b]Estimated.

of mechanisms for those who borrowed abroad to transfer exchange risk to the Banco Central, mechanisms with varying degrees of success and efficacy. Unused foreign resources borrowed under Resolution 63 and Law 4131 could thus be deposited with the Banco Central, where they earned international market rates and were secure against a cruzeiro devaluation.

Government policy toward domestic financial markets was also structured in a way that facilitated the entry of foreign finance. Indeed, part of the rationale for the capital market reforms of the mid-1960s was to allow domestic financial institutions to take full advantage of the

Euromarket. Thus the new private investment banks had as one of their more important functions the use of foreign finance for domestic on-lending. Similarly, the new instruments of monetary policy introduced after 1964, especially indexed treasury securities and the open market, were partially intended to give the Brazilian monetary authorities better tools for offsetting the monetary effect of foreign-capital inflows.[16]

The international expansion of Brazilian banks also become an instrument of governmental attempts to attract foreign finance. Banks in the public sector, especially the Banco do Brasil and the Banco do Estado de São Paulo, were encouraged to set up new overseas branches, subsidiaries, and representative offices. The number of overseas affiliates of these two banks multiplied from 18 in 1972 to 102 in 1981. The overseas offices of private Brazilian banks also shot up from 8 in 1976 to 92 in 1981. The twofold rationale asserted that Brazilian bank branches abroad would help finance and encourage Brazilian exports and that Brazilian bank branches in major financial centers could borrow more easily, including in the interbank market, for on-lending to Brazilian borrowers.[17]

All in all, then, the Brazilian government, along with the private financial sector and the largest basic industrial firms, did everything possible to tap the expanding international financial markets. The result was unprecedented access to foreign finance by Brazilian parastatals, public and private financial institutions, and large domestic and foreign corporations. Let us look at the process in more detail.

Nonfinancial Parastatals

The sheer size of the Brazilian state industrial sector is impressive. The country's twenty-five largest nonfinancial corporations are state-owned, and in 1981, the total spending of the nonfinancial state enterprise sector was $73.5 billion, equivalent to 28 percent of the Brazilian GDP; investments totaled $14.5 billion, also 28 percent of Brazilian gross fixed capital formation.

Much of the public industries' growth was debt-financed, and most of the borrowing was done abroad. In the words of one of the parastatal financial directors, "What made the expansion of the Brazilian state enterprises possible was foreign financing."[18] By 1981 the country's more than five hundred nonfinancial state enterprises accounted for $32.2 billion in foreign debt, nearly half of the country's total and over two-thirds of the public-sector foreign debt (virtually all of the remainder was owed by public financial institutions). By that year, the parastatal sector's $50.4 billion in total debt (almost two-thirds foreign and one-third domestic) equaled 112 percent of equity (see table 2).

TABLE 2 Financial Data on the Brazilian Parastatal Sector in 1981, in Millions of U.S. Dollars.

Sector	*Operating Earnings*	*Total Debt*	*Debt as % of Equity*	*Foreign Currency Debt*	*Foreign Debt as % of All Debt*
Agriculture, livestock, and fisheries	379	105	28	4	4
Mining	16,333	4,616	51	4,274	93
Manufacturing	6,691	19,998	409	9,925	50
Electric and nuclear energy	2,441	16,105	155	13,551	84
Commerce, housing, and tourism	8,863	886	91	124	14
Transportation, communication, and storage	5,913	8,825	43	4,044	46
Other	1,518	110	16	83	76
Total	42,138	50,645	112	32,005	64

Source: Calculated from *Relatório SEST 1981* (Brasília: SEST, 1982), 93–109.

Note: All values converted to dollars at the average 1981 rate of U.S. $1.00 equals 93.015 *cruzeiros*. Totals may not match official totals, probably due to problems of aggregation or double counting.

The state-owned industrial firms are concentrated in those sectors that provide inputs or infrastructure important to industry, often at subsidized prices. In addition, the major parastatal investment programs were important sources of orders for the country's private industry. State enterprises in electric energy, petroleum and petrochemicals, and steel accounted for over half of the domestic demand for heavy capital goods, a fact of no small importance to domestic capital goods producers. In almost every case, the new investment programs of these enterprises relied heavily on borrowed funds, usually from overseas. Six groups of public firms account for over four-fifths of the total investment of the nonfinancial parastatal sector and for virtually all of the parastatals' foreign debt: electric energy; petroleum, petrochemicals, and related industries; steel; telecommunications; mining; and railroads.[19]

The electric energy firms are the most important in the public sector. Since the early 1960s, the power companies have been run by the federal holding company, Eletrobras.[20] Eletrobras also owns half interest in the binational Itaipu hydroelectric power plant, the world's largest, on the Paraguayan border. Also part of the energy sector is Nuclebras, the nuclear energy agency, which attempted to develop a national nuclear-power program with European technology. Critics have charged that the effort was economically unjustifiable, and in fact, the new civilian government has all but abandoned the nuclear program. The projects nevertheless have absorbed huge quantities of national (and German) capital goods.

With Eletrobras, Itaipu, and Nuclebras, the electric energy sector has been responsible for over one-third of parastatal investment and over 10 percent of total domestic investment, a 1976–1981 annual average of $235 million for Nuclebras and $4.1 billion for Eletrobras (including Itaipu). Barely more than 30 percent of investment funds came from net operating income; by the late 1970s, half of all investment was being financed by borrowing, almost all of it abroad. By 1980–1981 the electrical and nuclear energy sector's debt was nearly double equity, with foreign debt accounting for three-quarters of the total. Eletrobras is indeed the largest single Brazilian debtor to international financial markets. By the end of 1982, Eletrobras's foreign-currency debt totaled $8.4 billion, and the company owed another $2.7 billion domestically.

The electric energy sector has been a centerpiece of the national economy since the late 1960s. Apart from providing industry with inexpensive electricity, this sector was a major purchaser of domestically produced capital goods. Much of the capital investment made by Eletrobras was financed by foreign borrowing, as was much expansion of the capital goods producers.[21]

Petrobras was created by Getúlio Vargas in 1953, amidst an impassioned national campaign with the slogan "O petróleo é nosso," and the slogan carries great nationalist weight to this day. Petrobras retains a monopoly on domestic petroleum exploration and production, although in the late 1970s, foreign firms were permitted to negotiate risk contracts for offshore drilling. Petrobras and its subsidiaries dominate the refining and distributing of petroleum products (including retail gasoline sales), the importing of crude oil, and the exporting of derivatives. Since 1974 Petrobras has rapidly accelerated its petroleum exploration and development as well, a costly effort, and has undertaken an ambitious expansion plan in petrochemicals. Largely as a result of major petrochemicals and related investments, the state sector has come to dominate the nation's chemical industry, accounting for over four-fifths of equity and three-quarters of sales.

Among the parastatal groups, Petrobras and its affiliates have been second only to Eletrobras in total investments. In the 1976–1981 period, the group averaged $2.1 billion in annual investments, more than 5 percent of Brazil's gross fixed capital formation during the period. Much of this investment was internally financed because the firm, as the nation's leading gasoline retailer, usually turns a profit. Still, foreign borrowing averaged over $420 million a year. The petrochemical subsidiaries were somewhat less self-sufficient, relying on public funds for an average of 12 percent of their investment finance in the late 1970s and on borrowing for another 30 percent. Foreign borrowing was thus extraordinarily important to the conglomerate: by 1982 the group's foreign debt reached $7.2 billion, equaling 26 percent of equity.[22]

Steel production in Brazil is also dominated by public enterprises, which account for over two-thirds of sales. The first integrated steel mills in the country were government-owned, and by the 1980s, the Siderbras holding company controlled Açominas and Usiminas in Minas Gerais, the Companhia Siderúgica Nacional in Rio de Janeiro state, Cosipa in São Paulo state, the Companhia Siderúgica de Tubarão near Vitória in the Center-South, as well as a number of smaller, more specialized firms. Another group in the steel sector, Acesita, produces specialty steel. Increasing steel production has been a government priority, especially in the 1970s. As a result, state-sector steel investment grew eightfold in real terms over the decade, as Brazilian steel-ingot production rose from less than 4 million tons in 1967 to over 15 million in 1980.

Public investments in the steel industry averaged over $1.9 billion a year between 1976 and 1981, nearly 5 percent of national investment. Because of the steel industry's importance to the national industrial sector, the government has kept steel prices low, and they fell in real terms through the 1970s. As a result, operating earnings financed less than one-fifth of steel investment in the late 1970s; one-third was financed with public funds, and half by borrowing, the majority being borrowed abroad.

Brazil now boasts one of the world's larger steel industries, one capable of supplying domestic demand for virtually all iron and steel products and even of exporting successfully to the advanced industrial nations. Indeed, because the steel firms were hard hit by the country's economic downturn (1983 steel production dropped 15 percent below 1980 levels), the government encouraged the companies to compensate for the drop in domestic demand by stepping up their exports. The export effort was a success, with the ironic result being acrimonious disagreement between the Brazilians and the U.S. and European steel producers.

Telebras, the Federal government's telecommunications holding company, consists of Embratel, twenty-six state or territorial telephone companies, and one telecommunications firm. Brazil's telecommunications network has expanded exponentially, from 1.2 million telephones and 657 telex terminals in 1964 to 7.3 million phones and 44,000 telex terminals in 1980. With nearly ninety thousand employees, the Telebras system is a major employer as well as a crucial factor in the nation's economic infrastructure.

A telecommunications system requires heavy investment, and Telebras averaged over $1.5 billion a year between 1976 and 1981. About a third of this investment was financed out of operating income, another third came from the Brazilian treasury, and the final third was borrowed, about half abroad and half at home. The system's foreign debt exceeded $2 billion by 1980.

In mining, the group led by the Companhia Vale do Rio Doce (CVRD) includes shipping lines, forestry enterprises, mining concerns and related concerns in aluminum production, iron ore pelletization, and pulp and paper. Founded in 1942, the group was one of Brazil's first parastatals, and it accounts for two-thirds of the country's mining sector. The development of the Carajás superproject and other investments in natural resources made mining one of the few growth industries in Brazil in the early 1980s. Production expanded 20 percent between 1981 and 1983, even as manufacturing production declined 10 percent. By the mid-1980s, iron ore exports approached one hundred million tons a year (compared with five million tons in 1960), and iron ore now averages 8 or 9 percent of total Brazilian exports.

Its major overseas earnings allow CVRD to finance much of its own investment program, which averaged $640 million a year between 1976 and 1981. Borrowing nevertheless accounted for 40 percent or more of CVRD investment. Enormous projects like Carajás required some foreign bank financing and, in many cases, overseas export financing for the purchase of heavy equipment. In the expansion of Brazil's mining sector as well, foreign borrowing has been a central factor.

The railroad network (the Rede Ferroviária Federal S.A., or RFFSA) loses money perennially due to heavily subsidized rates and the maintenance of uneconomical lines. In fact, because railroad transport has ranked fairly low as a government priority, the railroads have expanded much more slowly than other parastatals. Yet the railroad system made substantial investments, averaging $870 million a year between 1976 and 1981. Because much of its investment involved orders of heavy equipment, RFFSA was fairly important for the national capital goods sector. None of the expansion was internally financed, however. The railroads depended almost entirely on borrowing and treasury funds. Borrowing helped keep the railroads rolling, and foreign borrowing averaged about half of total borrowing.

The parastatal enterprises involved in productive activities and in providing basic industrial inputs were central to Brazil's rapid industrial development after the mid-1960s. Foreign finance was in turn crucial to the parastatals' investment plans. Although counterfactual assertions are mere flights of fancy, it is hard to imagine Brazil's public enterprises being as dynamic as they were between 1967 and 1980 without foreign bank loans. It is equally difficult to imagine the Brazilian economy growing as rapidly as it did without its dynamic parastatal enterprises.

The Banking System

The financial system was as central to the Brazilian economy after 1967 as were the parastatals. Virtually all long-term industrial lending came from the public financial institutions, especially the Banco Nacional de Desenvolvimento Econômico e Social (BNDES). Private commercial and investment banks were critical suppliers of working capital to industry, and the various consumer and housing finance institutions allowed the exploding demand for consumer durables to be bought on credit. Throughout this period, the domestic financial system, and especially the BNDES and the public and private commercial and investment banks, utilized foreign borrowing as a mainstay of their activities.

The accelerated growth of the financial sector is illustrated by its continually increasing share in national income, which rose from 4.3 percent in 1965 to 6.4 percent in 1973 and 9.3 percent in 1978. Similarly, financial intermediation grew by a spectacular 18 percent per year in real terms between 1968 and 1979, double the real GDP growth in the period. At the same time, the financial system (which had financed almost none of its operations abroad before 1967) held 9 percent of its liabilities in foreign currency by 1970 and 20 percent by 1979.[23]

Generally speaking, the financial sector is highly segmented. True long-term lending to industry for investment purposes is almost solely the bailiwick of the national and state development banks. The private investment banks concentrate on medium-term lending for working capital, while the commercial banks generally make short-term loans.

The development banking system has been extremely important in financing investment in the economy, primarily in industry, and its funds have come either from forced savings or foreign borrowing. The center of the development banking complex is the BNDES, with outstanding loans in 1981 of over $16 billion, equity investments in a variety of corporations of another $3 billion, and other assets of nearly $4 billion. It has been estimated that the BNDES and its affiliates handle four-fifths of Brazil's industrial investment lending. After 1964 about 10 percent of lending went to agriculture, with another 15 percent each to energy and infrastructure; most of the remainder was lent to industry. Within industry, the major borrowers were in the basic inputs (steel, metalworking, chemicals, pulp and paper) and in electrical and mechanical equipment sectors.

The BNDES, as a respected financial institution, also guaranteed foreign borrowing by public and private corporations. Between 1968 and 1973, BNDES guarantees averaged $90 million a year; between 1974 and 1980, they averaged $500 million a year. Most of the borrowing

TABLE 3 Foreign Debt of Brazilian Financial Institutions, 1970–1983, as a Percentage of All Liabilities

Year	Public Commercial Banks[a]	Private Commercial Banks	Private Investment Banks	BNDES
1970	14	10	8	7
1971	13	12	11	6
1972	12	15	22	7
1973	9	16	18	10
1974	9	18	18	9
1975	8	14	16	9
1976	10	20	15	8
1977	10	21	13	10
1978	13	26	16	12
1979	19	32	18	17
1980	19	36	23	17
1981	18	42	25	15
1982	18	43	25	13
1983	25	56	30	18

Source: Calculated from Banco Central do Brasil, *Boletim Mensal*, various issues, 1971–1984.

[a]Except for the Banco do Brasil.

guaranteed by the BNDES originated in the electric energy, steel, metalworking, chemicals, and pulp and paper industries. On the other end of BNDES operations, domestic lending was often accomplished through other financial institutions, such as state development banks, private investment banks, or brokerage firms. Thus BNDES loans strengthened not only the ultimate borrower but the financial go-between.

The lion's share of BNDES resources came from forced savings, especially employee pension funds, which accounted for an average of two-thirds of BNDES liabilities (excluding stockholders' equity) in 1980–1981. The largest remaining source of funds was foreign borrowing, which averaged 20 percent of liabilities in 1980–1981. This proportion increased relatively steadily from the 1971 figures of less than 6 percent of total liabilities (see table 3), and by 1981, BNDES foreign debt exceeded \$3 billion.[24]

The BNDES thus became an essential factor in industrial expansion as well as a pivotal link in channeling foreign finance into Brazilian industry. With the BNDES accounting for four-fifths of industrial lending (much of it funded abroad) and over \$4 billion in guarantees for

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foreign borrowing by Brazilian firms since 1968, the BNDES and its supplementary network of state and regional development banks were at the heart of Brazil's indebted industrialization.

In addition to the development banks that carry out most of Brazil's investment financing, the government also controls a large network of commercial banks that engage primarily in short-term lending and normal consumer banking. Foremost among these is the Banco do Brasil, with 1982 assets of $63 billion. Founded in 1854, the bank is majority-owned by the federal government, although its shares are publicly traded. It carries out certain central banklike functions, as well as major development lending programs, especially to agriculture, industry, and exporters.[25] The Banco do Brasil is also the country's largest commercial bank, three times the size of its nearest private competitor; it has generally handled between one-quarter and one-fifth of all lending to the private sector.

After Brazil's turn to borrowing, overseas operations became vital to the bank. The Banco do Brasil has over eighty offices abroad (half of them branches), owns three foreign subsidiaries, and belongs to ten international consortium banks. Overseas operations account for nearly a third of the bank's total business, and even in its domestic operations, nearly one-quarter of all liabilities are in foreign currencies.

This picture is characteristic of most of the other commercial banks in the public sector: Banespa, owned by the state of São Paulo, has the nation's fourth largest deposit base; the state of Rio de Janeiro's Banerj is number eight; and seven other state commercial banks rank among the country's thirty largest. All are users of foreign finance, and four of the largest of the state commercial banks have overseas branches. Banespa's overseas network is second only to that of the Banco do Brasil.[26] By the early 1980s, government commercial banks as a whole funded over one-fifth of all liabilities abroad, up from about one-tenth in the early 1970s (see table 3).

The private financial conglomerates that grew out of the concentration and diversification of the 1960s were also major beneficiaries of Brazil's economic growth and its foreign borrowing. After the mid-1960s, the private financial system was dominated by a few large diversified conglomerates, which generally included a commercial bank, an investment bank, a consumer finance firm and a real estate finance firm, and sometimes leasing and brokerage arms. Firms affiliated with conglomerates dominate nearly every segment of Brazil's financial markets, demonstrating that concentration increased in tandem with the rise in foreign funding. Thus in 1970, the ten largest private commercial banks conducted 47 percent of total lending by private commercial banks, and the five largest conducted 27 percent; by 1980 the respective figures were 78 percent and 56 percent.[27] The larger banks found it easier to borrow abroad, and those with overseas offices even had access to Euromarket interbank lending. In the race for funds, access to foreign finance was crucial because the domestic deposit base was growing relatively slowly. Thus the proportion of foreign liabilities to total liabilities of the private banking system mushroomed after 1967, especially with the development of lending under Resolution 63. As table 3 shows, foreign liabilities constituted one-third of all liabilities of the private investment banks by 1983, up from 8 percent in 1970; foreign liabilities of private commercial banks jumped from 10 percent to well over half.

Brazilian private commercial and investment banks owed nearly $11 billion to the Euromarkets under Resolution 63 by the end of 1981. In addition, private financial institutions had borrowed another $1.2 billion under Law 4131 between 1972 and 1980. With much of their activity financed by foreign borrowing, the private commercial and investment banks were able to expand their lending steadily and become ever more central to the investment process. Meanwhile, the private financial sector became far more concentrated, as the strongest banks were able to borrow heavily abroad and thus strengthen their position even further.

The greater financial clout that private Brazilian banks gained with their access to foreign funds increased their importance to the rest of the Brazilian economy. Figures on the composition of liabilities of Brazilian firms between 1969 and 1975 (when the foreign borrowing process was advancing) bear out this generalization. Bank loans equaled 31 percent of the firms' equity in 1969; by 1975 debt owed to banks climbed to 65 percent of equity.[28] It can only be surmised, based on fragmentary information and interviews, that the process continued up into the early 1980s with little or no pause.

By 1981, on the eve of the international financial crisis, the private financiers were unquestionably the leaders of the private sector. In mid-1983 Bradesco, the largest private bank, became the first private enterprise in Brazilian history to have more than one hundred thousand employees. As the crisis deepened, the bankers' privileged position—and their close ties to the foreign financiers who seemed to be causing many of the problems—made them logical targets for the rest of society and especially for the heavily indebted industrialists. As might be expected, the bankers were also among the government's strongest supporters in the modern private sector, and only as the crisis became desperate did some of the financiers begin to leave the ranks of the government's supporters.[29]

Private Industry

Privately owned Brazilian industrial firms played a key role in the dual process of industrialization and overseas borrowing, for economic as well as political reasons. Economically, local private industry is concentrated in some of the industrial sectors that have been most important to the maturation of the country's industrial structure, especially in capital and intermediate goods. Politically, the domestic industrial community (mostly located in and around São Paulo) has long been one of the most powerful and cohesive forces in Brazilian society. Since the 1930s, no Brazilian government has ruled for long without its support, and the support of the industrialists has often gone hand in hand with the support of labor in their factories, given that employed workers have often perceived their immediate interests as tied to those of their employers.

Virtually every aspect of Brazil's foreign borrowing, then, was tied in one way or another to local private industry. As the parastatals expanded their investments, their orders from domestic industry grew, especially for capital goods. As the public financial institutions increased their lending, debt-financed expansion by private industry became the norm. As the private financial conglomerates grew, they too lent more and more to private industry—although this kind of credit was not subsidized, as industrial borrowers discovered to their chagrin after 1980.

The two most dynamic sectors of Brazilian industry after 1967 were consumer durables and capital goods. In the earlier part of the period, between 1967 and 1973, production of consumer durables grew particularly rapidly; in the latter years, capital goods production was more dynamic. Between 1967 and 1977, production of consumer durables grew by 18 percent a year, producers' goods by 13 percent a year, while production of consumer nondurables grew by 8 percent a year.[30] Although a great deal of overlap exists, foreign dominance is especially pronounced in the consumer durables sectors, while local private firms are especially strong in many lines of capital goods.

This industrial expansion was financed largely by borrowing, which supplemented retained earnings in crucial ways and amounts. Some of the expansion was financed by new injections of equity from local affiliates of foreign corporations, but even for foreign-owned corporations, borrowing abroad was often more attractive than direct investment by the home office because the Brazilian government controls interest payments less than profit remittances. Most of the private sector's borrowing under Law 4131 (that is, borrowing by private nonfinancial enterprises directly from the Euromarkets) was done by multinationals, who made gross borrowings of nearly $15 billion between

1972 and 1980. This sum was much larger than the increase in the stock of foreign direct investment in the period, indicating the importance of this borrowing for the firms involved. Domestic private firms also borrowed about $3.5 billion gross between 1972 and 1980 under Law 4131. But most of their investment financing came from the BNDES system or from private banks, either under Resolution 63 (in foreign currency) or in other forms.

In any event, the role of borrowing in Brazilian industrial investment was central. Between 1970 and 1976, the ratio of debt to equity for major firms in Brazil went from 0.82 to 1.25; the increase for the capital goods sector rose from 1.17 to 1.72. Over the same period, profits climbed from 12 percent of equity for industry as a whole and for capital goods in 1970 to 17 percent for all industry and 27 percent for capital goods in 1976.[31] The more dynamic sectors and the larger firms were indeed more heavily indebted; they could borrow because of their size and dynamism, and their access to finance increased both factors.

Bank loans, many directly or indirectly from overseas, spurred the growth of the large, dynamic firms, which grew in relative importance as they increased their borrowing. An indication of the role of foreign finance in all this activity is the changing composition of the financial balance sheet of the private sector between 1969 and 1980. In 1969, 55 percent of the financing of the private sector's needs (private sector here includes both firms and households) came from the banking system, 29 percent from the government, 10 percent from the housing finance system, and 6 percent from abroad. By 1980 the private banking system financed 40 percent of the private sector's requirements, the government 13 percent, the housing finance system 19 percent, and foreign finance 28 percent.[32]

Nearly two-thirds of bank loans to industry went to five sectors: metalworking, machinery, communications and electrical material, transport material, and chemicals. This distribution is also true of direct foreign borrowing by private industry under Law 4131. Over time the results were fairly clear: the larger domestically owned firms in the dynamic sectors became stronger.

This trend can be seen in the evolution of the relative shares of Brazilian domestic, foreign-owned, and state corporations in the Brazilian economy. State enterprises continually increased their weight in the booming economy, while that of domestic private firms has remained roughly the same and that of the foreign affiliates has declined. Table 4 shows two data series confirming this trend (continuous data are not available). Figures for the country's two hundred largest firms are similar, although the parastatals weigh heavily among the nation's largest enterprises. Between 1972 and 1984, the capital of the foreign affiliates among the two hundred largest Brazilian firms dropped from 20 per-

TABLE 4 Participation of State, Domestic Private, and Foreign Firms in Brazilian Industry, 1969–1984

Indicator	Domestic Private Firms (%)	Foreign Firms (%)	State firms (%)	Total (%)
Value added[a]				
1969	56	37	7	100
1975	58	33	9	100
Sales[b]				
1974	56	28	16	100
1984	53	19	28	100
Capital				
1969[a]	45	27	28	100
1975[a]	44	24	32	100
1974[b]	43	18	39	100
1984[b]	41	9	50	100

Sources: Andrea Sandro Calabi, Gerald Dinu Reiss, and Paulo Mansur Levy, *Geração de Poupanças e Estrutura de Capital das Empresas no Brasil* (São Paulo: Instituto de Pesquisas Econômicas, Universidade de São Paulo, 1981), 102 and 121; *Visão*, various issues from 1975 to 1985.

Note: Firms with unidentified ownership have been removed from the sample used by Calabi et al. Deviations from 100% are due to rounding.

[a]According to Calabi et al.

[b]According to *Visão*.

cent of the total to less than 8 percent, while that of local private firms rose from 16 to 18 percent and that of the parastatals (which have especially high capital-to-output ratios and are thus somewhat overrepresented here) increased from 64 to 74 percent of the total. Figures for sales between 1972 and 1984 show the same tendency, with the multinationals' share dropping from 42 to 23 percent, local private firms from 23 to 21 percent, but the parastatals rising from 35 to 56 percent.[33]

Along with foreign financing, orders stemming from the public sector's major expansion program figured prominently in the growth of the capital goods industry throughout the 1970s. As early as 1970, government orders for capital goods equaled three-quarters of national production and over half of total supply (that is, production plus imports); by the late 1970s, these percentages were higher still. Financing provided the wherewithal for the capital goods industry to expand, while government orders provided the incentive, with promises of an ever-increasing demand for domestic producers' equipment.[34]

In a sense, nearly every aspect of the borrowing model spurred local private industry between 1967 and 1979, just as every facet of the financial crisis hamstrung it after 1980. As the parastatals grew along with foreign finance, they ordered more and more from local suppliers. In order to expand, these suppliers borrowed from the BNDES, which often loaned them funds originating abroad. To cover their burgeoning requirements for working capital, the local firms borrowed heavily from the local commercial banks, especially in the form of foreign-currency loans permitted under Resolution 63. The system was neat and efficient until the supply of foreign finance dried up. Parastatal investment stagnated, and orders to suppliers along with it. Brazilian firms that had borrowed dollars suddenly found themselves with rapidly growing debts and no new source of finance available.

Just as the borrowing boom began, so did it end. From the late 1960s to 1980, the extraordinary expansion of the parastatals provided leading segments of private industry with a seemingly inexhaustible source of orders. Meanwhile, a seemingly endless supply of foreign finance provided the funds to expand production, as it also did for parastatals. By 1981 the cycle had ended. Foreign finance, parastatal orders, and domestic finance all dried up. The "miracle" was definitely over, and its end spelled the collapse of the coalition of economic interests that it had supported.

CRISIS AND RESOLUTION

In 1979 the Brazilian economy began a downward spiral that drove increasingly influential social groups into opposition and culminated in a new civilian opposition government assuming power in March 1985. An economy that had come to rely on foreign finance was hit first by a dramatic rise in international interest rates that squeezed indebted firms, then by stagnation in world trade and a marked deterioration in the country's terms of trade, and finally (in mid-1982) by a near-total cutoff of voluntary new lending. As the military regime scrambled to hold a crumbling economy together, it raised domestic interest rates to attract more foreign capital, cut public investment to free funds for debt-service payments, and undertook two 30 percent maxidevaluations to stimulate exports and reduce imports. Domestic private industry was hit from all sides, as financial costs skyrocketed and government orders plummeted. By 1982 business discontent with the regime was widespread; by 1984 it was nearly universal. The regime had lost most of its popular and elite support.

Indeed, the military government's commitment to preserving its international creditworthiness in the context of the 1979–1983 international economic shocks practically dictated a series of policies with disastrous consequences for much of the domestic economy.[35] Rising international interest rates and deteriorating terms of trade had completely predictable implications for a country with an enormous existing stock of debt to overseas financiers—again, assuming priority being given to maintaining international creditworthiness. The public sector needed to free increasing sums to meet rising debt-service payments. Given the difficulty of rapidly raising taxes to the required levels, this necessity implied major cuts in domestic current and capital spending by the public sector, along with redoubled borrowing. Increased borrowing and the avoidance of capital flight required the maintenance of interest rates high enough to attract foreign and domestic investors. The debtor sectors' increased needs for foreign exchange, especially in the context of international recession and declining terms of trade, called for specific measures to reduce imports and increase exports, such as devaluations and recessionary policies.

The need for domestic resources and foreign exchange to meet rising debt-service payments thus forced a regime committed to its international financial obligations to cut public spending, tighten monetary policy, and devalue the cruzeiro. After mid-1982, when new foreign borrowing suddenly ceased to be an option, the public sector was thrown back upon domestic financial markets to raise funds to meet domestic and international financial expenses, thereby driving domestic interest rates still higher and exacerbating the financial squeeze on domestic debtor sectors. These policies struck directly at the interests of domestic industrialists who had come to rely on cheap financing and government orders. Let us look at the disintegration process more closely.

When Antônio Delfim Netto took office as President João Baptista Figueiredo's chief economic policymaker in August 1979, his plan was to ride out the international "malaise" without domestic austerity. But inflation began to accelerate, foreign exchange reserves were burned up, and foreign borrowing became more difficult and more expensive as international financial markets responded poorly to Delfim Netto's heterodoxy.[36] At the same time, interest rates on the Euromarkets soared and Brazilian net interest payments more than tripled from $2.7 billion in 1978 to $9.2 billion in 1981, even as the country's net debt rose by 70 percent. Meanwhile, the countries' exports were faced with the general stagnation of world trade after 1980 and a 30 percent deterioration in Brazil's terms of trade between 1979 and 1981. By 1981 debt-service payments equaled 72 percent of Brazil's exports, up from 51 percent in 1977.[37]

Faced with adverse international conditions, Delfim Netto devalued the cruzeiro by 30 percent in December 1979, and in the succeeding year, various policies were implemented to keep foreign finance coming into the country. Most important was the drastic raising of domestic interest rates, which soon surpassed 50 percent in real terms for consumer credit and was scarcely less for bank credit to industry. As Finance Minister Ernane Galveas told the Escola Superior de Guerra, "High interest rates in the free segment of the financial market are the price that Brazilian society is paying in order to increase exports and sustain the process of adjustment in the balance of payments."[38]

Domestic credit was controlled, while foreign borrowing was exempt from quantitative limits. Substantial interest-rate subsidies were also offered to agricultural, energy-related, and export activities. Domestic firms outside these favored sectors were thus pushed to increase their foreign borrowing, especially in the forms permitted by Resolution 63. Encouraged by government policy, and increasingly desperate as the domestic economy began to stagnate, private firms borrowed heavily in foreign currencies, especially under Resolution 63. Between the end of 1979 and the end of 1982, outstanding borrowing by Brazilian banks under Resolution 63 soared from $7.7 billion to $16.1 billion because by the end of 1981, private commercial banks were funding over 40 percent of their operations abroad.

Yet the government kept tightening the screws, reducing government investment spending, raising interest rates, and generally trying to overcome the widening gap in the balance of payments by inducing a domestic recession. Domestic industrialists became furious. The producers of capital goods had been assured of ever-increasing orders from the state sector, to be financed with subsidized credit from the BNDES and other quarters. All at once, state orders were drying up, as was subsidized credit, and for many, the only alternative to bankruptcy was to contract short-term loans at usurious interest rates.

By 1981 the industrial sector was in a tailspin. After averaging 7 percent annual growth between 1978 and 1980, manufacturing production dropped 10 percent in 1981, stagnated in 1982, and dropped another 8 percent in 1983. The output of the capital goods sector fell 19 percent in 1981, 11 percent in 1982, and another 20 percent in 1983, leaving 1984 production levels at less than half of those for 1980. For the first time in years, the country's major industrial centers experienced massive layoffs of factory workers and the rise of urban violence on an unprecedented scale. Perversely, the domestic financial sector was doing extraordinarily well with enormous spreads on lending with no exchange risk.

The political fallout of the crisis was almost immediate. A redefinition of the country's political coalitions had begun earlier, however; in 1974 the Geisel government had begun a process of liberalization (first called *distensão*, or loosening, then *abertura*, or opening). In late 1978, as Geisel prepared to leave office, a group of influential businessmen publicly called for a more concerted commitment to the democratization of the country. "We believe," they wrote, "that economic and social development, as we conceive it, can only be possible within a political framework that permits the broad participation of all. Only democracy is capable of promoting the full expression of interests and opinions and has sufficient flexibility to absorb tensions without transforming them into undesirable class conflict."[39]

The political system was indeed "opened" under President Figueiredo, culminating in the general legislative elections of 15 November 1982. The industrialists, disenchanted with the government, swung largely toward the opposition, and the elections indicated the depth of both popular opposition to the regime and the industrial sector's dissatisfaction with government economic policy. The opposition parties had made interest-rate policy a main target. The program of the major opposition party (the Partido Movimento Democrático Brasileiro, or PMDB) stated categorically that "it is impossible to carry out any economic recovery without reducing the current extraordinarily high level of domestic interest rates. . . . To accomplish this, it is indispensable to cut the existing tie between monetary policy and obtaining the foreign loans necessary to close the deficit in the balance of payments."[40]

The opposition parties swept the elections. Perhaps more significantly, the opposition won easily in the state of São Paulo, which accounts for 21 percent of Brazil's population but nearly 60 percent of its industrial output. The country's three largest industrial states—São Paulo, Minas Gerais, and Rio de Janeiro (totaling 42 percent of national population and two-thirds of Brazil's GDP)—all elected opposition governments. The only industrial state in which the government party (the Partido Democrático Social) won was Rio Grande do Sul, where two popular opposition candidates split the vote. Even so, the PDS governor there became a major critic of government economic policy.

As the crisis deepened, member after member of the "growth coalition" defected to the opposition as their interests were sacrificed to the needs of financial stabilization. By 1983 it was difficult to find a progovernment businessman outside the financial sector. After about a year of Figueiredo's administration, in early 1980, a survey of businessmen found that 41 percent considered the government either "excellent" or "good," while only 10 percent considered it "bad" or "awful" (the remainder opted for "okay"); the corresponding percentages were 69 percent positive and 5 percent negative for Planning Minister and chief economic policymaker Antônio Delfim Netto. By July 1983, 43 percent of the businessmen held negative opinions of the government, while only 13 percent were positive; for Delfim Netto, the decline was even more precipitous, with only 12 percent of the businessmen still liking him and 60 percent finding him "bad" or "awful."[41]

In the wake of its electoral humiliation in November 1982, the

Brazilian government went to the International Monetary Fund. The country struggled through successive rounds of IMF agreements, debt renegotiations, and financial austerity. Private industry's bitterness, as the cold winds of austerity got colder, was unbounded. One leading Brazilian producer of capital goods said in late 1982, "Today civil society has no influence. On the economic side we have closure, even while there is a political opening. There was more freedom for the private sector under Geisel [1974–1978] than there is today." He blamed not only the government but the domestic banks, which were continuing to support the government's austerity program: "The private financial sector has taken advantage of government policy with little sensitivity to the problems of private industry. . . . The problem is that the bankers are really just short-term thinkers, and yet the banks have now gone from being simple intermediaries to the determiners of economic trends."[42]

The domestic industrialists' resentment toward the military's economic policymakers grew as the crisis continued, especially after another 30 percent maxidevaluation in February 1983. Antônio Ermírio de Moraes, director of Votorantim (the nation's largest national private firm) called the February 1983 maxidevalution "a betrayal of the Brazilian business community that was induced to borrow overseas." A former president of the São Paulo Federation of Industry expressed his sentiments more dramatically: "We are living a nightmare. I pray to God to illuminate our rulers; if not, we are lost." Others who were less willing to rely on divine intervention called for the resignation of the economic policy-making team and for access to power. The president of one major group of firms inveighed bitterly against the military regime's monopoly of power: "Brazil's main problem is not economic but political. Less errors would be committed with the alternation of power at all levels. No ruler can bankrupt a country in four years, but in seventeen, it's possible."[43]

On 11 July 1983, an illustrious group of national business leaders—led by the eight who had issued the influential 1978 call for democracy—released another position paper calling for a radical renegotiation of the foreign debt and an end to the government's austerity programs: "Our creditors and the governments of friendly countries must understand that it is reckless to subject Brazil to a recessionary adjustment of uncertain duration. . . . The prolonged shrinkage of productive activity will inevitably lead to the destruction of Brazilian private industry and could even threaten the continuation of the free enterprise system. National firms will be swallowed by a whirlwind of bankruptcies and failures."[44]

Ironically, recovery began even as the military's popularity reached its lowest point. In 1984, as a booming United States began to absorb exports from the rest of the world, Brazilian exports soared. The export-led expansion was reinforced by a relative decline in international interest rates and regularization of the country's relations with its bankers. Austerity had apparently increased Brazilian international competitiveness: in 1984 and 1985, GDP grew by an average of over 5 percent a year. Industry began to rebuild, although it still had to make up for several lost years and industrial unemployment remained at high levels. Yet recovery came too late to salvage the popularity of the military government.

In great measure because of the broad social influence of the domestic industrial sector, the military government's position became increasingly untenable. Despite all attempts to manipulate the electoral system, a broad antigovernment coalition of domestic businessmen, workers, and the urban middle classes prevailed. In late 1984 and early 1985, major segments of the promilitary PDS, including Figueiredo's vice-president, left the party and established the Partido Frente Liberal (PFL), which then allied itself with the PMDB to elect a new opposition president, Tancredo Neves. In March 1985, the opposition moved into office, with broad backing from the São Paulo industrialists, sweeping the military and its allies from power. The new civilian government gradually established economic policies that were more inward-looking and growth-oriented, took a firmer negotiating stance with creditors, sped domestic recovery, and promoted industrial growth.

The change in regimes and policies did not occur without drama. On the eve of his March 15 swearing-in, President-elect Tancredo Neves was hospitalized and eventually died before taking office. His place was taken by José Sarney, one of the defectors from the PDS to the opposition, whose selection as vice-president was originally little more than a sop to skittish politicians who were formerly progovernment. Once Sarney became president, cynics were quick to point out that the opposition had, with great effort, succeeded only in bringing to power the former head of the PDS. Yet perhaps partly because he had little independent political base of his own, Sarney moved rapidly away from the previous regime's international and domestic conservatism.[45] The new government vacillated for a few months, torn between fiscal conservatives and more developmentalist forces, but by the end of 1985, the developmentalists had won out. The extraordinary predominance of Paulistas in the government's higher reaches (by late 1985, they included the Ministers of Foreign Affairs, Finance, Industry and Commerce, Labor, and Planning, along with the president of the Banco Central) indicated that future policy would be industrially oriented, with a focus on the domestic market. In the simplest terms, the national industrial bourgeoisie had both come of age and come to power.

Thus what began in the aftermath of the 1964 coup as a broad coalition of domestic economic elites ended in widespread opposition to the government by the business community and much of the rest of society. Just as the original coalition had been underwritten by foreign finance, so too did the drying up of sources of foreign finance undermine the coalition. A new dominant configuration arose, led by the nation's modern industrial sectors. In one of Brazil's more dramatic moments, the opposition took power and set about rebuilding the country's political and economic systems.

CURRENT INTERESTS, FUTURE PROSPECTS

This article has examined the responses of Brazilian economic policy and the principal economic interests in Brazilian society to the evolution of the international economic environment over the last twenty years. Brazilian policymakers and economic elites took advantage of the seemingly endless supply of Eurocurrency credits and of an underlying upward trend in world trade to reinforce and accelerate the existing pattern of Brazilian economic growth. When both finance and trade withered, the Brazilian economic and political systems were thrown into crisis. They are now emerging from the shake-up, but the international environment they face has changed, as have the dominant interests within Brazil. It is thus worthwhile to speculate, based on an extension of this analysis and on current trends, about Brazil's probable economic and political future.

The underlying determinant of Brazilian economic policy remains for the foreseeable future the socioeconomic and political centrality of the country's modern industrial sector. Industrial entrepreneurs, industrial workers, and a wide spectrum of allied "middle sectors" (technicians, bureaucrats, and intellectuals) now play the crucial roles on the Brazilian stage. This development is reflected in the overwhelming influence that São Paulo now exercises in national politics, as well as by the ways in which more and more aspects of national economic and political life—from agricultural development to labor relations to policy toward the domestic banking system—are being molded to conform to the country's industrial growth. Within this context, it is not particularly difficult to project some future trends.

International economic policy will be directed toward serving the nation's industrial needs. Unlike the not-so-distant past, this approach will not be confined to ensuring capital-goods imports. Brazilian industry today produces a wide array of midrange manufactured and processed goods for export, from steel to shoes to soybean paste. Both the government and the industrialists will continue trying to secure and expand markets for Brazil's exportable goods. Precisely because Brazilian industry is now competitive, the country will probably also be able to reduce inward trade protection.

On the financial side, policy will aim at decreasing the drag of the country's debt on national industrial growth. The previous regime assumed that international creditworthiness was essential for future development, but the current regime's expectations and perceptions differ considerably. The expected benefit to Brazil of maintaining good relations with foreign banks has indeed declined as prospects for large-scale future lending have receded. Although bankers often intimate that Brazilian intransigence might lead to bank retaliation, especially by cutting trade credits, this threat hardly seems credible. Few financiers wish to lose access to the Third World's largest economy, and those willing to cut and run will surely be replaced by other entrepreneurs. It is thus to be expected that Brazil will push successfully for some form of debt relief, with the exact form likely to result from bargaining between foreign banks and their own home governments. The more world trade and finance stagnate, the tougher Brazil will bargain and the more it is likely to achieve.

In fact, the debt burden has actually declined in importance for domestic private industry. In much the same way that foreign banks have convinced their home governments to share or reduce the impact of the LDC debt crisis on bank earnings, so have many Brazilian private firms been "bailed out" of existing overseas debt. Due to pressure from Brazilian firms and from foreign creditors (who prefer that their loans be government-backed), the Brazilian public sector has run a series of quasi-insurance schemes for firms with foreign-currency liabilities that have allowed the firms to write down their obligations. This practice largely explains why the share of the public sector in Brazil's foreign debt climbed from 68 percent in 1981 to nearly 80 percent in 1985. A sample of one thousand of the country's largest firms yields even more revealing results. Although the survey does not differentiate between foreign and domestic debt, the data are indicative. In 1980 the debt of the 119 state enterprises in the sample was 122 percent of their equity; by 1983 it had risen to 132 percent. Meanwhile, the debt of almost 800 domestic private firms in the sample dropped from 93 to 68 percent of equity (the remaining foreign-owned firms behaved much like local private ones). Financial costs changed even more dramatically as interest rates soared. In 1978 the state firms' financial expenses equaled 28 percent of their operating expenses; by 1983 they equaled 90 percent. The rise for the domestic private firms was steep but less vertiginous, from 23 to 50 percent.[46]

Ironically, then, just as overseas banks and private domestic firms pressed the Brazilian public sector to assume new debt during the borrowing boom, foreign bankers as well as domestic businessmen have pushed the Brazilian state sector to assume responsibility for ever-larger portions of existing debt. Apart from what this trend may reveal about the Brazilian state's autonomy, it explains redoubled efforts in the

Brazilian private sector to reduce the state's economic role. Although the public sector acted between 1967 and 1979 as the channel through which the private sector got access to the benefits of international financial expansion, since 1979 the state has assumed an increasing share of the foreign debt's cost to the domestic economy. The domestic private sector, having shifted much of the debt burden to the public sector, will now go about encouraging efforts to reduce the debt burden itself and limit the negative impact that debt-service requirements in the public sector might have on the private sector.

Because international capital markets are unlikely to lend large amounts to Brazil in the near future and international trade is unlikely to return to its pre-1981 growth path, and because Brazilian private industry has consolidated its leading position within the Brazilian economy, future Brazilian economic policy will be industrially oriented and inward-looking. This conclusion does not imply anything approaching autarky, however. Brazilian industry wants to keep and expand its foreign markets. This projection means that the financing of domestic investment and the expansion of the domestic market will be even more important than they were before 1980.

The rapid growth of Brazilian industrial exports since 1970 has nevertheless increased the overseas commercial interests of important segments of the country's manufacturing sector. These industrialists who have recently become export-conscious have actually shown signs of exerting a conservative pull on economic policy because they fear the impact of domestic reflation and wage increases on their international competitiveness. It can be surmised that debates between more domestically oriented manufacturers and more export-oriented manufacturers will be important as future patterns of economic policy are discussed. If, as seems likely, world demand for Brazilian exports grows only slowly, the probable outcome is a set of policies that would encourage manufactured exports but would regard them as secondary in importance to expanding the domestic market.

A more inward orientation is not synonymous with more equitable income distribution, however. Brazilian industrial development has been accompanied by (some might say it has been founded on) a concentration of income in the nation's industrial regions and modern economic sectors. Consequently, much of the rural and urban population remains outside the modern formal economy. Given the limited capacity of Brazil's relatively capital-intensive industry to create jobs, chronic rural underemployment, and limited prospects for expanded public employment, Brazil's existing pattern of income distribution will improve slowly if at all.

Politically, a mix of long- and short-term factors coalesced to accelerate and reinforce the process of Brazilian democratization. The military regime began to loosen its authoritarian grip as early as 1974. But the further loosening that began in 1979 was rapidly overtaken by the economic crisis, so that just as opposition became meaningful, the motives for elite and popular opposition to the military regime multiplied. The military found itself unable to reverse the liberalization process it had initiated, and as the crisis deepened, opposition grew until the military and its supporters were forced from office, disheartened and discredited.

Short- and long-term factors will also determine the future of Brazilian democracy. For the time being, the alliance among industrialists, industrial workers, and middle-class groups represented in the current civilian government seems capable of solidifying its internal cohesion and its predominance within the Brazilian political economy. Much of its future depends on how socioeconomic interests settle into partisan patterns. If stable parties with strong social bases are forged, the near-term Brazilian political future will look much like the present. If personalist and populist politics prevail, plenty of room exists for political disintegration. Even if political cohesion persists, however, ample opportunity will remain for social strife. As Brazil confronts such pressing problems as inflation, marginalism, inadequate social programs, and rural development, struggle between and within classes is sure to become more frequent and more bitter. Yet as of now (and admittedly, the grounds for prediction are quite subjective), it appears that all of the relevant social actors agree that their own best interests require carrying out the struggles in a democratic context. The latent threat of military intervention is not now a weapon in the Brazilian political arsenal, which is to say only that a recurrence of military intervention may be avoided.

In many ways, Brazil in the mid-1980s is reminiscent of the United States in the 1880s. By that point in U.S. history, most of the fundamental battles between regions and economic sectors were over, and industry had won out, although two-thirds of the population was still rural and only 15 percent of the labor force was employed in manufacturing. The trade balance had only recently turned positive, most exports were still raw materials, and tariffs were extremely high. Yet the United States was well on the road to becoming a major industrial power, and policy was aimed at speeding its journey. The political system was competitive but hardly democratic in 1980s terms—only nine million citizens voted for president in 1880, out of a total population of over fifty million. The party of industry dominated the government, with Republicans occupying the White House for 56 of the 72 years between the Civil War and the New Deal. Laborers and farmers were virtually powerless and were often repressed when they protested. In today's terms, the American system in 1880 was barely democratic, highly inequitable, and extremely dynamic.

Although this comparison is facile, it helps put recent and future Brazilian development into perspective. The prospects for further industrial growth in Brazil are good, and some of the fruits may even reach the country's poor. The political system is stable, if hardly solid, and the party structure is in formation. Of course, the international political and economic environment today is hardly that of 1880, and there are still no twentieth-century LDC equivalents of the nineteenth-century "success stories," with the notable exception of Japan. Innumerable theoretical and practical questions remain about the process of capitalist development. Nonetheless, and in the simplest terms, Brazil has begun to consolidate an industrial capitalist economy and a modern bourgeois political system.

CONCLUDING OBSERVATIONS

This article has analyzed the response of the Brazilian political economy to changes in the country's international economic environment. It has shown how after 1967 foreign finance helped cement a Brazilian growth coalition that included the state, domestic banks, and domestic basic industry. When the financial glue holding this alliance together began to dissolve, the alliance itself fell apart. On one side of the barricades of economic policy debates stood those whose fortunes were inextricably linked to Brazil's international economic ties. The domestic financial sector closed ranks behind the military government's austerity program, as did export-oriented agriculture, which required continued access to overseas markets. On the other side of the barricades, a growing group of opposition forces coalesced. Both capitalists and laborers in domestic basic industry, especially around São Paulo, demanded relief from austerity. So did major portions of the urban middle classes, including government functionaries whose livelihood was imperiled by attacks on public spending.

As austerity took its toll, elite and popular opposition to the government grew. Discontent over economic policy was increasingly linked to growing pressure for democratization. As foreign financiers, the military, and its domestic allies pushed on with financial adjustment, economic elites frozen out of the apparatus turned toward the opposition and toward a concerted demand for greater access to power. By early 1985, they had achieved both a political opening and political power. Ironically, by that time, the international recovery was attenuating the severity of the crisis, and new questions were being asked about Brazil's long-term political and economic future.

The Brazilian economy inherited by the civilian opposition is more mature, self-contained, and well-rounded than it was twenty years ago, largely due to foreign finance. Yet as favorable conditions in foreign financial and commodity markets have faded, and the domestic social base of Brazilian sectors whose power derived from access to foreign finance has declined, the country has turned toward a new phase in national economic development. The exact contours are impossible to predict because they depend so heavily on the international environment. Nonetheless, the phoenix rising from the ashes of Brazil's financial collapse seems to be inwardly oriented in its economic relations and relatively democratic in its political system.

Apart from the relevance of this analysis for those with a professional, personal, or pecuniary interest in Brazil, the processes traced in this essay hold broader implications for those concerned with understanding the interaction of domestic and international political and economic affairs. A systematic understanding of recent Brazilian political and economic development provides a valuable basis for assessing various analytical issues in the study of international and domestic political economies.

The recent Brazilian experience provides compelling support for those who believe that nation-states respond in rational, predictable ways to the structure of international costs and opportunities. When the Euromarkets began to evince interest in Latin America, Brazil moved rapidly to attract foreign finance, and many aspects of economic policy were molded to complement the inflow of foreign capital. By the same token, as the international financial setting became progressively less favorable after 1980, Brazilian economic policy first tried to temporize, but after recognizing the problems were more than transitory, Brazil acted to reduce its losses by turning inward financially while maintaining lucrative foreign trade relations. The trajectory was predictable as a semi-industrial nation tied itself to a rising financial star in the late 1960s and began to cut its ties as the star faded in the early 1980s.

Yet this view of the Brazilian state as a unitary rational actor responding to international incentives is partial and therefore deficient. Such a picture does not explain domestic political strife over international economic policy, nor does it provide a differentiated understanding of the pattern of change in the country's economic policy. The unitary picture of Brazil's response to international economic trends does not adequately account for dramatic shifts in Brazil's economic orientation. The problem is even more evident if one looks at other Latin American states. Even the major debtors reacted differently to the easy availability of foreign finance in the 1970s and its evaporation after 1982. One need only compare laissez-faire Chile with developmentalist Peru to get a sense of the vastly different responses of Latin American nations to a similar set of international events.

An accurate account of the origins of national economic policy, then, requires an analysis of the interests of the country's influential social groups. It is actually misleading to speak of nation-states responding to international economic trends; it is sectors of a society that evaluate their interests in the international economy and then pressure the state to defend or promote them. The recent Brazilian evidence proves the validity of this view: as the international environment changed in ways that struck directly at the interests of Brazil's all-important national industrial sector, the sector pressed for government policies to insulate it from external trends. At the same time, such economic sectors as finance and export agriculture, whose overseas orientation and ties gave them an incentive to maintain Brazilian economic policies congenial to the country's creditors, resisted the more confrontational, inward-looking attitude of increasing segments of society. Eventually, the depth and duration of the crisis and the overwhelming influence of the industrial economy led to changes in both regime and policy that are still working their way through Brazil's political economy.

If a country's international economic policy can be explained and predicted by an accurate calculation of the circumstances and influence of the principal economic interests in society, along with trends in the international economic environment, the political implications of the confluence of domestic and international economic forces seem far less deterministic. The crisis of the 1980s has seen democratic openings in Brazil, Argentina, Uruguay, and Peru, while the Chilean military dictatorship has remained entrenched. Mexico and Venezuela have perhaps become somewhat less stable but have experienced no earth-shattering political events. Trends in national political systems are far less directly determined by domestic and international economic affairs than are trends in national economic policy.

Nonetheless, the Brazilian case illustrates the crucial role that economic events can play in political development. Without the economic crisis of the early 1980s, political liberalization would have been neither as rapid nor as thoroughgoing as it was. The crisis indeed caused massive numbers of former supporters of the regime (both active and passive) to defect to the opposition. The recent Brazilian past (like that of much of the rest of Latin America) also underscores the crucial political importance of the industrial sector. It might seem self-evident that industrial capitalists and workers will be of paramount political importance in rapidly industrializing societies, but the consequences of this paramountcy are only now being seen in much of Latin America.

Brazil's recent experience with international financial markets demonstrates that the international economy interacts with domestic socioeconomic forces to mold national economic trends and policies in fairly predictable ways. This interaction has less predictable, although comprehensible, effects on domestic political affairs. Brazil's past twenty years of involvement in the international economy have left not only a hundred-billion-dollar legacy of external obligations and a largely debt-financed industrial plant but a wealth of evidence about the international and domestic sources of national political and economic phenomena in the developing world.

NOTES

1. The reliability of statistics on the Brazilian economy is somewhat questionable. Figures used here are derived from a variety of sources, and while they may not be ironclad, they are reasonably accurate. The single finest source on the Brazilian economy is Werner Baer, *The Brazilian Economy: Growth and Development*, 2d ed. (New York: Praeger, 1983). Other statistical sources include the Fundação Getúlio Vargas, as published monthly in *Conjuntura Econômica*; the Banco Central do Brasil, as published in its *Boletim Mensal*; and statistical series culled from various sources and divulged by the government think tank IPEA/INPES and by the Instituto de Economia Industrial of the Universidade Federal do Rio de Janiero in its *Boletim de Conjuntura Industrial*. Unless the data in question are particularly controversial, or they are drawn from a source other than those listed above, all basic economic data used in this chapter are the consensus figures from the above-mentioned sources.
2. Baer, *Brazilian Economy*, 84–86.
3. André Franco Montoro Filho, *Moeda e Sistema Financeiro no Brasil* (Rio de Janeiro: IPEA/INPES, 1982), 79.
4. For one survey and point of view, see Michael Wallerstein, "The Collapse of Democracy in Brazil," *LARR* 15, no. 3 (1980):3–40.
5. André Lara Resende, "A Política Brasileira de Estabilização, 1963/1968," *Pesquisa e Planejamento Econômico* 12, no. 3 (Dec. 1982):779–80.
6. For details of the financial reforms of the 1960s and the resulting new financial system, see Montoro Filho, *Moeda e Sistema Financeiro*, 93; Adroaldo Moura da Silva, "Intermediação Financeira" (mimeo, 1981), 9–28; Ernane Galveas, *Evolução do Sistema Financeiro* (Brasília: Ministério da Fazenda, 1981), 25–68; and *Introdução ao Mercado de Capitais*, edited by Hélio O. Portocarrero de Castro (Rio de Janeiro: Instituto Brasileiro de Mercado de Capitais, 1979).
7. Andrea Sandro Calabi, Gerald Dinu Reiss, and Paulo Mansur Levy, *Geração de Poupanças e Estrutura de Capital das Empresas no Brasil* (São Paulo: Instituto de Pesquisas Econômicas, Universidade de São Paulo, 1981), 166: Galveas, *Evolução do Sistema Financeiro*, tables 8 and 24; Moura da Silva, "Intermediação Financeira," 29–43. Montoro Filho, *Moeda e Sistema Financeiro*, 104–8, presents two alternate series for the financing system's role in the financing of investment in the private sector between 1970 and 1974. The low series averages 28 percent of the total, the high series, 72 percent. If, as Montoro indicates, the true figures are somewhere in the middle, the average for the period would be 50 percent.
8. José Eduardo de Carvalho Pereira, *Financiamento Externo e Crescimento Econômico no Brasil, 1966/73* (Rio de Janeiro: IPEA/INPES, 1974), 93.
9. Figures on foreign and domestic savings supplied by IPEA, Grupo de Acompanhamento Conjuntural.
10. Philippe Reichstul and Luciano G. Coutinho, "Investimento Estatal, 1974–1980," in *Desenvolvimento Capitalista no Brasil* 2, edited by Luiz Gonzaga M. Belluzzo and Renata Coutinho (São Paulo: Brasiliense, 1983), 45; and Secretaria de Controle de Em-

presas Estatais, *Empresas Estatais no Brasil e o Controle da SEST* (Brasília: Secretaria de Controle de Empresas Estatais, 1981), 8–9, 61.

11. Baer, *Brazilian Economy*, 180–81. The classic study of foreign direct investment in Brazil is Peter Evans's *Dependent Development* (Princeton: Princeton University Press, 1979). For an in-depth, if somewhat dated, study see Carlos von Doellinger and Leonardo C. Cavalcanti, *Empresas Multinacionais na Indústria Brasileira* (Rio de Janeiro: IPEA/INPES,1974).
12. See, for example, Luiz A. Correa do Lago, Fernando Lopes de Almeida, and Beatriz M. F. de Lima, *A Indústria Brasileira de Bens de Capital* (Rio de Janeiro: Instituto Brasileiro de Economia, Fundação Getúlio Vargas, 1979), 233.
13. Indeed, major foreign borrowing began earlier: foreign debt rose from $3.3 billion in 1967 to $5.3 billion in 1970, while debt to foreign banks increased from $671 million to $2.3 billion. See Carvalho Pereira, *Financiamento Externo*, 96.
14. On Law 4131, see minutes of the Superintendência de Moeda y Crédito, 1043a Ata, 24 Oct. 1962, pp. 4–6; 1095a Ata, 11 Oct. 1963, pp. 57–150; and 1170a Ata, 8 Feb. 1965, pp. 22–36.
15. See Conselho Monetário Nacional minutes, 81a Ata, 17 Aug. 1967, pp. 7–8. For a good summary of the basic legislation, see Carvalho Pereira, *Financiamento Externo*, 17–44; and Eduardo A. Guimarães and Pedro Malán, *A Opção entre Capital de Empréstimo e Capital de Risco*, IPEA working paper no. 46, 54–74. An exhaustive work on various aspects of Brazil's financial internationalization is Mônica Baer's *La internacionalización financiera en Brasil* (Mexico City: ILET, 1983). The fourth part focuses on foreign borrowing.
16. See, for example, Edésio Fernandes Ferreira, "Administração da Dívida Pública e a Política Monetária no Brasil" (mimeo, 1974).
17. Mônica Baer, *La internacionalización financiera*, 48. For a detailed description of the process, see Elisa Muller, "A Saída dos Bancos Brasileiros para o Exterior" (mimeo, 1983).
18. Interview with Nuclebras officials, Rio de Janeiro, 31 Aug. 1982.
19. For figures on the parastatals, see Secretaria de Controle de Empreses Estatais (SEST), *Relatório SEST 1981* (Brasília: SEST, 1982). Complementary information was provided in interviews with SEST officials in Brasília, 10 Sept. 1982.
20. On the early years of Brazil's electric power industry, see Judith Tendler, *Electric Power in Brazil* (Cambridge, Mass.: Harvard University Press, 1968).
21. Except where otherwise noted, figures on the parastatals in this section come from SEST, *Relatório SEST 1981*; Reichstul and Coutinho, "Investimento Estatal"; Maria da Conceição Silva, *A Dívida do Setor Público Brasileiro* (Rio de Janeiro: IPEA/INPES, 1973), 88–98; José Carlos de Souza Braga, "Os Orçamentos Estatais e a Política Econômica," in *Desenvolvimento Capitalista no Brasil* 1, edited by Luis Gonzaga de Mello Belluzzo and Renata Coutinho (São Paulo: Brasiliense, 1980); Thomas J. Trebat, "Uma Avaliação do Desempenho Econômico de Grandes Empresas Estatais no Brasil, 1965/75," *Pesquisa e Planejamento Econômico* 10, no. 3 (Dec. 1980):813–50; Thomas J. Trebat, *Brazil's State-Owned Enterprises* (Cambridge: Cambridge University Press, 1983); and information supplied by SEST. For 1982 Eletrobras figures, see their annual report; on capital goods orders, see Correa do Lago et al., *A Indústria Brasileira*, 220–39; also my interview with officials in Eletrobras's Departamento de Recursos in Rio de Janeiro, 4 Oct. 1982.
22. The 1982 figures come from the group's annual report.
23. Luiz C. Bresser Pereira, *Economia Brasileira* (São Paulo: Brasiliense, 1982), 123; and Montoro Filho, *Moeda y Sistema Financeira*, 100–103, 170–75.
24. On the BNDES, see Annibal Villela and Werner Baer, *O Setor Privado Nacional* (Rio de Janeiro: IPEA/INPES, 1980), 51–107 and 133–37; Correa do Lago et al., *A Indústria Brasileira*, 389–405; Paulo Davidoff Cruz, "Notas sobre o Endividamento Externo Brasileiro nos Anos Setenta," in *Desenvolvimento Capitalista no Brasil* 2, ed. by Belluzzo and Coutinho, 105; *Revista do BNDE* 1 (Jan.–June 1978); BNDES, Area de Planejamento, *Boletim de Informação* 1 (1981); and BNDES annual reports.
25. Wilson Suzigan, "Políticas de Promoção Industrial," (mimeo, 1980), 15.

26. The private Banco Real has a foreign network much the same size as Banespa's, but it is found almost entirely in Latin America and focuses on trade finance.
27. Alvaro Antônio Zini Junior, "Características Qualitativas e Avaliação do Funcionamento do Setor Financeiro no Brasil" (mimeo, 1982), 6–11. See also Moura da Silva, "Intermediação Financeira," and Galveas, *Evolução do Sistema Financeiro*.
28. Calculated from Calabi et al., *Geração de Poupanças*, 199–204.
29. *Veja*, 27 July 1983, 86. Other information on the financial sector came from the Banco Central do Brasil, the Associação Nacional dos Bancos de Investimento (ANBID), and interviews with officials of the following organizations: Banerj, Rio de Janeiro, 17 Sept. 1982; Banco de Investimento Garantia, Rio de Janeiro, 27 Aug. 1982; Unibanco, Rio de Janeiro, 30 Aug. 1982; Banco Lar Brasileiro, Rio de Janeiro, 2 Sept. 1982; Banco Finasa, Rio de Janeiro, 4 Oct. 1982; Banco Boavista, Rio de Janeiro, 5 Oct. 1982; and Banespa, São Paulo, 4 Aug. 1983.
30. Maria de Conceição Tavares and Luiz Gonzaga de Mello Belluzzo, "Notas sobre o Processo de Industrialização Recente no Brasil," in *Desenvolvimento Capitalista no Brasil* 1, 128.
31. Correa do Lago et al., *A Indústria Brasileira*, 306–9.
32. Montoro Filho, *Moeda e Sistema Financeiro*, 197–203.
33. *Visão*, various issues, 1973–1985. For more on the question, see Villela and Baer, *O Setor Privado Nacional*; Mônica Baer, *La internacionalización financeira*, 173–237; and Maria Lucia Rangel Filardo, *Fontes de Financiamento das Empresas no Brasil* (Rio de Janeiro: BNDES, 1980).
34. On this subject, see Correa do Lago et al., *A Indústria Brasileira*, 220–33, 405–11.
35. For an analytical survey of the events, see Carlos Díaz Alejandro, "Some Aspects of the 1982–83 Brazilian Payments Crisis," *Brookings Papers on Economic Activity* 2 (1983):515–42.
36. For details on this period, see Paulo Nogueira Batista Junior, *Mito e Realidade na Dívida Externa Brasileira* (Rio de Janeiro: Paz e Terra, 1983); Ernane Galveas, *A Política Econômica-Financeira do Brasil* (Brasília: Banco Central do Brasil, 1982); Luciano Coutinho e Luiz Gonzaga de Mello Belluzzo, "Política Econômica: Infleções e Crise, 1974–1981," in *Desenvolvimento Capitalista no Brasil* 1; and Antônio Carlos Lemgruber, "Política Cambial," in Paulo Nogueira Batista Junior, Antônio Carlos B. Lemgruber, Roberto de Rezende Rocha, and José Maria Gouvéa Vieira, *Ensaios sobre o Setor Externo da Economia Brasileira* (Rio de Janeiro: Fundação Getúlio Vargas, 1981), 95–98. For a set of critical essays, see *Dívida Externa, Recessão, e Ajuste Estrutural*, edited by Pérsio Arida (Rio de Janeiro: Paz e Terra, 1982).
37. Galveas, *A Política Econômico-Financeira*, 38; Díaz Alejandro, "The 1982–83 Brazilian Payments Crisis,"; and Nogueira Batista Junior, *Mito e Realidade*, 102.
38. Galveas, *A Política Econômico-Financeira*, 30.
39. As cited in *Senhor*, 17 Aug. 1983, 25.
40. Ibid., 28.
41. Survey data taken from *Exame*, 10 Aug. 1983, 18–21.
42. Interview with official of Bardella-Indústria Mecánica, São Paulo, 22 Sept. 1982. On the interest-rate problem, see Nogueira Batista Junior, *Mito e Realidade*, 172–79; and Luiz Correa do Lago, "Taxa de Juros: Características e Opções," *Conjuntura Econômica* 36, no. 2 (Feb. 1982):219–25.
43. *Exame*, 9 Mar. 1983, 16–20.
44. *Senhor*, 17 Aug. 1983.
45. It is sometimes asserted that had Neves lived, he would have been a far more conservative president than Sarney because Neves had a strong personal and party-machine base as well as fundamentally conservative political tendencies. Sarney's lack of personal political strength forced him to be especially responsive to the opposition's social bases. Although there may be some truth to this argument, it is hard to believe that Neves also would not have eventually distanced himself from the previous regime's international and domestic economic policies.
46. Angelo Jorge de Souza et al., "As Empresas e a Crise no Brasil," *Conjuntura Econômica* 39, no. 2 (Feb. 1985):105–8.