Development and Inflation

Vargas's successor as president was a former governor of Minas Gerais of Czech descent, Juscelino Kubitschek, who was narrowly elected on a nationalist ticket with João Goulart as his running mate. On taking office in January 1956, Kubitschek inherited a chaotic economic situation. Nevertheless, he decided against a programme of deflation, and opted instead to expand the economy regardless of rising inflation and appalling indebtedness, promising 'fifty years of development in five'.

The centre-piece of his development plans was the building from scratch of a new capital city 600 miles north-west of Rio de Janeiro in the virtually uninhabited state of Goiás. Brasília, as the new capital was to be called, was intended as a spur to the exploitation of the hinterland, that massive unquantified resource that had lain virgin since the time of the European discovery. The city would be a symbol of Brazil's appetite for progress and economic power. Accordingly, its architecture was ultra-modernist and became famous the world over for the boldness of its design. In 1960, just four years after construction had begun, the dazzling capital was inaugurated. Over time, Brasília would vindicate Kubitschek's vision inasmuch as it stimulated economic and population growth in the previously neglected states of Goiás and Matto Grosso, but in the short term it added hugely to the enormous burden of debt that successive Brazilian governments had contracted.

The deluge of economic problems left by Kubitschek brought down his successor Jânio Quadros after only seven months in office. Quadros, who had sought election in January 1961 as the man with the 'new broom' who would sweep away the endemic corruption in the government and the bureaucracy, found it impossible to make much headway against inflation. He managed to get a package of austerity measures through a hostile congress, and balanced these with a foreign policy which displeased the USA because of its support for Cuba and the renewal of links with the USSR and China. When opposition in congress finally led to deadlock, Quadros offered his resignation, probably in the expectation that he would be called back by a repentant legislature. But congress called his bluff, if such it was, by simply accepting his resignation.

Quadros's unexpected departure opened up a dangerous political crisis. According to the constitution, power now passed to the vice-president, who was the renowned populist João Goulart, the labour minister under Getúlio Vargas and a man greatly mistrusted by the armed forces and the parties of the right. A military coup seemed to be in the offing. Goulart, however, was
a wealthy rancher from Rio Grande do Sul and enjoyed great influence in the political machine of this key state, where his brother-in-law Leonel Brizola was currently the governor. When the commander of the Third Army based in Rio Grande refused to join the military conspiracy against Goulart, the high command held back from launching a coup that might have split the armed forces. Instead, a compromise was devised which would keep Goulart in check by obliging him to share power with a prime minister and a cabinet who would be collectively responsible to congress.

João Goulart was thus controversially translated to the supreme office in September 1961 and left to cope with the difficulties of managing the Brazilian economy. Like his great mentor, Getúlio Vargas, he faced the dilemma of rectifying the nation's finances without alienating his nationalist supporters on the left. The times could scarcely have been less propitious for the introduction of a programme of economic austerity: the universities were in a ferment of revolutionary socialism after the recent success of Fidel Castro's revolution in Cuba; Trotskyist and Communist activists were organizing peasants into rival unions and encouraging illegal land occupations, which infuriated reactionary landowners; industrial strikes occurred frequently as high inflation ate up real wages; revolutionaries launched a campaign to give trade-union rights to the rank and file in the armed forces, a dangerously provocative tactic in view of the political record of the Brazilian officer caste.

At first, Goulart was careful not to alarm the USA. He was aware of the need for external aid and investment to finance the rapid economic growth which alone would keep politics from exploding into revolutionary violence. But Goulart had ridden to power on the back of the trade unions and the nationalists, and his debt to them could not easily be discounted. Like Vargas and Quadros, he found himself hamstrung on economic policy by a strongly nationalist majority in congress, which in August 1962 passed a law limiting remittances of profits by foreign companies to 10 per cent of investment capital. This measure resulted in a drastic fall in investment as foreign companies and investors quickly withdrew from Brazil. Since there were few other sources of finance, Goulart had to resort to printing money to fuel the by now formidable engine of Brazilian development. In 1962 the rate of inflation rose to an unprecedented 65 per cent; there was a run on the currency and the country experienced a new round of bitter strikes and food riots as the living standards of the working class and the urban poor were ravaged by the rocketing prices. The following year the USA cut by a half its aid to Brazil from a total of $355 million in 1962: the country was being made to suffer the consequences of its aggressively nationalist posture.

Goulart was under intense pressure from all sides to do something about the economy. In 1963 he managed to improve his political position. A plebiscite had convincingly backed the restoration of full presidential powers, and Goulart now brought in two very able men, both influenced by the economic theories of ECLA, to devise a stabilization plan: Santiago Dantas, a moderate nationalist, and Celso Furtado, an economist who was widely respected for his work to revitalize the depressed north-east. They produced a programme which combined conventional anti-inflation measures with political and economic reforms. To bring down inflation they recommended stringent wage controls and cuts in credit and public spending. But these deflationary policies were balanced by a series of structural reforms designed to redistribute wealth. Land tenure was to be revised so as to break up the inefficient latifundia and relieve landlessness among the peasants; income tax on high earners would be increased; and voting rights would be extended to illiterates so as to undermine the oligarchic machines that controlled the electoral system in the rural areas. The implementation of the plan required a package of financial aid of some $1.5 billion from the USA, the IMF and other sources. The Kennedy administration agreed to support it under the Alliance for Progress with credit instalments amounting to $400 million, even though reservations were expressed about its chances of success.

The Dantas–Furtado Plan was a reformist, democratizing programme, whose major flaw was that it pleased no one. It antagonized the left because of its deflationary elements, and the right because of its progressive reforms. Congress would not approve it since each of the three main parties had its reasons for voting it down. The pro-Goulart PSD, which represented domestic industrialists and the middle classes, united with the oligarchic UDN in opposition to radical reform. On the other hand, it joined with the other pro-Goulart party, the labourist PTB, against spending cuts and a credit squeeze. There ensued a political deadlock between the president and congress: Goulart was not allowed to go ahead with the Dantas–Furtado Plan, but congress could not produce a majority to impeach the president.

Goulart lacked sufficient depth of political support in the country to overrule congress. He therefore discarded the Dantas–Furtado Plan and set about creating for himself a mass base by embracing the positions of the radical nationalist left. As Goulart's rhetoric took on a revolutionary character, middle-class wage-earners and the industrial bourgeoisie — the bedrock of support for Getúlio Vargas's developmental nationalism — were scared into believing the right's warnings of communist subversion. In reality, Goulart's strident populism was destroying the substance of his actual support among the middle classes rather than strengthening it. In any case, he was
far from being a revolutionary leader of the mettle required to transform a country as large and diverse as Brazil. For he was a big landowner and an inveterate wheeler-dealer whose career had been made in the oligarchic machine politics of Rio Grande do Sul.

By early 1964 political life had become dangerously polarized. There were calls from some state governors for military intervention. It was widely suspected that the army was conspiring against the president. Goulart responded by holding mass rallies. At one such in Rio de Janeiro on 13 March, he threw caution to the wind and provoked a confrontation with his enemies by signing before exultant supporters a number of decrees nationalizing the oil industry and expropriating large estates. Some days later he laid before congress a series of reform bills, which included the granting of the right to vote to enlisted men and the legalization of the Communist Party. In Rio de Janeiro there occurred a mutiny of sailors, and Goulart angered the armed forces by granting the mutineers a pardon.

By the middle of March the conspirators felt ready to act. The governors of São Paulo and other important states planned to set up an alternative government and call upon the USA for military aid. For its part the US embassy had made provision for supplying the rebels with guns and fuel in the coming conflict. On 31 March a military revolt broke out in Minas Gerais and spread to several other states. Troops marched on Rio de Janeiro, but to everyone’s surprise Goulart’s support melted away and the military took over the government on 1 April in what had turned out to be a bloodless coup d’état. The expected revolution had failed to materialize and João Goulart took refuge in Uruguay.

Military Rule (1964–84)

What made the 1964 coup a new departure in Brazilian history was not that it brought the armed forces into politics, but that it led to direct military rule for twenty years. The armed forces, after all, had effectively possessed a veto on politics from the time they had deposed Dom Pedro II in 1889. Monarchical legitimacy had then been destroyed and a constitutional republic created, but, as in other Latin American countries, the legitimacy of the republican order proved difficult to uphold. The army itself, though it regarded constitutional democracy as the norm, tended to resort to political intervention as a kind of hygienic measure required from time to time in order to rid the body politic of noxious elements that might threaten ordem e progresso. The coup against Goulart was no different: with the country on the verge of insolvency and a civilian president unleashing forces he could barely control, the generals judged it necessary to step in once again.

The leader of the junta, General Humberto Castello Branco, was indeed a moderate and a constitutionalist among his brother officers; he was a man of great prestige, who in 1961, after Quadros’s unexpected resignation, had urged a constitutional solution to the crisis by the acceptance of vice-president Goulart’s succession. In 1964 the military were divided over how long to suspend the constitution. Castello Branco himself favoured an early return to constitutional government once the nation’s finances had been sorted out. Other officers wanted a longer period of military rule in order to reconstruct the economy. Circumstances were to play into the hands of the latter group: the economy did not show any signs of health for several years, and when it did, the upturn coincided with a severe bout of political terrorism, which discouraged the military from handing over to civilian politicians.

Castello Branco’s main concern was to restore financial discipline. In effect this involved revising the corporatist policies inherited from Getúlio Vargas’s Estado Novo, and opening up the economy to market forces wherever it was expedient to do so. The man charged with this task was Roberto Campos, a former ambassador to the USA, who had resigned his post in protest at what he believed to be Goulart’s financial recklessness. Campos introduced deflationary measures, cut back imports, gave incentives to exports and welcomed foreign investment. In particular, Campos created capitalist institutions, such as a stock market and a central bank, with a view to making the economy more responsive to the market than to the decisions of politicians and planners.

The economy, however, took several years to recover from the severe recessionary effects of Campos’s policies. Political opposition to the junta gathered strength, for, understandably, the beneficiaries of Getúlio Vargas’s Estado Novo and subsequent corporatist governments reacted fiercely to Campos’s dose of liberal capitalism. Businessmen and industrialists resented the competition from more powerful foreign rivals and transnational companies which began to penetrate the domestic market, causing the bankruptcy of many previously protected native enterprises. The unions found their links with the state weakened by legislation which permitted firms greater freedom to hire and fire workers. Wage-earners in the middle and working classes were badly affected by mounting unemployment and the high cost of living. Strikes and demonstrations proliferated in the major cities.

In 1968 the phenomenon of urban guerrilla warfare appeared in Brazil, as it also did at this time in Argentina and Uruguay. A number of guerrilla