

Brazilian Economic Policy

Populism can be viewed as the attempt to redistribute income to the poor—or at least the politically organized of the poor—without regard to economic constraints. Its distinguishing characteristic is its attempt to expand beyond economic constraints. Populism had been strong in the pre-1964 government and had been suppressed for a while until 1974, populist voices began to be heard again. Populism was popular with the military government again. One of the military regimes contributions was its support for professional managers, engineers, and economists who became more dominant policymakers. Populists however delivered far less than they promised. Their failure was partly rooted in their failure to recognize that their resources were limited.

Brazilian Economic Populism before 1985

Populism played an important role in the time of Getulio Vargas. Vargas's rise gave rise to three political parties, Partido Trabalhista Brasileiro (PTB or the Brazilian Labor Party), Social democratic Party, and the National Democratic Union. PTB was a more genuine populist party. Populists generally drew the support chiefly from urban industrial groups and not from the rural poor helps explain some of their economic positions. Vargas and his policy makers advocated industrialization at the key to modernization. During 1950 Vargas increased his pitch of his populist rhetoric while ignoring the budget constraints. Rising inflation along with the political crisis led to his suicide. The Kubitschek(1956-61) presidency avoided potential social conflict by using monetary expansion as one of its sources of government finance. Kubitschek was able to reconcile state involvement in industrialization with a high degree of foreign investment to achieve a higher standard of living for urban workers. The president Jao Goulart, Brazil's most populist leader since Varagas, created policies that favored urban workers. One of these policies included price controls, especially on bus fares and the price of bread. Under Goulart's rule several U.S. investments came under attack due to the populist suspicion of American capital. By the end of the 1962 inflation was nearing 50 percent and the balance of payments had begun to deteriorate as capital inflows disappeared and exports fell. Roberto Campos and Octavio Gouvea de Bulhoes, the finance minister create a document suggesting that inflation and its attendant distortions were the primary obstacles to development and called for reductions in "nonessential" expenditures, increases in tax revenues. Inflation fell from 100 percent in 1964 to 20 percent in 1967. Giesel assumed the Presidency in 1974 and took a number of populist stances. His government was greatly affected by the oil shocks and decided to deal with it through borrowing and maintaining high rates of growth. The second oil shock in 1979 took place under Figueirdo. He diagnosed the basic problem as a supply-side one, which could be resolved by investment in energy and import substitution sectors. Higher wage policy was adopted at this time as well, furthering populist ideals.

Technocracy and Economic Policymaking, 1964-85

The military delegated much of the policymaking to civilians who they considered qualified. More technically oriented professionals (technocrats), especially engineers, business managers, and economists were considered to be better suited to carrying out the regime's goals. Campos was considered one of these technically oriented policymakers

accepted by the military. Much of recent history of Brazilian economic policy can be understood as the interplay of populism and technocracy.

Populism and Technocracy in the Cruzado Plan, 1985-87

Populism demands came back to the forefront with the military demise in 1985. During this time there was a growth in the study of economics and many of these economists had differing ideas. Price controls went into effect and had a downward effect on the inflation of 1984-1985. This miraculous fall in inflation made heroes out of Sarney and Funaro during the Cruzado plan. Populism took over from the technocrats because of this.

Two of the central premises of technocrats were lost in the euphoria to populism

-price controls if used should be temporary and should be used only when necessary to deflate expectations of inflation

-brazilian inflation in 1985 was inertial, vice the underlying public sector fiscal deficit was close to zero.

Prices however became unstuck in the 1980s and the achievements of the Cruzado plan went bust. The Cruzado plan had degenerated into a rather conventional populist disaster with the announcement of the suspension of interest payments on Brazil's debt to commercial banks.