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The Goal: Genuine First World Status

Brazil is the world's fifth largest nation-state in both area and population and ninth in total economic output. It accounts for more than one-third of Latin America's total population and production. Its economy in 1998 outranked that of all but the United States, Japan, China, and the four leading countries of Europe. Among America's export destinations in the Western Hemisphere, it is surpassed only by Canada and Mexico. It has the world's eighth largest share of American direct foreign investments, far exceeding those in any other Latin American country. In recent years, it has also been a major destination for portfolio investment.

In the entire half century since World War II, Brazil has been a leader in international trade governance and negotiation, playing an important part in the development of the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO). At a regional level, it is the major partner in Mercosur, which includes Argentina, Uruguay, and Paraguay, and has negotiated special trading arrangements with Chile and the Andean group. Mercosur has had unexpected success in expanding trade, investment, and infrastructure cooperation between former political rivals Brazil and Argentina and has given Brazil additional weight in negotiations toward a hemisphere-wide Free Trade Area of the Americas (FTAA). It has also opened discussions with the European Union on the possibility of region-to-region trade preferences.

In addition to economic issues, Brazil has taken an active part in regional and global international affairs, following a tradition begun under its constitutional monarchy (1822–89). Alone in Latin America, it has a well-educated and highly professional diplomatic corps, fluent in English, French, and Spanish and well versed in international politics and economics. It was the only Latin American country to participate actively in World War II, providing air bases on the northeastern hump and a full army division (under American command) in the difficult Italian campaign of 1944–45. For a brief period in the early 1960s, and again in the late 1970s, there were experiments in "independent" foreign policy and third world leadership, with a strongly anti-American flavor, but since the collapse of the Soviet Union, Brazil has returned to its older tradition, seeking collaboration with the United States while avoiding automatic concurrence or subservience. Brazil took the lead in 1998 in resolving a long-standing border conflict between Peru and Ecuador and has been an active and constructive participant in United Nations activities in peacekeeping, arms control (including nonproliferation of weapons of mass destruction), and environmental and human rights protection. It is unlikely, however, that Brazil will fulfill its ambition for a permanent place on the UN Security Council.

Brazil is currently in a critical phase of a decades-long transformation from a patrimonial society based mainly on the cultivation and export of sugar and coffee to a modernized industrial and service economy with effective democratic governance. Its political record since World War II has been erratic. That record includes one presidential suicide (Vargas, 1954); one unexpected resignation (Quadros, 1961); one removal by coup d'état (Goulart, 1964); twenty-one years of authoritarian military government (1964–85) under five army generals, one of whom became disabled by a stroke (Costa e Silva, 1969); one president-elect stricken by fatal illness on the eve of his inauguration (Tancredo Neves, 1985); and one elected president constitutionally impeached for corruption (Fernando Collor, 1992). Since 1950, only two civilian presidents have completed full terms: Juscelino Kubitschek (1956–61) and Fernando Henrique Cardoso (1995–98), who was reelected in 1998 to a second four-year term (1999–2002). The transition from military back to civilian governance was gradual, spread over a decade (1975–85), but relatively peaceful and consensual, with an amnesty law avoiding the recriminations commonly experienced in more abrupt political transitions.

The Constitution of 1988, drafted by an assembly composed of elected members of Congress (deputies and senators) and containing 245 articles and 70 "transitional provisions," reflected a populist reaction against the military regime. It gave constitutional protection not only for vital civil rights and liberties but also for social and economic privileges for a large array of special interest groups. Together with political party and electoral mechanics, which greatly overweight parochial interests and give undue strength to states and municipalities at the expense of the central government, it created high hurdles for economic and social reforms essential to full modernization.

Notwithstanding these gyrations, Brazil has made great strides toward first world status since the 1950s. Income per capita is about on a par with Central Europe's and roughly 30 percent of Western Europe's. Urbanization, industrialization, and modern services have displaced traditional agriculture as the dominant modes of life. Adult literacy has risen from 49 percent in 1950 to 84 percent in 1997, and average life expectancy from fifty to sixty-seven years. The most striking shortfall in the modernization process is the continuing gross inequality in income distribution, a pattern that contrasts sharply with the modernizing economies of East Asia. The remedies lie mainly in an overdue but ongoing reform of the educational structure and in a resumption of sustained economic growth.

In macroeconomic terms, Brazil's hallmark over the decades has been high inflation. The inflation rate per year averaged 34 percent in the 1970s, 428 percent in the 1980s, and almost 1,400 percent in the five years 1990–94, before being tamed by the ingenious Real Plan, which elevated Fernando Henrique Cardoso to the presidency in the 1994 election. In the following five years, the average inflation rate came down to 8.4 percent, but at the cost of a somewhat overvalued real. Growing deficits in the current balance of payments, together with financial crises in Asia and Russia, led to a run on international reserves and a substantial devaluation of the real in early 1999. A US$41.5 billion international aid package, backed by the International Monetary Fund (IMF), the U.S. Treasury, and other first world governments, warded off the threat of default on foreign obligations and a major economic setback. The new millennium opened in more promising macroeconomic conditions, but the government still faced difficult legislative battles for advancing badly needed economic and political reforms. The political climate was becoming more tense in preparation for mayoral elections in October 2000 and national and state elections in 2002 for president and vice president, deputies and senators, governors and members of state legislatures. The outcome may determine for many years whether Brazil can achieve full first world status and realize its potential for constructive worldwide influence or will relapse back into another "lost decade" like the 1980s and early 1990s.

Brazilian Aspirations

In Brazil's nearly two centuries of independent statehood, elite opinion has always envisaged a future of *grandeza* (greatness) on the world stage. The national anthem somewhat naively foresees greatness as a necessary consequence of the country's huge size. This mind-set was fostered by the decades of political stability under the monarchies of Pedro I (1822–31) and Pedro II (1831–89), with their titled aristocracy, European-style royal institutions, and simulacrum of parliamentary government, albeit with a very limited franchise. Alongside the dominant patrimonial owners of sugar and coffee estates, based until 1888 on slave labor, there developed urban professional elites, often European-educated, who pressed for modernization on European or North American lines. Younger military officers became prominent in these groups, which played major roles in the antislavery movement, the overthrow of the imperial regime in 1889, and the drafting of a republican constitution in 1891. Although that constitution was patterned in form on the American model, in practice it weakened central government power and gave effective control to the coffee and cattle landowners of the two leading states, São Paulo and Minas Gerais. The stage was set for increasing tensions between a backward-looking oligarchical system and the modernizing professionals, both civilian and military. In the 1920s armed violence broke out in several states, often involving the state militia. In 1930 the modernizing forces joined in a Liberal Alliance to overthrow the Old Republic by coup d'état and install in the presidency Getúlio Vargas, the governor of Rio Grande do Sul. Vargas was to dominate Brazilian politics for the next twenty-four years.

In this turbulent era, significant changes took place in economic and social structures, gradually expanding manufacturing industry in textiles, shoes, and processed foodstuffs, especially in the growing metropolitan region of São Paulo. World War I had intensified these trends by cutting off traditional European sources of supply. In the depression years, manufacturing investment was also promoted by the government's policy of price support for coffee through purchases of huge quantities to keep the surpluses off the world market and enable the coffee barons to invest in industry. This anticipatory Keynesianism helped Brazil weather the depression better than many more advanced countries and fueled the Vargas administration's ambitions for economic expansion.

On the political side, fascist and communist movements became significant actors in Brazil, but Vargas warded off clumsy efforts at coups d'état from both left and right and centralized political power in his own hands.

He appointed mayors in the bigger cities and "interventors" in place of elected governors. In 1937 he assumed dictatorial power, promulgating by decree an authoritarian constitution for the so-called New State (Estado Novo), which included Italian fascist-style organization of labor unions and business associations on corporative lines.

Structural change, including urbanization and the expansion of manufacturing, was given further impetus by World War II, which also generated large export surpluses. National ambition was focused on the installation of heavy industry, starting with the government-owned National Steel Company (Companhia Siderúrgica Nacional) at Volta Redonda. Vargas hoped that active military collaboration with the United States might be rewarded by a political-economic "special relationship" after the war, with assistance for forced-pace industrialization. The seeds were thus planted for Brazil's postwar development policies, including substantial reliance on government ownership and a large component of economic nationalism. With the allied victory against fascist dictatorships, Vargas was forced out of office in 1945, but he secured a later political revival by creating two new parties in anticipation of renewed constitutional democracy. With their support, he won a three-man contest for the presidency overwhelmingly in 1950. In a wave of fervent nationalism, under the slogan "The Oil Is Ours," Congress created Petrobrás as a government-owned oil monopoly. The president elected in 1955, Juscelino Kubitschek, made "developmentalism" (*desenvolvimentismo*) the keynote of his campaign and his term in office. In one form or another, it has been a central theme of Brazilian national aspirations ever since.

Genuine First World Status

On the broader global stage in the 1950s, international politics were increasingly dominated by the cold war. The world's nations came to be classified in three categories, separated by degrees and types of political-economic development. The first world comprised the "industrial democracies" of Western Europe, North America, Australia, New Zealand, and Japan—in effect the core membership of the Paris-based Organization for Economic Cooperation and Development (OECD).[1] The second world consisted of

1. The OECD was instituted in 1961 by the twenty nations involved in the Marshall Plan, eighteen from Western Europe plus the United States and Canada. Japan was added in 1964, soon followed by Finland, Australia, and New Zealand. Under political pressure from the United States, Mexico was admitted in 1994, but its financial crisis that year, subsequent macroeconomic instability, and single-

countries with centrally planned economies governed by Communist Party regimes. The collapse of the Soviet bloc in 1989, the end of the Communist Party's monopoly of power in Russia and Eastern Europe, and the weakening of central planning in China have reduced this category to North Korea and Cuba, so the term "second world" has gone out of use. In its place, the term "transitional economies" is now applied to Eastern Europe and the former Soviet republics, implying that they are all headed toward market-based economic systems and democratic polities, even though evidently not all at the same pace.

The original meaning of "third world" was political rather than economic, signifying nonalignment with either of the cold war blocs. By a gradual transformation in the 1950s and 1960s, however, it became equivalent to "underdeveloped" or "developing" countries, with relatively low degrees of industrialization and low incomes per capita. The third world thus defined included all of Africa, Latin America, and Asia except for Japan and China.[2] It was a huge and diverse category of about 130 units, with an enormous range of size and wealth. In United Nations debates on international economic policies, their representatives caucused together and often voted together as the "G-77."[3]

In the 1980s, the most advanced members of this group, marked by relatively high income levels and industrial sophistication, came to be called newly industrializing countries, or NICs. They included the four Asian "tigers" (South Korea, Taiwan, Singapore, and Hong Kong), possibly also Indonesia and Malaysia, together with Brazil, Mexico, and possibly Argentina, Chile, and Venezuela. By most measures, these NICs were much closer to the first world than to the average of their third world associates. While only Korea as yet regards itself—or is regarded by the rest of the world—as having fully completed the transition into the first world, it seems absurd to put in a single "third world" category countries as diverse as

party political tradition prevent its clear designation in the first world. Similar reservations do not apply to South Korea, which became a full OECD member in 1996, along with three former second world countries (Poland, the Czech Republic, and Hungary).

2. In Latin America, the first and third worlds are often referred to as "center" and "periphery," terms popularized in the 1950s and 1960s by Raúl Prebisch during his long tenure as secretary-general of the UN Economic Commission for Latin America (ECLA or CEPAL in Spanish, now ECLAC, the UN Economic and Social Commission for Latin America and the Caribbean).

3. There were seventy-seven members when the United Nations Conference on Trade and Development (UNCTAD) was launched in 1964. Since then about fifty-five more countries have been added as additional former colonial territories have achieved formal sovereignty and separate membership in the United Nations.

Argentina, Chile, Mexico, Malaysia, and Brazil at one end and Ethiopia, Mozambique, and Uganda at the other. The United Nations sometimes uses the terms "developed" and "developing," really meaning "rich" and "poor," but the World Bank has abandoned qualitative adjectives in favor of four categories based on per capita income levels: high income, upper middle income (which includes Brazil), lower middle income, and low income.[4] Yet the term "third world" (or "third world conditions") persists in common usage, without any generally accepted and clear-cut definition.

Apart from formal OECD membership, the first world is identified by three kinds of criteria: political, domestic economic, and external economic. The political criterion is easy to define, although not always easy to secure or maintain. It is a condition of stable pluralist democracy, with representative government based on free elections, competition among political parties, constitutional protection of individual and minority rights, and unconditional acceptance of electoral results.

The domestic economic criterion is harder to describe in a single sentence. It is not a mere matter of per capita incomes, although all present members enjoy levels above $15,000 per year (at 1997 prices, using "purchasing power parity" exchange rates) and the richest approach $30,000.[5] It includes a broad array of modern industrial and service activities, a high degree of urbanization, integration of agriculture into the money economy, access to advanced technologies, universal education for literacy and numeracy, some form of social "safety net" to prevent extreme destitution and provide access to health care, and general participation of the populations in modern institutions of trade and exchange.[6] On the external economic side, first world members are all actively involved in the late-twentieth-century international systems of trade, finance, and investment, institutionalized in the WTO, the IMF, the World Bank, and the network of private commercial and investment banks. During the 1990s, their openness to foreign trade and investment has come to be called globalization.

In the 1950s, the early period of active U.S. (and other first world) interest in overseas development, it was widely believed that all third world

4. See World Bank, *World Development Indicators, 1999* (Washington, 1999), p. xxiv. Largely overlapping the low-income group is a newly named category of highly indebted poor countries, for whom substantial debt forgiveness is planned early in the new millennium.

5. The data for all countries are readily available in World Bank, *World Development Indicators, 1999,* tables 1.1 and 1.6; and in United Nations Development Program (UNDP), *Human Development Report, 1999* (Oxford University Press, 1999), table 1, pp. 134–37.

6. I say "general" rather than "total" participation because several first world countries retain enclaves of preindustrial populations or regions, such as the Italian *mezzogiorno.*

countries would in due course undergo some form of transition to modernization, either into the first world or into the second. A major component of the American political interest in assisting development, although by no means its entire raison d'être, was the very issue of choice between "free" and "communist" worlds. Walt W. Rostow's widely read and influential book, *The Stages of Economic Growth* (1960), was subtitled *A Non-Communist Manifesto.* It predicted worldwide developmental patterns essentially similar to the nineteenth- and early twentieth-century experiences of Europe, North America, and Japan. In Rostow's view, the "take-off into sustained growth" had already taken place in Mexico and Argentina and was under way in Brazil and Venezuela as well as in China and India.[7]

For Simon Kuznets, on the other hand, the leading economic growth historian of that period, modernization could not be analyzed in such discrete stages and could be hampered by all kinds of political, social, and cultural constraints. The slowness of its spread was consequently not so surprising. In Latin America, Kuznets noted the delays occasioned "by a political and institutional framework that, at least until recent decades, permitted the small elites to profit from the economic advantages of their position, without embodying strong incentives and pressures for change that would spread the benefits and lay the foundation for greater modernization of the economic and social structure."[8] Yet he had little doubt that modernization would prevail in time. American policymakers under Dwight Eisenhower, John Kennedy, and Lyndon Johnson were confident that, with appropriate international assistance, the process could not only be accelerated but also steered toward assimilation into the first world rather than the second.

The Brazilian Potential

That most Brazilians aspire to first world status, as thus defined, is scarcely in doubt. Advanced living standards for their children if not themselves, much less poverty and misery, a stable political structure providing democratic accountability and secure human rights—these are all widely shared

7. Walt W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto* (Cambridge University Press, 1960), pp. 126–27. On the similarities and differences, see pp. 139–42, where Rostow takes explicit note of conflicts between "traditionalists" and "modernizers" and of institutional obstacles to modernization, but he concludes "with reasonable confidence" that in some sixty years "the world will contain many new nations which have achieved maturity." Forty years later, the pace appears to have been much slower.

8. Simon Kuznets, *Modern Economic Growth: Rate, Structure, and Spread* (Yale University Press, 1966), p. 475 and chap. 9 *passim.*

goals, even though many Brazilians would not state them in terms of first world versus third. These goals also have an intimate and long-standing connection with Brazilian nationalism.

In the early postwar decades, many Brazilian intellectuals would have defined greatness in socialist terms, but neither the Soviet Union nor China had much standing as models even then, and their glamour as ideals has now totally disappeared. More recently, Japan has received some attention as a country with "many qualities which other countries should imitate," but its appeal has declined with the long stagnation since 1990.[9] For a time in the 1970s, when the oil shocks had seemed to empower third world countries in a global struggle against the first world, a group of intellectuals on the left, including some professional diplomats, argued for Brazil to assume third world leadership. After years of sterile debates in UN bodies, and especially after the collapse of the Soviet Union, this line of thought dwindled to insignificance, again leaving Europe and North America as the dominant models. When pressed to identify specific countries, however, Brazilians I have consulted generally say that first world contents should be poured into a specifically Brazilian mold.[10]

On the political side, the basic commitment to democratic institutions and human rights was amply demonstrated during the recent period of military rule. Popular opinion had widely welcomed the ouster of President João Goulart in 1964 as an escape from the twin dangers of social chaos or populist dictatorship but by the early 1970s had already shifted to favor a democratic restoration. Even in the most repressive years, the dominant military faction rejected the idea of permanent authoritarian rule or single-party monopoly of power. From 1975 on, as the step-by-step processes of "relaxation" (*distensão*), "opening" (*abertura*), and redemocratization proceeded, the regime was kept under constant public pressure, culminating in the mass mobilization of 1984 favoring immediate direct elections to the presidency (*diretas já*). The restoration of civilian control in 1985 was immensely popular in all sectors of Brazilian society. In the same vein, spokesmen for all sectors, while acknowledging that the results were far from ideal, took pride in the intensely democratic procedures through which the Constitution of 1988 was prepared. Its human rights provisions are universally praised, in contrast to the controversial economic clauses. Notwithstanding the disappointments of economic and social performance in the

9. Instituto Gallup de Opinião Pública, *Research on International Problems,* November 1985, Question 23.

10. The notion of a fully modernized society with exceptional Brazilian traits was the central theme of Gilberto Freyre, *New World in the Tropics: The Culture of Modern Brazil* (Knopf, 1959).

first decade of the "New Republic," elections with freedom to form political parties and mass voting participation helped to distract attention from immediate woes and offered a hope for better times to come.

On the economic side, there is less consensus. Although first world levels of prosperity are widely desired, and only very small minorities believe that such levels could be achieved by Brazil in isolation from the world economy, there are deep differences on intermediate ends and on basic lines of policy. The economic record over the years has been disfigured by two great failures that are almost Brazilian hallmarks: (1) chronic inflation, verging on hyperinflation, and (2) extreme inequality in the distribution of incomes and wealth. But there is no general consensus on the remedies. These failures have been major obstacles to the achievement of genuine first world status. The efforts to overcome them, notably the Real Plan for financial stabilization introduced in 1994, are treated in later chapters.

Suffice it here to identify some of the major lines of cleavage in attitudes toward economic policies:

1. Regional tension between the Northeast and the more advanced Center-South goes back for generations. With its poles at Recife and São Paulo, the conflict pits the economic interests of a poor, relatively overpopulated, predominantly rural, and frequently drought-stricken group of northeastern states against the interests of the south-central region, whose dynamic growth in both industry and modern agriculture now extends from southern Bahia and Minas Gerais down to the Argentine and Uruguayan frontiers.
2. Conventional left-right political tension has developed in the wake of twentieth-century urbanization and industrialization. On the extreme left are former communists and socialists still devoted to direct state management of much of the economy and far-reaching intervention in the remainder; on the far right, there are intransigent free-enterprise liberals (defining "liberal" in the European manner, sometimes called "libertarian" in the United States), opposed to all forms of governmental intervention in the economy. Short of the extremes, the center-left protects the privileges of organized labor, especially in government service marked by redundant employment, early retirement, and extravagant pensions; it opposes privatization on principle. The center-right tends to resist agrarian reform and to move slowly on educational modernization. There is a substantial array of centrist groupings in between, but this tension is a central feature of both labor relations and party politics.

3. Until recently, there was also a sharp division on the proper role of foreign private investment and multinational corporations, arraying all-out opponents against all-out supporters. Today, while there are many more advocates of centrist positions on these issues, there remains a strong residue of nationalist antiforeign sentiment.
4. Overlapping all of the above, there is a cleavage between traditionalists and modernizing reformers. In the Brazilian context, this cleavage is as fundamental as Russia's classic division into Slavophiles and Westernizers. The traditionalists are the beneficiaries of the "three C's" of Brazil's socioeconomic history: clientelism, corporativism, and the cartorial (that is, overbureaucratized) state. In the countryside, especially in the Northeast, the traditionalist attitudes go straight back to colonial Brazil's patrimonial and slavery-based society. In commerce and industry, they seek to preserve the governmental subsidies and protection from competition developed in earlier stages of twentieth-century development. The modernizers want to break those molds, encouraging domestic competition and opening the economy to foreign competition. Exemplars of each side can be found in every walk of life: agricultural landowners, industrial owners and managers, bankers and businessmen in the newer service sectors, labor unions, the Church, universities, the liberal professions, the civil service, the military officer corps, and politics.[11]

These multiple cleavages might seem a prescription for paralysis, giving credence to the old saw that "Brazil is the land of the future and will always be so." Against that kind of pessimism, however, must be set the record of development in the twentieth century, especially in the postwar decades. In gross magnitudes, total economic output was multiplied elevenfold between 1947 and 1980, and per capita real output by four and a half times, while the structure of the economy was radically transformed.[12] That record gives assurance of Brazil's potential for complete transformation to first world status, whether or not the potential comes to be realized in the visible future.

11. As one acute Brazilian analyst put it to me in 1988, apropos of various provisions of the new constitution: "The real struggle in Brazil is between the Past and the Future; for the time being, I fear that the Past is prevailing."

12. Data calculated from national accounts summarized in Instituto Brasileiro de Geografia e Estatística (IBGE), *Estatísticas Históricas do Brasil, Séries Estatísticas Retrospectivas,* vol. 3, *Séries Econômicas, Demográficas e Sociais, 1550 a 1985* (Rio de Janeiro, 1987), pp. 111–12. A somewhat more conservative estimate gives a ratio of three and one-half times for per capita income; see Angus Maddison, *Monitoring the World Economy 1820–1992* (Paris: OECD, 1995), table D-1d, p. 203.

The first component in that potential is sheer size of territory and population. Size in itself is no guarantee of economic success, but it does provide real advantages: a wide array of natural resources within the national borders and a sufficient domestic market to promote industrial diversification. In the late 1990s Brazil was fifth in area, fifth in population, and ninth in economic output (table 1-1).

In per capita incomes, Brazil ranks somewhat below Mexico and Argentina and stands at about two-fifths of Spain's level and one-third of Western Europe's. It is far above the huge countries of India, China, and Indonesia. Brazil's middling per capita levels resemble southern Europe's in the 1950s. Combined with the population of over 150 million, they constitute a substantial domestic market. In broad terms, that market scale permits efficient production of the kinds of goods typical of the world's first and second industrial revolutions, including intermediate metal products, low-cost textiles and shoes, motor vehicles, electrical and chemical products, machine tools, and most consumer durables. For today's ongoing third industrial revolution of electronics and information, however, nothing short of a global market appears able to maintain the pace of technological advance.[13]

A rapid rate of population growth in a large and relatively poor country can be a drag on developmental potential, absorbing much of the available capital to provide basic goods and services at a subsistence level instead of raising per capita output and income. Brazil's census counts since 1872 are shown in figure 1-1, along with the intercensus rates of annual increase. The high growth in the early twentieth century mainly reflects heavy immigration, but the peak of 3.1 percent in midcentury is typical of the demographic transition, in which public health measures reduce mortality (especially infant mortality) while high birth rates continue. Notwithstanding the achievement of quite high levels of economic growth, the population surge sets limits to improvements in health and education and aggravates the inequalities in income distribution between geographical regions and social classes.[14] Since the mid-1960s, however, urbanization, extended education, and the spread of contraceptive practices have gradually brought the rate down to a level of

13. For smaller economies, such as Taiwan, Singapore, and Hong Kong, the limited scale of domestic markets has been compensated by aggressive export-oriented development policies, successful as long as the more industrialized first world remains receptive to their exports. Brazil's failure to exploit export market possibilities in the 1950s and 1960s certainly had some negative effect on its rates of economic growth, but that effect was greatly tempered by the availability of the large home market, much as in the United States and Germany in the late nineteenth and early twentieth centuries.

14. See Thomas W. Merrick and Douglas H. Graham, *Population and Economic Development in Brazil: 1800 to the Present* (Johns Hopkins University Press, 1979), pp. 294–96. For more recent

Table 1-1. *The World's Large Economic Units, 1997*

Country	Area (thousands of km²)	Population (millions)	GNP (PPP) (billions of U.S. dollars)	GNP per capita (U.S. dollars) PPP	GNP per capita (U.S. dollars) World Bank Atlas
United States	9,364	268	7,783	29,080	29,080
China	9,597	1,234	3,770	3,070	860
Japan	378	126	3,076	24,400	38,160
Germany	357	82	1,737	21,170	28,280
India	3,288	962	1,599	1,599	370
France	552	59	1,301	22,210	26,300
United Kingdom	245	59	1,222	20,710	20,870
Italy	301	58	1,156	20,100	20,170
BRAZIL	8,547	164	1,039	6,350	4,790
Mexico	1,958	94	765	8,110	3,700
Indonesia	1,905	200	679	3,390	1,110
Canada	9,971	30	659	21,750	19,640
Russia	17,075	147	631	4,280	2,680
South Korea	99	46	618	13,430	10,550
Spain	506	39	617	15,690	14,490
Australia	7,741	19	362	19,510	20,650
Argentina	2,780	36	360	10,100	8,950
Netherlands	41	16	332	21,300	25,830
Europe (EMU)	2,374	291	5,878	20,230	23,450

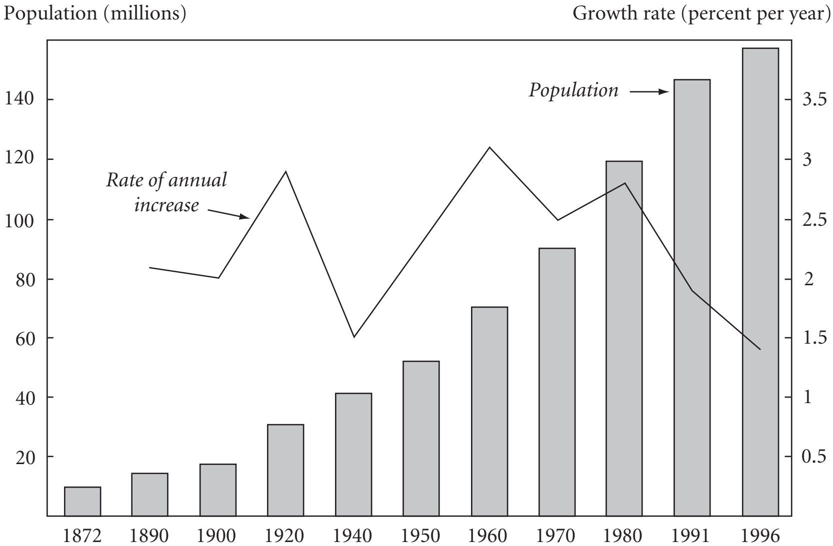
Source: World Bank, *World Development Indicators, 1999* (Washington, 1999), table 1.1, pp. 12–14.

1.4 percent in the late 1990s. Birthrates remain higher in the poor Northeast than elsewhere, but those regional disparities are also beginning to close.

Population stability, perhaps in the 250 million to 300 million range or even higher, cannot be expected until the mid-twenty-first century. New entries into the labor force are now at their peak, with a corresponding demand for investment and job creation. Regional migration, especially into the southern cities, places enormous demands on urban services. Neverthe-

surveys of research raising doubts about simplistic causal connections between economic stagnation and high rates of population growth, see National Research Council, *Population Growth and Economic Development: Policy Questions* (Washington: National Academy Press, 1984); and Allen C. Kelley, "Economic Consequences of Population Change in the Third World," *Journal of Economic Literature,* vol. 26 (December 1988), pp. 1685–1728.

Figure 1-1. *Population Growth, 1872–1996*



Source: Instituto Brasileiro de Geografia e Estatística, periodic national censuses.

less, Brazil is now well advanced in the demographic transition inherent in modernization.

Patterns of Development

The Brazilian economy in the decades since World War II appears as a belated but classic case of incomplete transformation from traditional stasis to modern economic growth. The old Brazil was mainly agrarian. Its commercial agriculture was concentrated in coffee and the lesser export crops of sugar, cotton, and cacao, and there was a large segment of subsistence agriculture. The economy had not been entirely stagnant in the prewar decades, as table 1-2 makes clear. Even before 1900, as already noted, a modest foundation for industry had been laid in São Paulo, mainly in textiles and food processing. Industrialization was given further impetus by World War I and the Great Depression. As a result, Brazil maintained a respectable annual growth rate of over 4 percent throughout the 1930s, when much of the richer world was in sharp decline. Nevertheless, almost 70 percent of the population still lived in rural areas in 1940, two-thirds of the adults were illiterate, and the rudimentary condition of communications and transport left large regions in isolation.

Table 1-2. *Five-Year Growth Rates, 1900–99*
Percent per year

Period	*Economic growth*	*Population growth*	*Per capita economic growth*
1900–05	4.0	2.1	1.9
1905–10	4.5	2.1	2.4
1910–15	2.9	2.1	0.8
1915–20	5.6	2.1	3.4
1920–25	3.9	2.1	1.8
1925–30	5.1	2.1	2.9
1930–35	4.3	2.1	2.2
1935–40	4.4	2.1	2.3
1940–45	4.2	2.4	1.8
1945–50	7.6	2.4	5.1
1950–55	6.7	3.1	3.5
1955–60	8.1	3.1	4.8
1960–65	4.3	2.5	1.8
1965–70	8.1	2.5	5.5
1970–75	10.3	2.8	7.3
1975–80	7.1	2.8	4.2
1980–85	1.4	1.9	–0.5
1985–90	2.0	1.9	0.1
1990–95	3.1	1.4	1.7
1995–99	1.8	1.3	0.5

Sources: Economic growth rates between 1900 and 1947 are calculated from estimates of C. L. S. Haddad, *O Crescimento do Produto Real do Brasil* (Rio de Janeiro: Fundação Getúlio Vargas, 1978), as reported in Instituto Brasileiro de Geografia e Estatística (IBGE), *Estatísticas Históricas do Brasil, Séries Estatísticas Retrospectivas*, vol. 3, *Séries Econômicas, Demográficas e Sociais, 1550 a 1985* (Rio de Janeiro, 1987) (hereafter *Estatísticas Históricas*), p. 94; from 1947 to 1955, calculated from consolidated national accounts prepared by IBGE, as reported in *Estatísticas Históricas*, pp. 111–12; from 1955 to 1999, calculated from national accounts data prepared by IBGE, reported in "Conjuntura Estatística," *Conjuntura Econômica* (March 2000), p. vi.

Population growth rates between 1900 and 1920 and between 1920 and 1940 are the annual rates between the national censuses of those three years, as revised by Giorgio Mortara and reported in Merrick and Graham, *Population and Economic Development in Brazil*, p. 25. From 1940 to 1999, the growth rates are the annual rates between each pair of censuses, as reported by IBGE on the Internet.

Historical studies of today's first world countries identify four common patterns in the transformation to modern economic growth:[15] (1) acceleration in rates of overall and per capita output, involving radical changes in technology; (2) major shifts in the sectoral structure of income and employ-

15. The most comprehensive assembly of quantitative data on this transformation was the life work of the late Simon Kuznets, for which he received the 1971 Nobel Prize in economic science.

ment, away from agriculture and toward industry and services; (3) urbanization of the populations accompanied by the demographic transition from high to low death- and birthrates; and (4) changes in the composition and orientation of foreign trade related to the shifts in economic structure. Indispensable elements in this transformation are higher agricultural productivity and the accumulation of capital through private or public domestic saving, usually supplemented by foreign investment. The Brazilian experience, especially since 1945, fits very well with these patterns, as shown in tables 1-2 to 1-9 and figures 1-2 to 1-4. Each of those tables warrants a brief comment.

In every quinquennium since World War II, economic growth rates (table 1-2) were higher than at any earlier period, with two exceptions: the Goulart era of the early 1960s and the debt crisis era after 1981. Tables 1-3 and 1-4, together with figure 1-2, show the basic changes in economic structure, focused on the growth of industry and modern services. The sectoral shift in the work force became dramatic after 1950, cutting the share of the food and feed sectors by more than half from the 1950 level of 60 percent. The 1996 figure of 24½ percent, however, was still more than twice the first world average. The relatively low productivity in agriculture is demonstrated by the two tables taken together: 24½ percent of the work force produced only 8 percent of the gross domestic product (GDP).

Table 1-4 also points to the burgeoning of industrial output after 1955. That expansion was not merely quantitative; it moved from light industry into increasingly sophisticated consumer durable goods, intermediate goods, and a wide range of capital goods. With industrialization came more than a doubling of urbanization, as shown in table 1-5. The Brazilian definition of "urban" is more inclusive than for most countries, so the overall figure may be overstated, but it is significant that by 1993 the population in cities of over 1 million persons came to 32 percent for Brazil, close to the first world average of 36 percent.[16]

The other sections of table 1-5, together with table 1-6 and figure 1-3, show some of the fruits of economic development in terms of social welfare. From the 1940s to the 1970s, life expectancy was extended by twenty-two years, with the more advanced Southeast only eight years short of first world levels. A major reason for the remaining discrepancy is infant mortality;

See his *Modern Economic Growth* and the extensive collection of earlier articles and books cited therein. A much more recent review of available quantitative information is presented in Maddison, *Monitoring the World Economy 1820–1992*.

16. See World Bank, *World Development Report 1995* (Oxford University Press, 1995), p. 223.

Table 1-3. *Sectoral Distribution of the Work Force, 1920–96*[a]

Percent of total work force

Sector	*1920*	*1940*	*1950*	*1960*	*1970*	*1980*	*1990*	*1996*
Total work force (in thousands)	9,567	14,758	17,117	22,750	29,338	42,272	64,468	73,120
Men (percent)	84.7	81.0	85.4	82.1	79.1	72.8	64.5	59.9
Women (percent)	15.3	19.0	14.6	17.9	20.9	27.2	35.5	40.1
Agriculture, livestock, hunting, and fishing	66.7	65.9	59.9	54.0	44.8	30.2	22.8	24.5
Industry, mining, construction, public utilities, transport, and communications	13.2	17.3	21.6	22.2	26.2	33.6	26.6	23.6
Services, all types	15.8	16.1	18.2	22.1	27.5	35.5	50.6	51.9
Commerce (except banking)	n.a.	5.0	5.6	6.6	7.8	9.8	12.8	13.3
Banking and finance	n.a.	0.4	0.7	0.9	1.5	2.4	3.3	3.5
Public administration	n.a.	2.8	3.0	3.1	3.9	4.4	5.0	4.7
(Armed forces)	n.a.	(0.7)	(1.0)	(1.0)	(0.9)	(0.6)	(0.5)	(0.5)
(Other)	n.a.	(2.1)	(2.0)	(2.2)	(3.1)	(3.8)	(4.5)	(4.2)
Education, health, recreation, and other liberal professions	n.a.	2.0	3.0	4.3	6.3	9.8		
Personal services	n.a.	5.9	5.9	7.3	8.1	9.1	29.5[b]	30.4[b]
Unclassified	4.3	0.7	0.3	1.7	1.5	0.7	2.8	1.9

Sources: For 1920 through 1980, calculated from data in the decennial censuses reported in *Estatísticas Históricas*, pp. 72–73. For 1990 and 1996, calculated from Household Sample Survey data, as reported in *Anuário Estatístico* (1993), pp. 2–51 and 2–73, and (1997), pp. 2–72 and 2–81, respectively.

n.a. Not available.

a. The categories used in 1920 and in 1990 and 1996 are not strictly comparable with those in 1940 through 1980, but should be regarded as rough approximations.

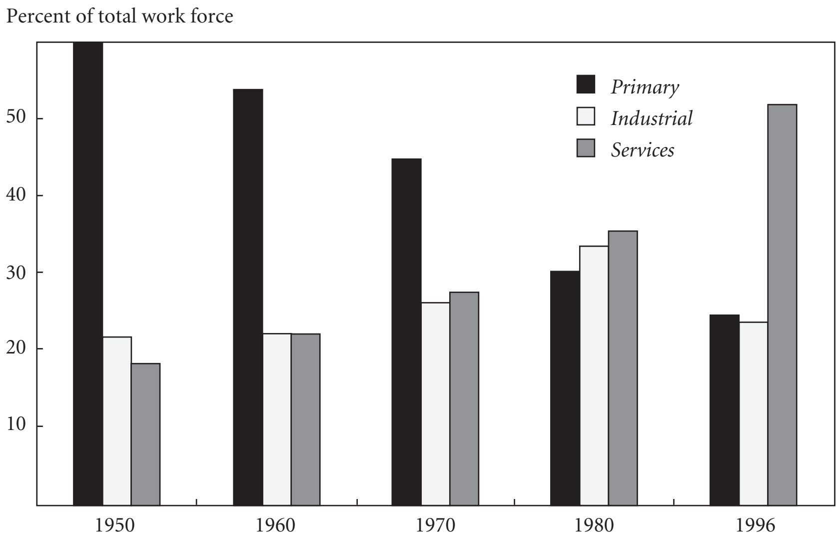
b. Figure combines previous categories of "education, health, recreation, and other liberal professions" and "personal services."

Table 1-4. *Sectoral Distribution of Gross Domestic Product, 1947–96*
Percent of GDP

Sector	*1947*	*1950*	*1955*	*1960*	*1965*	*1970*	*1975*	*1980*	*1985*	*1990*	*1996*
Agriculture, livestock, hunting, fishing	20.7	24.3	23.5	17.8	15.9	20.2	11.2	10.0	9.8	8.1	8.0
Industry, mining, construction, public utilities, transport, communications	28.5	27.5	29.3	36.2	36.0	40.2	41.5	42.5	38.9	38.7	35.5
Services	50.8	48.2	47.2	46.0	48.2	48.3	47.2	47.5	51.3	53.2	56.5
Commerce (except banking)	15.8	15.6	16.2	16.9	16.6	16.4	16.5	14.5	12.9	8.3	7.3
Banking and finance	3.2	3.6	3.4	2.7	3.4	6.0	6.9	7.9	11.4	13.4	5.8
Rents	14.3	11.5	11.1	10.3	10.4	9.3	7.0	6.7	8.3	4.8	12.8
Public administration	6.1	6.6	6.1	6.3	8.0	9.2	7.8	6.3	6.6	14.1	14.8
Other	11.4	10.8	10.4	9.8	9.7	7.3	8.9	12.0	12.0	15.9	15.8

Sources: For 1947–85, calculated from data in the consolidated national accounts, as reported in *Estatísticas Históricas*, sec. 4.10, table 7, pp. 117–20; for 1990 and 1996, from data in *Anuário Estatístico* (1997), pp. 7–111.

Figure 1-2. *Sectoral Distribution of the Work Force, 1950–96*



Source: Table 1-3.

although reduced by 75 percent since 1950, the overall rate is still several times the first world standard. Adult literacy (table 1-5) has been vastly improved but still has far to go, especially in the rural areas.

There have also been notable shifts in the volume, composition, and destinations of foreign trade. The first salient feature is a large overall increase in the volume of trade, although less than proportional to total output (table 1-7). The continuing low trade-dependency ratio results partly from Brazil's size but also reflects the inward-focused development strategy, which would have been a major constraint on overall growth rates in a smaller country. Notwithstanding that strategy, there was a striking change in the composition of exports from traditional tropical products to industrial goods and more variegated raw materials (table 1-8). Trading partners have also become more diversified, with Mercosur and other Latin American countries gaining a significant share (table 1-9 and figure 1-4).

At each stage in these transformations, there was strenuous controversy, both political and intellectual, concerning the strategies employed and the by-products in social terms. Looking back on the late 1950s, most analysts now believe that the Kubitschek government relied too heavily on industrialization through import substitution for consumer durable goods, to the

Table 1-5. *Urbanization and Adult Literacy, 1900–98*[a]

Percent

Indicator	*1900*	*1920*	*1940*	*1950*	*1960*	*1970*	*1980*	*1991*	*1996*	*1998*
Urban population	n.a.	n.a.	31.2	36.2	44.7	55.9	67.6	75.6	78.4	n.a.
Literacy in adult population	34.7	35.1	43.8	49.3	60.2	65.9	74.5	79.9	n.a.	86.2
Urban	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	83.2	85.8	n.a.	n.a.
Rural	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	53.7	59.5	n.a.	n.a.

Sources: Urbanization is calculated from census data as reported in *Anuário Estatístico* (1994), pp. 2–7, and (1997), pp. 2–36. Literacy is from census data as reported in *Anuário Estatístico* (1997), pp. 2–40; and for 1998, from the Ministry of Finance's Institute of Applied Economic Research (IPEA), based on the PNAD.

n.a. Not available.

a. In Brazil, the "urban" population is defined as those living in all urban and suburban zones of the administrative centers of *municípios* (counties) and districts, rather than according to the population level of a town or city. Compared with the population level of 20,000 or more standard in many other countries, this definition somewhat overstates the extent of urbanization in Brazil. Adult literacy is defined as persons aged fifteen or older who can read and write.

Table 1-6. *Life Expectancy and Infant Mortality, 1930–96*

Indicator	*1930–40*	*1940–50*	*1950–60*	*1960–70*	*1980*	*1990*	*1996*
Life expectancy							
at birth (years)	42.7	45.9	52.4	52.7	61.7	65.8	67.6
Northeast	38.2	38.7	43.5	44.4	58.7	64.2	64.5
Southeast	44.0	48.9	57.0	57.0	64.5	67.5	68.8
Infant mortality							
(per 1,000							
births)	158.3	144.7	118.1	116.0	69.2	47.1	36.1
Northeast	178.7	176.3	154.9	151.2	106.8	88.2	n.a.
Southeast	152.8	132.6	100.0	100.2	47.4	30.0	n.a.

Sources: *Estatísticas Históricas*, p. 50, and *Anuário Estatístico* (1994), pp. 2–53; for 1996, data reported on the Internet by the Ministry of Health.

n.a. Not available.

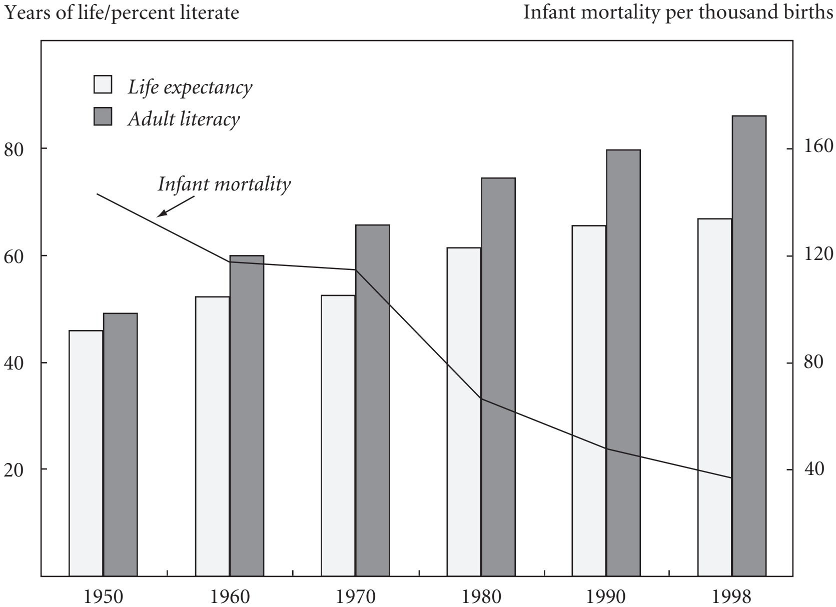
detriment of agriculture and of potential export markets.[17] Some critics regard the anti-inflation policies of the mid-1960s as unduly "orthodox," responsible for industrial recession and reduction in real wages; their defenders claim that less severe policies could not have broken inflationary expectations and laid a foundation for the high-growth "economic miracle" period of 1968–73. That period in turn is widely criticized for making income distribution in Brazil yet more uneven, one of the "worst" in the world. The frequent assertion that "the poor got poorer" during those years, however, is not correct; they became less poor while the rich became substantially richer.[18] Nonetheless, Brazil still has a huge residue of inadequately attended social needs by contemporary first world standards: in housing, health, education, urban services, and social insurance. Perhaps one-third of the population is "marginalized," not yet participating actively in any aspect of the modern economy. Brazil's Gini coefficient, a standard index of inequality in income distribution, stubbornly remains one of the worst in the world (see chapter 5).

On another front, occupying increasing public attention since the 1970s, there is growing concern about environmental deterioration, ranging from depletion of the Amazonian and coastal rain forests to air and water pollution in the overcrowded metropolitan centers. Since the restoration of

17. In chapter 2, I explain why the term "import substitution" is somewhat misleading in the Brazilian context.

18. See World Bank, *Brazil: Economic Memorandum* (Washington, 1984), pp. 126–36.

Figure 1-3. *Selected Social Indicators, 1950–98*



Source: Tables 1-5 and 1-6.

democratic rule in 1985, many nongovernmental organizations (NGOs) have been formed as political pressure groups on environmental protection, often cooperating with and actively supported by like-minded groups in first world countries.

Table 1-7. *Volume of Trade, 1938–99*
Millions of U.S. dollars, except as indicated

Item	*1938*	*1950*	*1960*	*1970*	*1980*	*1990*	*1999*
Exports (fob)[a]	296	1,355	1,269	2,739	20,133	31,414	48,011
Imports (cif)[a]	295	1,085	1,462	2,849	22,954	20,661	49,210
Trade balance	1	270	–193	–110	–4,829	10,753	–1,119
GDP (billions)	3.9	15.1	17.9	45.0	250.3	469.3	804.7
Trade dependency[b] (percent)	7.6	8.1	7.6	6.2	8.6	5.5	6.0

Sources: United Nations, *International Trade Statistics Yearbook* (various years).

a. fob = free on board; cif = cost, insurance, freight.

b. Trade dependency = (exports + imports)/2 as a percentage of GDP. Some authors use the sum of exports and imports rather than the average, thus doubling the result.

Table 1-8. *Commodity Composition of Trade, 1938–95*
Percent

Commodity[a]	*1938*	*1950*	*1970*	*1980*	*1995*
Exports					
Food and raw materials (0, 1, 2, 4)	94.2	89.3	85.0	59.1	39.9
Coffee	45.0	63.9	35.9	13.8	5.3
Iron ore	0.4	4.9	7.7	8.6	5.5
Cotton	18.2	7.8	5.8	0.9	0.4
Soybeans and oil	...	...	...	4.0	4.0
Orange juice	...	...	...	...	2.4
Semimanufactures (5, 6)	...	2.1	9.1	16.6	31.8
Machinery and transport equipment (7)	...	...	3.5	16.9	19.0
Automotive vehicles and parts	...	...	0.3	5.2	5.7
Aircraft	...	...	...	0.4	0.6
Miscellaneous manufactures (8)	0.1	0.6	0.8	4.3	6.3
Shoes	...	...	0.3	1.9	2.8
Unspecified	5.7	8.0	...	...	...
Imports					
Fuel and lubricants (3)	10.8	13.4	12.4	43.1	8.7
Food and raw materials (0, 1, 2, 4)	17.0	18.3	13.5	12.4	12.1
Semimanufactures (5, 6)	5.9	3.6	33.4	22.5	26.4
Machinery and transport equipment (7)	29.1	32.9	35.2	19.5	39.1
Aircraft and parts	...	...	1.9	1.7	0.5
Automotive vehicles and parts	5.5	8.7	3.6	0.8	10.8
Miscellaneous manufactures (8)	12.2	9.6	4.7	2.4	7.3
Unspecified	25.0	22.2	...	...	...

Sources: See table 1-7.
... Not applicable.
a. Major categories of the standard international trade classification (SITC) are in parentheses.

Table 1-9. *Geographical Composition of Trade, 1938–99*
Percent

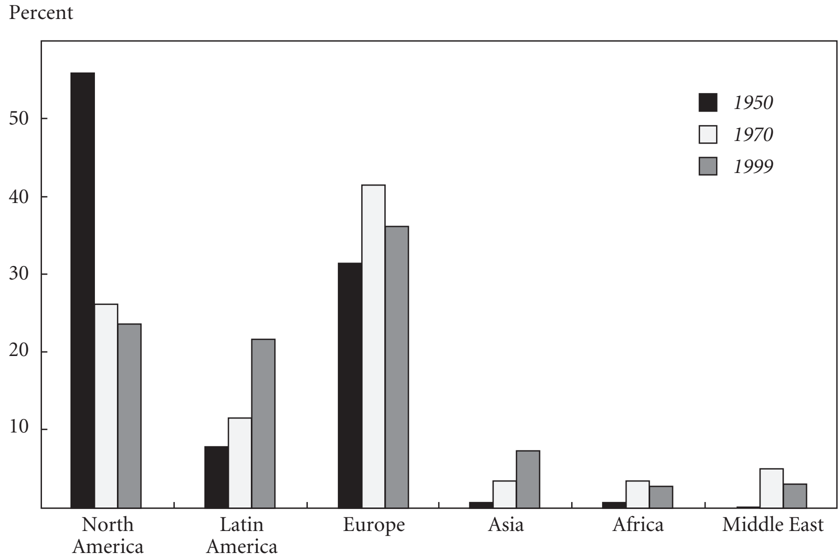
Country	*1938*	*1950*	*1970*	*1995*	*1999*
Exports					
United States and Canada	34.6	55.9	26.2	19.9	23.7
Mercosur	5.9	6.9	8.3	13.2	14.1
Other Western Hemisphere	0.2	1.1	3.4	9.9	7.7
Western Europe	45.4	30.9	37.1	27.8	28.6
Other Europe	1.6	0.7	4.5	2.9	2.5
Japan	4.6	. . .	5.3	6.7	4.6
Other Asia	0.5	0.8	3.5	10.9	7.4
Africa	0.5	0.7	3.3	2.5	2.8
Middle East	. . .	0.2	5.1	3.7	3.1
Unspecified	6.7	2.8	3.3	2.5	5.5
Imports					
United States and Canada	25.5	35.6	34.7	23.3	26.1
Mercosur	12.5	10.7	6.5	13.7	13.7
Other Western Hemisphere	3.7	12.8	5.6	6.8	5.5
Western Europe	51.3	38.0	31.5	27.5	30.5
Other Europe	1.8	0.8	2.1	2.2	1.4
Japan	1.3	. . .	6.3	6.6	5.2
Other Asia	1.0	0.4	5.7	9.9	7.9
Africa	. . .	0.3	2.2	2.5	4.5
Middle East	. . .	0.1	5.1	4.2	2.2
Unspecified	2.9	1.3	0.3	3.3	3.0

Source: For 1938–95, see table 1-7. For 1999, data from Brazil's Ministry of Development, Industry, and Commerce, by Internet.

Those issues apart, both the "miracle" years and the Real Plan period have been criticized intensely by the political left in Brazil for permitting too great participation by multinational corporations and other foreign investors. The political right, in turn, has criticized the excessive participation of state-owned enterprises. Moderate opinion on both left and right, however, would now agree that Brazilian industry should have been exposed to import competition well before 1990.

In the latter 1970s, there were sharply conflicting judgments on the wisdom of Brazil's external borrowing policy, designed to maintain rapid growth despite the pressure of high oil import prices on the balance of payments. And throughout these decades of modernization, up until the Real

Figure 1-4. *Export Destinations, 1950–99*



Source: Table 1-9.

Plan of 1994, Brazil failed to approximate price stability for more than a few months at a time. Inflation has been a chronic weakness and a source of unending technical and political dispute.

In later chapters, I assess the merits of many of these conflicting opinions and criticisms. It should be borne in mind that no country in the first world has reached its present stage of development without rough passages in its political and social evolution, least of all Victorian England, which inspired Karl Marx's revulsion against capitalism. For present purposes, the indisputable fact is that since the 1950s, Brazil has taken giant steps toward first world status on the economic side. There are sufficient parallels with American economic history to warrant a brief comparison.

American Parallels?

On the surface, Brazil resembles the United States in many ways. They are both continental-size countries of similar dimensions. The natural resource bases differ in detail, with the United States possessing more arable land, easier physical access to its interior heartland, and a larger supply of fossil fuels. Yet Brazil also enjoys a generous natural endowment, including a subtropical climate permitting two or three crops a year. In both cases, the original European settlers easily subdued the relatively small and primitive native Indian populations, in contrast to the experiences in Mexico and Peru. The plantations of northeastern Brazil and the southern United States were both based on slaves imported from Africa, with emancipation coming peacefully to Brazil twenty-three years after the American Civil War. Industry, on the other hand, in São Paulo as in New England, was based from the start on free labor. So it is tempting to suppose that Brazil's development is following the American trajectory, but with a lag of a few decades.

Several quantitative indicators support that hypothesis. In 1991 Brazil's population reached the American figure for 1949. Brazil's per capita income matches the American level early in the twentieth century, as does agriculture's share of the labor force. The United States reached Brazil's present levels of electricity production only in 1941. The Brazilian highway network, however, lags much further behind the American, reflecting contrasting geographical settlement patterns and difficulties of terrain. On the side of public health, the United States had reduced infant mortality to present Brazilian levels by 1938, but did not achieve today's Brazilian life expectancy until 1944. Thus in broad brush terms, the Brazilian economy resembles the American of the 1920s, indicating a lag of about seven decades. The American economy in the period between the two world wars surely met the criteria of first world status.[19]

The question arises why there has been any lag at all, the topic of a celebrated study in the mid-1950s by Vianna Moog.[20] Moog rejected traditional explanations such as Brazil's tropical climate, racially mixed population, and geography. He gave somewhat greater weight to the effects of the Protestant ethic in America but focused primarily on psychological attitudes derived from the contrasting histories: the Portuguese coming simply to exploit and extract natural resources while the British and their early followers in North America sought permanent self-sustaining settlements. This analysis is still widely credited. But it is not a permanent obstacle to economic modernization, as demonstrated by Brazil's recent forced-pace industrialization. The alleged incompatibilities of Roman Catholicism with rapid economic devel-

19. Data for these comparisons are drawn from *Estatísticas Históricas; Anuário Estatístico 1994; The Europa Yearbook 1987;* and U.S. Department of Commerce, Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970, Bicentennial Edition* (Government Printing Office, 1975).

20. Vianna Moog, *Bandeirantes e Pioneiros* (Rio de Janeiro: Editôra Globo, 1955), translated as *Bandeirantes and Pioneers* (New York: George Braziller, 1964).

opment are not persuasive in the face of recent experience in France, Italy, and the Iberian peninsula.

The Brazilian-American contrast in the timing of industrialization seems easily explainable by differences in geography and history. Brazil lacked coal to institute steel production when steel was the key material of the first industrial revolution. Brazil's early colonists came from unindustrialized Portugal whereas America's came from the birthplace of modern industry. The technological drive that inspired Britain's industrial revolution was carried intact to New England and Pennsylvania. Moreover, as Kuznets recognized, the holders of power in a highly oligarchical plantation society successfully exporting its tropical products had little incentive to promote industrial modernization.

The economic development literature diverges on the effects of being a "latecomer" to industrialization. One school holds that latecomers have an inherent advantage in being able to borrow technology and institutional models from the pioneers. The other argues that they face formidable hurdles in breaking into markets preempted by the early starters. Brazil's experience since the 1950s supports the former view, as does that of Southern Europe and the East Asian NICs. Moreover, "catching up" with the United States appears to have played a major part in the unusually high worldwide growth rates of the period 1948–73.[21]

The historical cultural differences between Brazil and the United States may be especially relevant to a second stage of modern economic growth in the first world. That is the shift from early monopoly capitalism, dominated by family-owned concerns and marked by a sharply differentiated class structure, to the more dynamic and competitive welfare capitalism of the mid–twentieth century, with its huge middle classes, high degree of social mobility, and widespread "safety nets," a more dynamic system that is also less prone to extreme economic depression. In bringing about that shift, America's stable democratic institutions played a major part, facilitating the reforms associated with Theodore Roosevelt, William Howard Taft, Woodrow Wilson, and above all Franklin Roosevelt's New Deal. There are counterparts in the political-economic histories of Canada, Australia, New Zealand, and Great Britain. By one route or another, including intervals of fascism, enemy occupation, and defeat in war, continental Europe and Japan have also achieved this second stage, which is still evolving. But in this

21. See Angus Maddison, "Growth and Slowdown in Advanced Capitalist Economies: Techniques of Quantitative Assessment," *Journal of Economic Literature,* vol. 25 (June 1987), pp. 649–98.

respect, there is no Brazilian parallel. It is on the political side that Brazil's readiness for first world status is most in question.

Political Modernization

Stable pluralist political democracy, with respect for human rights and unconditional acceptance of the outcomes of free elections—the criteria defining the first world on the political side—has been the declared aspiration of a liberalizing element within the Brazilian elites for well over a century. But in contrast to its economic progress, Brazil's polity has not remotely achieved the democratic stability enjoyed by the United States well before the end of the nineteenth century. America's last—and only—stolen presidential election was in 1876, while Brazil was ruled by a one-man dictatorship from 1937 to 1945 and a military oligarchy from 1964 to 1985.

Brazil's Constitution of 1891 drew many features from the American, including the federal division of powers between the union and the states and the tripartite separation of powers (legislative, executive, and judicial) at both the national and state levels. But the underlying reality was entirely different. The Old Republic (1891–1930) was a loose federation with most authority at the state level. A limited franchise excluded the illiterate majority of the adult population, and few services were provided by government. The national Congress rarely disputed presidential authority, but state-level political machines and the military officer corps did so frequently. Instead of featuring two parties of national scope, Brazilian politics was essentially local or regional, highly personalistic, and based on the exchange of jobs and favors for votes, with large doses of petty and gross corruption and considerable organized violence. The closest American parallel was the city machine in the mold of Tammany Hall.

Before World War I, Brazil peacefully negotiated favorable boundary settlements all around its vast frontiers and played a leading role in forming the Pan-American Union. But these foreign policy accomplishments were not matched by national management of the domestic economy, which was totally dependent on the export of a few primary products—coffee, cacao, sugar, cotton, some minerals, and (for a brief period) rubber—and therefore highly vulnerable to fluctuations in export markets and in the terms of trade.

So there was fertile ground for popular unrest, regional use of force for parochial objectives, and mobilization movements against the established order. There were occasional clashes between the independent militias of some states. The armed forces were called in to deal with other episodes of violence: the notorious "rebellion in the backlands" in the late 1890s,[22] the short-lived but significant "lieutenants' revolt" in 1922, the Prestes Column of dissident junior officers in 1925–27. Military action was decisive in Getúlio Vargas's "revolution" of 1930, and military influence was never absent from the political scene, even under the able civilian presidents of the early twentieth century.

The era of Getúlio Vargas, including his second and legitimate presidency from 1950 to 1954, transformed the Brazilian state and many aspects of Brazilian society. It created full-fledged governmental institutions at the national level for the first time, including a rudimentary professional civil service. It ensured linguistic unity by requiring that elementary instruction be in the Portuguese language. It instituted—for good or for ill—a kind of embryonic developmental strategy based on state capitalism in basic industries: steel in the 1940s and petroleum in the 1950s. The corporative structure of labor unions and employer organizations, labor tribunals, and social security institutes remains to this day a significant element in Brazilian industrial relations. In a period of rapid urbanization and spreading literacy, which brought into being a substantial popular electorate, the Vargas era shaped the political parties of the Second Republic (1946–64).

The Second Republic can be considered Brazil's "first chance" to become firmly set on the road toward first world status, although not to its full achievement in a few years. Unfortunately, however, the political party structure of this fledgling new democracy was focused more on the pros and cons of the Vargas past than on the substantive issues of economic and social modernization. In the first decade, military intervention was frequently threatened. In 1952 it resulted in the ouster of the labor minister, João Goulart, and in 1954 to the suicide of Vargas himself under charges of corruption. Military threats were also leveled against the successor vice president, João Café Filho. After the election of 1955, elements in the armed forces conspired with anti-Vargas civilian circles against the inauguration of Juscelino Kubitschek, requiring a "preventive coup" against the outgoing interim president to ensure the succession.

During the late 1950s, however, with the major successes of Kubitschek's "developmentalism," it seemed that democratic institutions might finally be

22. This prolonged episode was the subject of *Os Sertões,* a sociological classic by Euclides da Cunha, published in 1902 and translated into English under the title *Rebellion in the Backlands* (University of Chicago Press, 1944). It was again the subject of a literary masterpiece in 1981 by Mario Vargas Llosa, *La Guerra del Fin del Mundo,* translated as *The War of the End of the World* (Farrar Straus Giroux, 1984).

on the way to consolidation, marked by the completely unruffled transfer of power to Jânio Quadros in 1960–61. The “first chance” failed in 1964 after the early resignation of Quadros and the ill-fated presidency of Goulart. Whether that failure was inevitable is explored in chapter 2. With the return to civilian rule in 1985 and the adoption in 1988 of a fully democratic constitution for the “New Republic,” Brazil again faced the challenge of political modernization.

National euphoria after redemocratization was followed by a series of political disappointments, intensified by dismal economic performance. In 1985 Tancredo Neves, elected president by a quasi-democratic electoral college, became fatally ill on his scheduled inauguration day. He was succeeded by José Sarney, who enjoyed a brief period of immense popularity in the first few months of his Cruzado Plan, a heterodox “shock treatment” attempt to conquer inflation at one blow through a freeze on prices and wages. Lacking the necessary fiscal austerity, and doomed from the start by across-the-board wage increases, it lasted long enough to assist in electing a single party, Sarney’s Party of the Brazilian Democratic Movement (PMDB), to a majority in Congress. By the end of 1986, however, the Cruzado Plan had become a total failure, leaving price stabilization an unmet goal through the rest of Sarney’s term and beyond.

The election of 1989 was the first popular vote for the presidency since 1960. The electorate had been hugely enlarged by the increase in population, the enfranchisement of illiterates, and a lowering of the voting age. But the victor, Fernando Collor de Mello, was not an established national leader. He was the youthful and seemingly charismatic governor of the small and backward state of Alagoas, elected mainly for fear of his principal opponent, the metallurgical trade union leader Luís Inácio (“Lula”) da Silva, whose supporters included the radical far left. As president, Collor presented a set of three economic policy objectives: price stabilization, opening of the economy to international competition, and privatization of state enterprises. Euphoria at his inauguration, however, was soon followed by disillusion with his package of shock treatment measures for economic stabilization and then with revulsion at the evidence of monumental corruption, which led to his impeachment by the Chamber of Deputies in September 1992 and resignation in December before a possible Senate trial. The reign of the succeeding vice president, Itamar Franco, was little more than a holding action, focused on warding off hyperinflation, until his appointment of Fernando Henrique Cardoso to the Finance Ministry in May 1993.

A former academic sociologist, elected senator from São Paulo and leader of the mildly left-of-center Brazilian Social Democratic Party

(PSDB), Cardoso formed a team of exceptionally able economists who formulated the Real Plan (Plano Real), a highly sophisticated program to overcome the inertial element in inflation without applying heterodox shock treatment.[23] Cardoso also extended the initiatives begun by Collor for opening Brazil to the world economy and further privatizations. Thus Brazil appeared to be following Chile, Mexico, and Argentina into a new era of macroeconomic policies for Latin America, sometimes known as the Washington consensus because of its support from the World Bank, the IMF, and the U.S. government.

The initial successes and critical trials of the Real Plan in its first five years are discussed in detail in chapter 7. Long-term success will require fiscal discipline on both expenditure and revenue sides, control of credit expansion without punitively high interest rates, and a more full-fledged integration into the world economy. Along with these macroeconomic measures, the economic criteria for first world membership require much fuller participation in the modern economy by hitherto marginalized segments of Brazilian society, a condition also likely to reduce the glaring inequalities in income distribution.

Returning to the political criterion, it cannot yet be said that Brazil possesses a fully stable and mature democratic system. The weaknesses in party structure and electoral arrangements are reviewed in detail in chapter 6. Civil society is only in the early stages of playing a substantial political role through nongovernmental organizations. While there is an elaborate legal system, with tenured judiciary and frequent recourse to litigation, many laws are flagrantly flouted and there are pressing needs for reform in the judicial system.

A large informal economic sector, motivated mainly by avoidance of taxes and of legal rules for hiring and firing, is estimated by some observers at one-third again of the recorded economy. Evasion of income taxes and dishonest bookkeeping are known to be widespread business practices. Official corruption is frequently uncovered but usually unpunished. Violence is endemic in urban slums, now often controlled by drug merchants, and in rural clashes between landless peasants and owners of large estates. Some portion of that violence is attributable to state-level military police forces, which are rarely held accountable. Automobile thievery and kidnappings for ransom are constant concerns for the middle- and upper-income groups. All these ills are less acute than in several other Latin American countries

23. The word “real” means both “real” as in English and “royal”; it had been a nineteenth-century monetary unit in both Portugal and Brazil.

and are certainly less acute than in early Victorian England, but they undermine the prospects for firm consolidation of democracy. These issues are considered in chapter 5.

Brazil and the Other NICs

On several fronts, Brazil enjoys great comparative advantage as a candidate for first world status. Internationally, it is a completely satisfied power, with no legacy (like Mexico's) of lost territory and no external threat (like South Korea's) to its physical security. Although Brazilian blacks and mulattoes suffer a great deal of de facto discrimination, the country has been spared the vice of formal racial segregation. Unlike Mexico and the Andean nations, Brazil has only a tiny Amerindian minority, and linguistic unity has been the rule since the Vargas educational reforms. There is a very large marginalized class of illiterate peasants and unskilled urban workers, but the class boundaries are softened by shared nationalism and by opportunities for upward mobility for its more energetic members.

As between the middle and upper classes, mobility is especially striking. Many of the leading figures in business and the professions come from recent waves of European, Middle Eastern, or Japanese immigration. Only a few political leaders descend from the old plantation-owning "aristocracy." The social patterns, in short, resemble those of North America more closely than those of Brazil's Spanish American neighbors.

Among the NICs listed earlier, Brazil's most successful competitor is South Korea. Notwithstanding the destruction of the civil war and the heavy continuing budgetary and manpower drains of defense against the North, Korea maintained a record of economic growth and industrial modernization and diversification through the 1970s on a scale similar to Brazil's; it has subsequently moved well ahead. It has escaped debilitating inflation and accommodated the oil shocks of the 1970s with extraordinary resiliency and without excessive foreign borrowing. During the 1980s, its real per capita incomes passed Brazil's, while its income distribution is much less uneven. Korea's combination of export promotion and import substitution strategies have maintained a strong balance of payments position. The Asian crisis of 1997–99 revealed structural weaknesses in industrial organization and the banking system, but they are not beyond redemption. Underlying Korea's remarkable record are two salient features of its society, akin to Japan's: the very high rates of savings and investment and the passion for education. The novel experiment in constitutional democracy appears to be taking firm root, completing Korea's claim to full first world membership.

The Stakes

What are the consequences of success or failure in Brazil's quest for first world status? That it matters profoundly for Brazilians is self-evident: in terms of material prosperity, human rights and political liberties, and opportunity to make a distinctive mark as a great nation on the world scene. For the world at large, including the United States, the case is not so clear.

Perhaps in reaction to the excessively simplistic modernization models of the 1950s, one intellectual current in the 1980s and 1990s, achieving some vogue in both first world and third world quarters, raised doubts about the whole enterprise of economic and political development, at least as a goal for deliberate national planning and international cooperation.[24] These critics observed that economic modernization is often not the principal objective of leadership groups in the third world. In some cases, notably Iran, Western-style development has been violently rejected. There are still residues of Marxist objections to capitalism as the major vehicle of modernization, and nationalist politicians in the third world often object to the presence of multinational corporations based in the first world. Even though many development economists now argue that greater equality and higher growth rates are mutually supporting goals, there remains an underlying tension between those giving priority to a direct attack on basic poverty through the redistribution of income and wealth and those giving priority to growth along with improved income distribution.

Much of this critical reaction is essentially irrelevant to the Brazilian case. Although Marxist analytical frameworks continue to be used by large numbers of Brazilian (and other Latin American) intellectuals and some labor and student leaders, the Soviet methods of central planning have become totally discredited in the former second world and no longer serve as working models even for what remains of Brazil's far left. Cuba has conspicuously failed to provide an attractive model after thirty-five years of Communist rule.

Modernization has gone much too far to be replaced as a goal by some kind of nonmaterial objective, as in Iran. In culture and basic values, Brazil is fully and irrevocably part of the West. Nationalism is indeed a powerful force there, and versions of dependency theory, focused on resistance to

24. For examples, see John F. J. Toye, *Dilemmas of Development: Reflections on the Counter-Revolution in Development Theory and Policy* (Oxford: Blackwell, 1987); and "A World to Make: Development in Perspective," *Daedalus,* vol. 118 (January 1989). These analyses go further in questioning the goals than do the neoconservative criticisms of methods other than reliance on free market forces; see, for example, P. T. Bauer, *Equality, the Third World, and Economic Delusion* (Harvard University Press, 1981). A middle position is taken by Deepak Lal in *The Poverty of Development Economics* (London: Institute of Economic Affairs, 1983).

integration into the global economy, continue to enlist many supporters. But for both elites and mass publics, the essential tests of policy are pragmatic. Does it produce wider job opportunities and higher incomes? Does it overcome the historic national cancer of inflation? Does it incorporate successive segments of the marginalized? And, in relation to the world at large, does it provide a meaningful role for Brazil as a substantial actor in its own right?

Success in these terms could provide an example and a pole of attraction for most of Latin America. If the first world as a whole maintains an open system of trade, finance, and technological and cultural interchange, a Brazilian-led South America could make a major contribution to its further evolution. If the first world breaks up into regional trading blocs, the United States would benefit from South American affiliation with the rest of the Western Hemisphere, already a purported policy goal in both North and South America. In either event, there is ample ground for mutually beneficial relations. Brazilian success should be desired and encouraged by the United States, within the practical limits of its capacity to affect the outcome. The most likely alternative is a long period of economic decline and political instability, with the instability spilling over from Brazil to the rest of South America. That outcome would be a tragic missed opportunity.