Technocrats on the Firing Line

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Brazil experienced near-incredible growth during the late 1960s and early 1970s, but poor comprehensive planning combined with the worldwide recession have resulted in huge outstanding debt for the largest Latin American nation. In this article, Raundi Halvorson, who has lived and worked in Brazil, outlines in stark and almost startling detail the immensity of the economic and social difficulties Brazil is experiencing. She vividly describes the crucial planning choices (and errors) made by the Brazilian technocrats and offers potential governmental options based on economic realities, the Brazilians' wants and needs, and the inability or unwillingness of the current technocrats to both control inflation and push for greater social equity.

To those monitoring the world's financial system, the present unstable climate is cause for deep concern. A crippling world recession, the rising tide of protectionism, falling commodity prices and an oil glut have brought on a severe liquidity crisis in the Third World. The stakes are high; an external debt of more than $700 billion contracted since the 1973 oil price hike threatens to destroy the fragile international banking system. With no central authority established to manage the autonomous transactions of commercial banks, a crisis in confidence may be enough to trigger a series of colossal defaults. Mexico, Argentina and Brazil have petitioned the International Monetary Fund and some 1,600 private banking institutions for debt relief, and the number of other nations queuing for help grows weekly. The liquidity crunch, precipitated by regional banks wary of continuing to refinance debt coming due, has vaulted IMF President Pierre de Larosière to global prominence; it is reasonable to predict that under his tutelage the international financial community will eventually rise to the occasion and, as one, inject new money into the global financial pipeline.

This will be accomplished at great cost — principally to the debtor countries themselves. In a world of increasing interdependence, deteriorating economic conditions and tremulous order and stability, the sacrifices now incumbent upon the developing nations may well be more than they can sustain. Contingent upon infusions of foreign capital and an upturn in

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the world economy, the faltering Brazilian economy — the eighth largest in the world — will doubtless pick itself up and forge ahead, but to an uncertain future at best. Brazil will have to make sweeping revisions, not only in how it directs its economy, but perhaps as well in the decision-making apparatus it has constructed to manage economic affairs. Doubtless the collective vision Brazilians share about their future will have to be revised. Doubtless too, the policy priorities of the government — growth, technological acquisition and autonomy — will be deeply compromised. The unique success of the Brazilian development model is likely to be under the greatest strain it has yet sustained. And the repercussions of this threaten the fragile political and social peace that has been waged between a burgeoning population of rising expectations and the unilateral power of the ruling military elite.

The crunch comes at a moment of tremendous vulnerability for Brazil. For fourteen years, the headlong pursuit of industrialization and growth has shortchanged the fortunes of more than a third of the nation. Recent moves to accomodate the electorate in the decision-making process culminated in the November 1982 elections, but the new political institutions are weak and unfocused. Balancing the forces of economic parity and political reform while simultaneously equilibrating internal and external deficits amounts to a superhuman task, and in all probability something will have to give. Brazil has historically responded to shocks and instability by accomodating official policy to those who have the greatest leverage in society. Until now, satisfying the economic and status needs of key elite groups has been the unquestioned priority of decision makers. In 1983 this may not be within the Brazilian government's power. Contingency planning instead may focus on the mechanisms of governance and ultimately on the role of the technocrats who wield tremendous power in the execution of policy. The performance of this cadre is now the subject of national controversy, and it is possible that the government will single it out, modify its hegemony or composition, and thereby deflect mounting internal dissension. In doing so, the military government may well transform one of Brazil's fundamental political and economic institutions, perhaps hastening the military's own decline and the eventual succession of Brazil's nascent democracy.

THE "GOLDEN YEARS" OF ECONOMIC DEVELOPMENT

The current crisis is best understood as the logical outgrowth of Brazil's chosen development model. From the outset, modern Brazilian economic planners seemed determined to emphasize the industrialization of the economy at the expense of all other development goals. Cyclical price and external demand swings in the primary commodities Brazil historically traded in — sugar, rubber and coffee — had created a pattern of "boom, then bust" which precluded sustained growth. By the turn of the twentieth century steps had been taken to remedy this congenital problem and, by 1919, an incipient industrial sector was producing 64 percent of the manufactures consumed domestically.[1] It wasn't until President Getulio Vargas set his *Estado Novo* policies in action in the 1930s, however, that Brazil unified vision and economic policy squarely behind the capitalist model.

Vargas, who ruled the nation from 1930 to 1945 and again in the 1950s, undertook an aggressive campaign to modernize the economy via private foreign investment. Juscelino Kubitschek, who succeeded Vargas, continued the industrialization program, and his slogan, "50 Years of Development in 5," set the pace for economic growth. Capital flowed in the wake of hundreds of foreign companies who set up shop, taking advantage of Brazil's low tariffs, low wages and controlled worker population. Kubitschek's plan was to free the country of costly imports, so import substitution policies protecting infant industries were adopted. The automotive industry — Brazil's true engine of growth — was implanted, steel and power plants constructed, shipbuilding and aviation industries begun and hundreds of miles of roads completed. An astonishing number and variety of consumer goods industries were incorporated into Brazil's industrial product mix, and potential investors of foreign capital were mesmerized by the enormous potential of Brazil's internal market.

It was at this time that Brazil first gave physical expression to its notions of future greatness and its intentions to master its territory. Kubitschek boldly built a futuristic capital, Brasilia, in the midst of the great neglected interior. Unwittingly, he also initiated a pattern of development that would ultimately create the present economic crisis. Enormous capital flows required for this ambitious project were contracted from the exterior; the remainder was financed principally by the printing press in the official treasury office. This heady concoction of foreign money and expansionary monetary policy carried the aspirations and hopes of the nation to an all-time high. Kubitschek concluded his term in apparent triumph; Brazil's per capita growth was three times that of the rest of Latin America and foreign investors were pouring money into industrial development.[2]

By the time President Kennedy embarked on his "New Frontier," the vistas of the Brazilian frontier had begun to cloud over. The "easy" phase

1. William G. Tyler, *The Brazilian Industrial Economy* (Massachusetts: Lexington Books, 1981), p. 5.
2. "The Brazilian Connection," transcript from television documentary written by David Meyer and produced by the International Womens Film Project, Inc., 1983, p. 10.

of import substitution had been completed and subsequent growth hinged on developing capital-intensive industries, which in turn required contracting more foreign debt. Unfortunately, the negative effects of import substitution had left an indelible mark on the country: agriculture and exports had been discouraged, backward industrial linkages had been destroyed, dependence on foreign inputs had increased and development was confined to a constellation of urban centers. Beyond these structural flaws, government fiscal and monetary policies threatened to destabilize the economy. The import bill far exceeded export earnings and expansionary monetary policies, implemented to close the gap, fueled inflation. This in turn eroded purchasing power and exacerbated the debt burden. These developments, compounded by slower economic growth, growing social unrest and the election of a left-wing President, João Goulart, culminated in a military coup in March 1964.

Thereupon began a new stage in national development characterized by two developments: the rise of a well-educated clique of economists and bureaucrats who came to be called the "technocrats," and the emergence of the state as a dominant actor in the economy. The technocrats, charged with the duty of managing industrialization and determining economic policy, guided new industries in the private sector through the artful manipulation of incentives, penalties and regulations. Soon the technocrats wedded the power of the state with the entrepreneurial forces of capitalism — huge public sector companies were created to ensure progress in and control over key industries. Hundreds of millions of dollars, procured in foreign capital markets, were allocated from the government budget for the activities these companies began to engage in. By the 1970s, their power and influence rivaled that of foreign multinational companies conducting operations in Brazil.

For a brief interval after the military coup the nation went into decline. Congress was suspended, *habeas corpus* and the right of assembly revoked, the press censored and political dissension harshly and brutally repressed. For the next decade, Brazil was reorganized and reoriented under the methodical patronage of a powerful military elite and the modern "scientific" methodology of the technocracy. The "Social and Development Doctrine" became the official *raison d'être* of the military dictatorship. Under its rubric, the generals — convinced that communism posed an imminent threat to the nation's future — abrogated their traditional mandate to protect the nation from conventional warfare and dedicated themselves to establishing favorable conditions for development instead. Development was seen as requisite to the future of Brazil, Brazilian capitalism and the internal stability of the nation. Growth and still more growth was the ruling concept behind this line of reasoning — and it also, not too incidentally, legitimized the regime in the absence of a popular mandate.

Thus it was that the darkest years of Brazilian political freedom were ironically the golden years of economic development. Substantial aid from the United States and new foreign investment in steel, petrochemicals, transportation and energy enlarged industrial capacity. Between 1968 and 1974, gross domestic product grew 11 percent per year, the highest real rate of growth in the world. Brazilian capitalism, modeled on the image of American capitalism, proved a huge success. Many attributes of the American economy, such as the profit motive, conspicuous and competitive consumption, and demand manipulation, were incorporated into the Brazilian socioeconomic model. Consumer goods production grew exponentially, propelled by the newly acquired consumption habits of a growing middle class. "Growth was also greatly facilitated by the existence of unused industrial capacity, an initial trade surplus, and the strongest boom in world trade and international capital markets since World War II."[3] The Brazilian "miracle," as it came to be called, was precisely that. Seemingly overnight, the nation blazed from the forty-second to the world's thirteenth largest industrial economy.[4]

The catalyst for the 1967 "take-off" was the ascension of Antônio Delfim Netto to the helm of the government's planning ministry. Delfim and fellow technocrats adopted an outward-looking policy of export promotion that was nurtured by extravagant growth in the money supply, increased credit availibility and larger deficits. In a 180 degree turnaround from the restrictive monetary and fiscal policies that had prevailed since the coup, Delfim announced that henceforth a 15 percent annual inflation rate would be tolerated by the government. The only way to counter the inflationary spiral that ensued was to foster growth in the economy. This necessitated more investment in infrastructure and industry, which increased Brazil's dependence on foreign capital markets.

Regrettably, the tacit encouragement given to inflation soon established it as a permanent feature of the Brazilian economy. The government took to indexing wages and prices to purported inflation rates, ostensibly to accommodate expansionary policies and allocate income more evenly among recipients. In fact, inflation was consistently and deliberately underestimated in the official computations, preventing the minimum wage from growing at the same rate as prices and productivity. The consequence was a dissonance in income distribution that grew more remarkable as each year passed.

3. Donald Syvud, *Foundations of Brazilian Economic Growth* (Stanford, Calif.: Hoover Institution Press, 1974), p. 66.
4. Meyer, "The Brazilian Connection," p. 14.

Critics have maintained (and a World Bank study has affirmed) that this policy in effect reduced wage costs, kept profits high and permitted an increase in private savings that supplied part of the capital necessary for Brazil's compelling desire for growth and industrialization.[5] It is not too difficult to deduce from these phenomena that the government's true priority was not to stabilize the economy or to spread the benefits of growth evenly among the population but rather to make capitalism a viable economic model for development.[6] This notion is today widely accepted by the majority of Brazil's population and is the chief complaint voiced to contemporary administrations.

The effect was ruinous for the poor people of Brazil. Income distribution became more concentrated by region and class as industrialization progressed. Education became a privilege of the elite, and the path to upwardly mobile positions was restricted to those who had access to it by accident of birth or to those who entered military service. Social welfare and health programs had only a marginal impact on society. A measure of the disparity between the "haves" and the "have-nots" can be quantified by the current ratios of land ownership: 1 percent of the country's farmers own 43 percent of the land while 52 percent of the farmers occupy only 3 percent of the land.[7] Today more than one-third of the population subsists beneath the minimum poverty level, officially pegged at $100 per month.[8] And it has been kept at $100 per month — allowing for periodic indexing — for the past twenty years. The "miracle," in effect, passed these people by.

Small wonder, then, that correcting this situation has received increasing attention in recent years, though little of substance has been done in terms of government policy. Increasingly, criticism turns on Brazil's capitalistic mode of development — the structural inequities it has fostered, the unwieldy and insensitive institutions it has created, and the absence of balancing forces that could have compensated for the excesses of the profit motive. Vice-Governor Darcy Ribeiro of Rio de Janeiro iterated this notion recently:

> We're very proud that Brazil is so technologically advanced — for instance, we're one of the few countries which manufactures videotapes in color — yet in the meantime there's widespread unemployment, people are going hungry, and the minimum

5. Fausto Cupertino, *A Concentração da Renda no Brasil* (Rio de Janeiro: Editora Civilizacao Brasileira, 1979), p. 56.
6. Alfred Stepan, *Authoritarian Brazil* (New Haven, Conn.: Yale University Press, 1973), p. 80.
7. Celso Furtado, "The Post-1964 Brazilian 'Model of Development,' " *Studies in Contemporary International Development*, Spring 1981, p. 122.
8. "The Brazilian Connection," p. 15.

> wage buys half of what it did twenty years ago. In other words, in terms of our economics we've gone back to our colonial past. We've gone back to being a country that doesn't serve its people, but only exists to export.[9]

Hard words, indeed. And yet there is more than a kernel of truth to this indictment. Brazil has managed to diversify its export commodity mix such that today it is the world's second largest exporter of soybeans. Yet black beans, which are the principal source of protein for the majority of the population, are now imported at a cost nearly double that which prevailed when they were produced locally. Only by heavily subsidizing them has the government managed to quell the storm of protest that erupted when the imported beans first arrived in the supermarkets. Technocratic planners devised an array of subsidies and incentives to reward farmers for switching to soybeans for export purposes — subsidies that, ironically enough, are financed by those least able to do so. "A preponderant share of subsidies today are being financed in an inflationary manner through issues," admits Central Bank Governor Carlos Langoni, "which is . . . unfair because in fact it amounts to financing by collecting an invisible tax that disproportionally penalizes the classes with the lowest income."[10]

TECHNOCRATS AND STATE CORPORATISM

The social inequities of the Brazilian development model are an outgrowth of the predominance of Brazil's singular economic institution, the technocrats. Bureaucrats had always been fundamental to the workings of the Brazilian economy, but after the 1964 coup the military elite found it convenient to delegate a considerable portion of the affairs of state — including the management of industrial policy — to the technocrats' capable hands. The military and the technocrats, working in tandem, were not altogether strange bed-fellows. The generals continued to provide state security and fundamental control over political and economic life and the technocrats, as their trusted civilian lieutenants, rigged monetary and fiscal policy and directed future economic development. Between them, the technocrats and the generals ensured that the motto on the Brazilian flag, "Order and Progress," would be more than just a facile phrase.

Technocrats have been variously described as "wizards," "monsters," "troubleshooters" and "visionaries." They are, in truth, a combination of all of the above. Most are economists, have extensive background in the

9. *Ibid.*, p. 16.
10. "Uma Cartada Decisiva," *Veja*, 1 December 1983, p. 129.

sciences or quantitative disciplines and consider themselves strategists *par excellence,* dedicated to the modernization of the Brazilian economy. Their special status allows them the luxury of being paragons of efficiency, unhampered as they are by the trivia of politics or the demands of social responsibility.[11] By definition, they are only competent in analyzing the process of modernization. They devise future strategies, juggle numbers and tinker with policy instruments so that the Brazilian economy will behave as they think it should. When it comes to integrating cybernetic analysis and economics within the larger scheme of politics and social welfare, however, the technocrats consistently fall short. Yet they skillfully situate themselves out of the bounds of accountability by holding fast to growth as the standard by which they are judged and by narrowly circumscribing their areas of expertise.[12] There was little social clamor while the money flowed, the economy prospered and the consumer society was satisfied. "As long as the economic demands of the middle and upper economic groups were satisfied," notes Riordan Roett, "there was little possibility of organized, effective pressure for greater social responsiveness."[13]

There was always a residual feeling, however, that the technocrats were responsible for the social inequities their policies fostered. Many Brazilians would probably find much that is familiar to them in Leon Lindberg's generic definition of "industrial technocracy" as:

> the preeminent [carrier] of a cultural orientation that embodies a manipulative and anthropocentric attitude toward man and nature (and natural resources), the elevation of efficiency and productivity as prime values and an uncritical faith in the technical fix as the solvent of all problems.[14]

Such a hostile description neglects to point out the positive aspects of the technocrats: their competence, resourcefulness and single-minded determination. But fewer and fewer Brazilians are capable of accepting their influence uncritically, especially now that past excesses and mistakes have been revealed by 1982's calamitous events. The military's reliance on technocratic administration and the widespread, passive acceptance by the public of the technocrats' superior skills have created a type of *dependencia*

11. Rupert Pennant-Rea, "The Morning After," *The Economist,* 12-18 March 1983, p. 3.
12. Kenneth Paul Erickson, "State Entrepreneurship, Energy Policy, and the Political Order in Brazil," in *Authoritarian Capitalism,* eds. Thomas C. Bruneau and Phillippe Faucher (Boulder, Co.: Westview Press, 1981), p. 169.
13. Riordan Roett, ed., *Brazil in the Seventies* (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1976), p. 5.
14. Leon N. Lindberg, ed., *The Energy Syndrome: Comparing National Responses to the Energy Crisis* (Lexington, Mass.: Lexington Books, 1977), p. 339, quoted in Erickson, "State Entrepreneurship," p. 166.

for Brazilian society, a *dependencia* alluding to an internal, not external phenomenon. Today the entrepreneurial spirit embodied in Brazilian technocrats and expressed in their interventionist state policies are under scrutiny and attack as never before.

Part of the blame for technocratic oversight lies in the decision-making dynamic of large-scale bureaucracies such as the Brazilian government. Typically, complex problems are broken down into their component parts, analyzed and solved, but not necessarily in the context of the whole. Problems may involve sharp value trade-offs, but decision makers — limited to a discrete element of the problem — typically deal with only one value. "For them, the trade-offs are not apparent — or at least not their responsibility."[15] The technocrats, it seems, all too often cannot see the forest for the trees.

A graphic illustration of the limits of such a decision-making process can be found in the Brazilian response to the second oil price hike in 1979. Before that time, the major energy programs — oil, electricity, alcohol and coal — were developed and managed without close coordination and recognition of the trade-offs among them. "It took an externally-imposed crisis situation, one so serious that it threatened the very survival of the system, for decision makers finally to treat once discrete energy policies as parts of a whole."[16] Policy makers at last acknowledgd the trade-offs that investment in one energy source meant for the development of others, but only after the nation's crude oil stocks had dwindled to less than one month's supply and Brazil's credit on the world market had been dangerously curtailed. Predictably, many technocrats balked at the subsequent adoption of a conservation policy, which they felt was incompatible with growth.

Another aspect of Brazilian energy policy serves to point out the technocrats' insensitivity towards political and social concerns. The post-1974 decision to encourage alcohol as an alternative energy source called for funding research to design engines that could run on alcohol fuel. Understandably, the technocrats at the lower end of the decision tree were concerned with solving the problem at hand and probably gave no thought to some of the unfortunate externalities created by the decision to shift into increased alcohol production. The same cannot be said, however, for the top-level technocrats who steadfastly ignored the fact that the alcohol program raised food prices by pushing food crops off the best land near São Paulo and seriously aggravated water pollution due to untreated refinery effluents. In this instance, as in so many others, the economic imperatives overwhelmed

15. Erickson, "State Entrepreneurship," p. 166.
16. *Ibid.*, p. 167.

all others. The result of blending capitalism's "bottom line" priorities with the truncated decision-making process of the Brazilian technocrats, striving, as always, to maximize economic efficiency, has been aptly described by John Steinbrunner. "There is a tendency for private or sectoral values (in such an economic system) to prevail over or constrain general or public values. Private . . . payoffs are simpler, narrower in scope, and more immediate. Higher-level payoffs to 'society' involve complicated social effects hard to predict, explain, or even observe."[17]

The technocrats have been faulted as well for certain ill-conceived policy choices. All too often, planning priorities have stressed goals that have been simply unrealistic. Technology has become the *sine qua non* for development in Brazil. Millions of dollars are spent each year to acquire patents and know-how, and the government funds a data center that meticulously records the information released by authorities worldwide when patents are issued. Acquiring technology has been a principal part of the technocrats' grand design, yet in at least one instance this preoccupation has revealed that the technocrats are unable to evaluate critically the total costs and benefits of specific projects.

In 1973, when the first OPEC price shock reverberated throughout the world, Brazil was importing 85 percent of its petroleum needs. Yet the government went ahead with plans to carry on construction of Camaçari, a petrochemical complex employing state-of-the-art technology. The project was completed in 1977 at a cost of well over $5.5 billion. It is estimated that for each job created, $300,000 was invested.[18] This lopsided social cost/benefit ratio and the escalating price of petroleum input, however, did not deter the technocrats from planning yet another petrochemical "pole" in the south of the nation. (This complex was inaugurated on February 4, 1983, and carried a cost-per-job tag of over $600,000.) The fact that other nations such as Japan had stopped building petrochemical complexes well before Camaçari was finished had no apparent effect on Brazil's planners.

Seduced by the glamour of technology and anxious to match their dreams of future greatness, or *grandeza,* with industrial projects of notable scale and sophistication, Brazil's technocrats not only had lost sight of the total picture, they also had committed a costly error in structural development. They neglected to maximize Brazil's given resource endowment. Incredibly, no revisions were made to adjust to the new situation. The price of oil has risen some 1,200 percent since 1973. Brazil has cut

17. John Steinbrunner, *The Cybernetic Theory of Decisions* (Princeton, N.J.: Princeton University Press, 1974), p. 146, quoted in Erickson, "State Enterprises," p. 166.
18. Peter Evans, "Collectivized Capitalism: Integrated Petrochemical Complexes and Capital Accumulation in Brazil," in *Authoritarian Capitalism,* p. 116.

its foreign dependency from 85 percent to 68 percent of total needs — mainly by stepping up domestic production and heavily subsidizing an alternative energy source, alcohol — but petroleum imports still consume almost half of Brazil's import bill.[19] And the price of petroleum derivatives such as those produced in Camaçari fell 17 percent between 1981 and 1982.[20] Facts such as these, revealing the gaps that exist between grim economic reality and the decision-making policies of the technocrats, can only have a demoralizing effect on the vast majority of Brazil's population. In the final analysis, health, education, housing and urban infrastructure have been sacrificed for the enormous volume of resources committed to the energy sector and spin-off industries.

From 1970 to 1975, as the state redoubled its efforts to control the productive sectors by establishing publicly-held conglomerates, the private entrepreneurs grew more skeptical about the technocrats' policies. Their dissatisfaction stemmed from the acknowledged inefficiencies of the state enterprises, their drain on federal revenues and impact on taxation, and a perceived loss of real control over certain important aspects of development. By 1974, this latter issue had become a serious point of contention. In that year the government ran out of funds for continuing infrastructural development and, as a result, foreign capital was wooed into several projects including Camaçari. The *três pés* plan ostensibly divided financing equally among the federal government, private sourcing and foreign interests, but many Brazilian businessmen were convinced that risk was not equally distributed. Moreover, in some projects such as Camaçari, foreign owners were given veto power, and often plans to purchase local inputs were overruled by their fiat. Thus, the government's official reason for including foreign capital directly in development schemes — to increase demand for local goods to be used in the project — was contradicted and a powerful segment of Brazil's society was alienated.

The disenchantment of the business community with the stated objectives of technocratic policy and their demonstrated effect was fundamental to the government's decision to open up public access to the administration of government through gradual democratization. This culminated in the November 1982 election, where opposition candidates carried the majority of the state governorships and gained control of the lower house in Brasilia, thereby jeopardizing the government's unilateral control of the economy and fostering a new sense of accountability upon the technocratic decisionmakers.

19. "Scaling Down Brazil's Import Bill," *Latin American Regional Reports*, 26 November 1982, p. 2.
20. *Ibid.*, p. 6.

The technocratic policy of pursuing growth and industrialization at all costs focused on acquiring the foreign capital needed for accomplishing these ends. In the mid-1970s aggressive foreign commercial banks, flushed with petrodollars and high liquidity from the 1974–1975 recession and keen to flex their muscle in untapped foreign markets, aided this policy. The notion of increased borrowing from abroad could not have been more appealing for Brazil; it enabled the country to exercise that much more control over the pace and quality of development instead of having to depend on foreign direct private investment.

Brazil's foreign debt grew from $9.5 billion at the end of 1972 to $21.1 billion by the end of 1975. In 1980 outstanding debt towered at $55.5 billion.[21] Public sector spending exploded. The entrepreneurial technocrats erected additional immense national enterprises, funded, managed and above all protected by the state. Soon they dominated all sectors of the economy and just as quickly their control slipped from the grasp of the technocrats. Objectives were accomplished but at decreasing rates of return. The companies became incestuous, inefficient and entrenched; they labored under layers of bureaucracy and the torpor of inertia. Worst of all, they siphoned working capital from other viable enterprises and projects.

Today the twenty-five largest corporations in Brazil are owned and operated by the state. State corporatism, an economic phenomenon uniquely suited to the centralized control of the military government, now accounts for fully 70 percent of Brazil's total foreign debt.[22] It has supplanted private enterprise as the dominant economic force and accounted for 75 percent of the economic activity in Brazil for the period 1977–1981.[23] Today the six hundred-odd state companies employ more than 1.3 million people (each one enjoying life-time job security), account for 55 percent of all investment in Brazil and automatically receive close to 50 percent of treasury revenue.[24]

Protected by the government from the "cold bath of competition," these companies have consolidated their hold on the Brazilian economy and multiplied. The government itself was not certain as to the exact dimensions of the public sector until 1980, when President João Figueiredo created a "Special Secretariat for the Control of State-Owned Firms." In addition to tallying the actual number of state enterprises, this department

21. "Debt and Democracy," *The Economist*, 20 November 1982, p. 13.
22. "Reprieve from Creditors May Be Short-Lived," *Latin American Regional Reports*, 17 September 1982, p. 1.
23. "Cutbacks in State Companies," *Latin American Regional Reports*, 23 November 1982, p. 5.
24. Pennant-Rea, "The Morning After," p. 4.

seeks ways to streamline operations and trim the morass of red tape that engulfs even the most rudimentary of tasks.

Certain aspects of the public sector argued for the continued existence of state enterprises. The bottom line for many of them, after all, is etched in solid black. In 1981, for example, state-owned firms earned twice as much money as banks did.[25] Not the least of this was due to the monopolistic privileges they enjoy. For these corporations, prices aren't determined by the scissors of supply and demand, and all too often they rise just a step or two above inflation. To the Brazilian consumer, long inured to seeing supermarket prices rise on a bi-monthly basis, this phenomenon has long been taken in stride. But the impact on inflation has been predictably horrendous.

Other features of state corporatism are appealing as well. Petrobras, the Brazilian petroleum conglomerate, is the nineteenth largest corporation in the world. It controls or shares control of thirty-five subsidiaries, through which it vicariously and simultaneously explores for oil in Angola, Iraq, Libya and Egypt. In addition, Petrobras refines oil in Italy for European marketing and sells products as wide-ranging as shoes, refrigerators, plastic resins and alcohol distilleries on a worldwide basis. A conglomerate structure such as this allows the state firm to adopt cross-subsidization practices: losses sustained in one activity are compensated for by the profits obtained in another. State entrepreneurship in this way ensures that certain unprofitable but essential sectors will be developed. The conglomerate can also serve as the buyer or lender of last resort for sinking enterprises. In the past twelve months, Petrobras has taken eighteen companies under its wing and bailed out the government's Alcohol Program and Nuclear Program, the fertilizer, steel, petrochemical and charcoal industries, the state-owned railway and the Brazilian air force and merchant navy.[26]

State intervention has also politicized the operation of the economy and contributed significantly to corruption, "feather-bedding" and kickbacks. Thousands of workers have been hired to grease the machinations of the system; lobbying for tax breaks, subsidies and trade protection is now requisite to sustain most companies. In 1980 the government belatedly began steps to whittle the public sector's size, but "privatization," as it came to be called, met with little success. Despite heroic efforts, only fifteen companies have been sold to date. No sensible potential owner would want to be saddled with a company whose financial viability depended on a steady flow of subsidized inputs.

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25. "IMF Deal Likely to Provoke Serious Political Dissent," *Latin American Regional Report*, 2 December 1982, p. 3.
26. "Petrobras Bails Out Weak Sectors," *Latin American Regional Reports*, 7 January 1983, p. 6.

By far the most controversial aspect of state intervention has been its impact on social conditions. The trade-off for maintaining their efficacy has been the public welfare. Peter Evans has summarized this aspect of the dilemma cogently:

> The corporate structures that have been created are technocratically efficient, but they are unabashedly capitalistic. Their fundamental logic is one of making profits. Managers measure their own efficiency in terms of profits: their personal positions and career prospects depend on profits. Since profits in turn are dependent on the politics of official loans and incentives, tariffs, and price controls, the quest for profitability is a political quest as well as a technocratic one. For those in control of the profits generated there is no issue: for those who wonder where the surplus might have gone otherwise, the question remains.[27]

State corporatism, however, has up to now been justified by its most distinguishable characteristic — its immensity. Centralized control and sheer size have enabled the Brazilian government to undertake vicariously a series of infrastructural projects that are truly monumental in scope. Itaipu, a hydroelectric facility generating 12.6 million kilowatts, was opened in November 1982 after fourteen years of construction. Its gargantuan dimensions — ninety city blocks in length and sixty-eight stories in height — make it the largest dam in the world, and at a $14 billion price tag, the most expensive. Five percent of Brazil's current foreign debt is sunk into construction of what will be the world's fourth largest dam, Tucurui. The power it generates will be used to fuel the gigantic mineral project in Carajás, which is spread out over 10 percent of the Brazilian land mass and will include more than seven million inhabitants or 6 percent of the population. Its development, projected over the next ten years, will cost approximately $60 billion. A string of four nuclear reactors — now mothballed — would have fetched another $9 billion. And construction of subways in São Paulo and Rio de Janeiro drain government coffers of $2.5 billion per year.[28]

THE CURRENT CRISIS

It is conceivable that Brazil could have continued investing in its future at this dizzying pace — could have, that is, if it had not become so dependent upon the international financial system. Two oil price shocks

27. Evans, "Collectivised Capitalism," p. 120.
28. Joelmir Beting, "Brazil: Where Growth is a Necessity," *Wall Street Journal*, 27 January 1983, p. 19.

and escalating interest rates turned a tenable economic situation into one of increasing peril. After 1978, Brazil passed from a phase when it could obtain abundant financing on the international market — practically in subsidized form, since inflation exceeded financial costs — to a phase in which money was still available but at a higher cost. Rolling over the external debt coming due became the rule, not the exception. Variable and increasing interest rates meant that this debt burden more than kept up with the clip of inflation. Today, 77 percent of Brazil's debt is indexed to the rise and fall of international economic conditions.[29] Dependence on export earnings to service this foreign debt — now estimated at $89 billion — made Brazil especially vulnerable to the global economy's immoderate swings. As the 1970s drew to a close, Brazil was sucked into an economic tailspin due to plummeting commodity prices, decreased demand for exports and restricted access to foreign markets. Between 1981 and 1982, the portion of export earnings earmarked just to service the external debt leaped from 35 percent to 85 percent.[30]

The crisis reached a climax in September 1982. The near-default of Mexico and Argentina and the spectre of losing more than $120 billion in outstanding loans to these nations threw the international banking community into a panic. Banks began pulling their money out of the developing world and investing instead in more stable government securities. Lines of credit previously available to Brazil were suddently closed as banks refused to renew maturing loans or renew deposits in Brazilian banks. Unfortunately this came to pass at the precise moment when the heaviest debt liabilities were falling due — the loans Brazil had contracted to counter the huge deficits created by OPEC's first four-fold price increase in 1973. In New York, Brazilian bankers scrambled desperately at the end of each day to find the money to cover their positions. By October, the Brazilian financial institutions were in a full-scale liquidity crunch. In effect, the foreign debt was rolling over every twenty-four hours.[31] The dimensions and costs of this desperate situation may well have pushed the full external debt over the $100 billion mark. The short-term financing terms that Brazilian bankers were forced to accept meant that Brazil was essentially borrowing $1 billion per month for every $400 million they owed.[32] When the Bank of Brazil's $5.5 billion liquid reserves were tapped dry, the entire 2.5 million ounce gold cache was pledged to secure credit. Petrobras began to divert ships carrying crude oil imports to Rotterdam,

29. "Liquidity Crisis Prompts IMF Drawing," *InfoBrazil*, December/January 1983, p. 1.
30. "Com a Faixa Fechada," *Veja*, 5 January 1983, p. 45.
31. "Uma Cartada Decisiva," *Veja*, 1 December 1982, p. 137.
32. "Na Fila Dos Quebrados," *Veja*, 29 December 1982, p. 140.

where the cargo was sold on the spot market and the credits were telexed to New York's financial nerve center.

On November 24, 1982, a team from the International Monetary Fund arrived in Brasilia and began a hasty three-week assessment of Brazil's shattered economic condition. A $600 million emergency loan pasted together by eight major New York banks and a further $1.23 billion infusion from the U.S. Treasury Department's Export Stabilization Fund were used up as soon as they were committed. On December 8, Brazil began formal procedures to petition the IMF for emergency funds, finally capitulating to the hard realities of the 1980s after staving off such a measure for more than fourteen years. The $6 billion forthcoming from the IMF and the $1.2 billion from the Bank for International Settlements, however, were far from sufficient. Accordingly, on December 20, Brazil's reigning financial triumvirate — Delfim Netto, Finance Minister Ernane Galvêas and Central Bank Governor Carlos Langoni — convoked a meeting in New York's Plaza Hotel with 125 of the principal financial institutions which had underwritten Brazil's ambitious development program. In effect, these three men presented the assembly with a *fait accompli*. After describing Brazil's unrealized resource potential and detailing events leading up to the liquidity crisis, they outlined the austerity program that had been devised to ensure that Brazil henceforth would live within its means. On that note, they launched their appeal for help.

Brazil's pitch to her international creditors amounted to asking for the following: a rollover of the $4 billion coming due in 1983; $4.4 billion in new loans; $8.8 billion in new lines of short-term trade-related credit for operations in the exterior made by Brazilian companies; and $10 billion in lines of credit for Brazilian banks operating afield, principally to cover short term commitments made in the interbank system in the closing months of 1982.[33]

The banks were not immediately forthcoming, even after IMF President de Larosière departed from convention and advised the four hundred guests that conditionality in the present case was not dependent on Brazil's austerity package. What was needed was a pledge of support from the international banking community. The bigger banks, which had the most at stake, had already committed themselves. Most, like Citibank, which alone holds more than $5 billion in outstanding Brazilian liabilities, were more than anxious for a show of consensus. The regionals, however, demurred. Some twelve hundred of them, linked to Brazil's debt by huge syndicate operations, were hesitant to "send good money after bad," and not a few were miffed at what they considered the presumptuous demands of the Brazilian financial officials.

33. "Brazil's Loan Requests," *Business Latin America*, 22 December 1982, p. 402.

The cutoff date of January 1, 1983 for compliance with the projected financial needs of the Brazilian economy passed without any new commitment from the smaller and mid-sized banks. Brazil extended the time frame to March 1, 1983. After ceaseless "shuttle banking diplomacy" by Carlos Langoni, agonizing silence from the English and Japanese banks and the stubborn intransigence of the smaller American banks, Brazil finally got what it asked for. Sufficient money and credits will be flowing through the financial pipeline for the first three-quarters of 1983 to keep the country afloat, but this arrangement is far from conclusive. The linchpin of the technocrats' strategy for 1983 is a tremendous increase in Brazil's low 1982 trade surplus, but it is highly probable that year-end figures will fall short of the desired mark. There is thus a substantial gap in Brazil's "economic game plan," a dollar gap that may eventually revert back to the international banking community. If the banks refuse, Brazil will be forced to tighten its belt further and perhaps imperil its internal stability.

Under the present program, Brazil intends to diminish the amount of foreign money borrowed in 1982 by one-half. To cut overseas borrowing so drastically, Brazil must halve the 1982 $14.5 billion current account deficit and raise the trade surplus from 1982's $800 million mark to $6 billion in 1983.[34] This 750 percent trade surplus increase is, without doubt, a formidable target. To achieve it, exports will have to jump ten percent to $22 billion and imports will have to be slashed more than seventeen percent to $16 billion. This goal seems improbable, considering the weak turnaround in the industrialized countries that has been projected for 1983.

The problem of decreasing demand is not restricted to the export markets in the industrialized countries. The situation in Brazil's major Third World trading partners is far worse: In 1982 trade fell with Nigeria by 71 percent; with Poland by 88 percent; with Bolivia by 64 percent, and with Mexico by 45 percent.[35] At this time, roughly 35 percent of Brazil's exports go to developing countries, themselves in need of foreign exchange earnings.

Considering these sobering facts, it is reasonable to view a $2.5 to $3.5 billion current account surplus as more realistic. This means that not only is it questionable as to whether Brazil will get a reprieve from impending default, but in all likelihood, yet another nerve-wracking renegotiation package will be presented to the international banking community in October or November 1983.

Meanwhile in Brazil, a nation embarks on its third year of economic depression. Factories are running at 50 percent of capacity,[36] unemployment

34. "Brazil Runs to the IMF," *The Economist*, 13-19 November 1982, p. 42.
35. "Brazil Faces Bleak Trade Prospects," *Latin America Regional Reports*, 7 January 1983, p. 1.
36. "Cutbacks in State Companies Spell Disaster for Capital Goods," *Latin American Regional Reports*, 26 November 1982, p. 5.

nationwide is pegged at 12 percent and rising,[37] and inflation roars unabated at almost 100 percent per year.[38] Migration from the parched sertão region will doubtless compound the present 20 percent unemployment rate in the urban centers. Food consumption was down 10 percent in 1982, principally due to rising prices.[39] A cup of coffee costs 170 percent more now than in 1981 and a loaf of bread has risen by 160 percent.[40] Social security system administrators announced in March 1982 that the system was on the verge of bankruptcy. Poor management had diverted proceeds to other projects, such as the purchase of bonds financing the multimillion-dollar Niteroi bridge. Measures to restore solvency placed the burden squarely on the shoulders of those who were least able to bear it. Social security taxes were raised from 8 to 12 percent and hundreds of medical and social programs were pared back.

The proposed austerity package will no doubt tighten the screws. State company budgets will be cut 16 percent in 1983, meaning a reduction in purchases of locally manufactured inputs that will surely crimp employment levels. As if this were not bleak enough, for the third consecutive year growth in output will fall far short of the 6 percent needed to ensure jobs for the 2 million people who enter the work force each year. Imports will be slashed $3.5 billion by banning outright more than a thousand items. Subsidies that have kept key consumer items — sugar, wheat, gasoline, electricity and cooking gas — within the constantly eroding purchasing power of the consumer will be rescinded; bread alone will likely cost 50 percent more. Taxes will be increased 19 percent by allowing inflation to push taxpayers into higher brackets, and methods of collection will be improved. Credit subsidies to agriculture will be suspended, no doubt stimulating further inflation, and the cruzeiro will suffer a real devaluation of 12.5 percent. The highly-vaunted technocratic plan to begin redistributing income via a 10 percent incremental increase for low income workers has been indefinitely tabled, much to the distress of those who finally stood to get a piece of the pie.

Perhaps the most troubling aspect of the austerity package is that it will exacerbate Brazil's current recession by limiting its ability to generate exports. In 1982 the government curtailed imports by a daunting 23 percent — principally by reducing capital goods imports by 17 percent, cutting fertilizer imports by 35 percent, and virtually cutting off grain imports, which fell 289 percent.[41] The grain cutback's effect on bread

37. "Technocrats: Time Running Out," *New York Times*, 15 December 1982, p. 35.
38. "Liquidity Crisis," *InfoBrazil*, p. 1.
39. "Na Fila Dos Quebrados," *Veja*, 29 December 1982, p. 154.
40. *Ibid.*
41. "Brazil Faces Bleak Trade Prospects," *Latin American Regional Reports*, p. 2.

prices is certainly devastating in and of itself, but further cuts in fertilizers and capital goods will deeply compromise Brazil's ability to export its way out of debt.

Brazil has weathered depressed economic conditions on many occasions, but 1983 promises to be the most punishing that has been sustained for more than thirty-five years. Unemployment, rising prices and even greater income disparities may well be accentuated in a society where sophisticated mechanisms to stimulate consumer demand and manipulate consumption patterns are already well established. Frustration can, even in a nation as tightly controlled as Brazil, erupt into violence. For example, a 61 percent bus fare increase in the city of Salvador unleashed a storm of fury in August 1981; 149 buses were destroyed by rampaging mobs. Similar violence sparked by fare increases occurred in other cities as well. In September 1982, 2000 refugees from the arid sertão region — wracked by drought for the past four years — sacked and looted food warehouses in the state of Pernambuco. In November, angry peasants violently seized land tracts in the Araguara region. Union activity in 1979 propitiated a series of crippling strikes, and the prognosis for escalation in 1983-1984 is highly tenable.

Of course, the enormous apparatus of state security, built up after the generals took power, has merely been warehoused, not dismantled. Any real threat to national security will be dealt with firmly. For proof, one need only note President Figueiredo's aggressive measures in February 1983 to transfer control over the political police from the state to the federal level — a move designed to undermine the authority of the newly elected opposition governors. "The new police decree also empowers the army to recall an entire state police force at any time and for any reason."[42] No doubt the military government is gearing up for trouble in 1983. The political police force has traditionally been decisive in countering working-class militants; with a new wave of industrial unrest looming, the officers and the thousands of informers will again take on a key role. In spite of such measures, present levels of police protection are insufficient to counter the rising tide of violent and petty crime, now increasingly committed by poor adolescents and children. In Rio de Janeiro alone more than 500,000 neglected and abandoned children roam the city streets.[43]

THE GOVERNMENT QUESTIONED

One might well ask why, given the present economic crisis, there has been so little public outcry. Observers have been wont to describe the

42. "New Powers for Federal Government," *Latin American Regional Reports*, 11 February 1983, p. 2.
43. "Government Faces Uneasy Future," *Latin American Regional Reports*, 7 January 1983, p. 5.

typical Brazilian as highly adaptive, slow to anger and inclined to forgetfulness. "Brazilians," they maintain, "just don't expect things to work out perfectly." Delfim Netto's revealing comment may be truer to the mark: "The trouble with Brazilians," he said, "is that they just don't know how to live with drama."[44] But in the eyes of many Brazilians who are aware of the enormity of the present crisis, the problem is merely that Brazilians just don't know the extent of the drama.

When Brazilians begin to feel the constraints of economic austerity, accommodation may prove more difficult to achieve than in the past. Crisis situations such as this place unusual demands on governments and citizens alike. Successful adaptation depends on the linkage existing between government and society and may well turn on support and consensus for coping strategies. Brazil, however, shows little evidence of such social cohesion. According to Wayne Selcher, "[In Brazil] uniform socializing influences that could forge a strong sense of cohesive nationhood throughout the population (and especially across social classes) have yet to evolve."[45] Conceivably, therefore, the government may encounter resistance as it attempts to mobilize the people toward national goals such as contending with a potential economic state of siege.

This situation is not limited merely to the economically deprived, whose wants and needs are so clearly being short-changed. If the middle class reaction to the way the government has so far managed the debt crisis is any barometer, then the way ahead may be stormy indeed. Throughout the recent four-month liquidity crisis, the government consistently denied the existence of any problems and revelations after the fact soured public opinion. Falling back on the IMF — so humbling for a nation on the road to *grandeza* — was not nearly as difficult for the populace to accept as the fact that the government had consistently denied that such a decision was necessary, or even being seriously considered. Cash reserve positions, outstanding debt balances, and facts and figures relating to the economy were either unavailable, obfuscated or incorrect.[46] The government, it appears, has not adapted its public relations policy to its democratization plan. Years of press censorship and homogenized press releases have taken their toll; a new, adversarial relationship is being forged. The gap may be more devastating than many imagine. Evidence suggests that it is difficult for an intellectually sophisticated constituency informed by an increasingly vigilant press to reconcile the evident disparity between official postures and actual policy implementation. "The government must tell

44. "A Dura Hora de Pagar," *Veja*, 15 December 1982, p. 141.
45. Wayne Selcher, *Brazil in the Global Power System* (Washington, D.C.: Center for Brazilian Studies, 1978), p. 24.
46. "A Dura Hora de Pagar," *Veja*, pp. 136-141.

us what is happening," insists politician Severo Gomez. "Hiding or omitting details gives false impressions and when a needed sacrifice is demanded, the populace won't understand why they should support the government."[47]

The government's lack of credibility was apparent to the IMF team which finished evaluating the country's financial situation in December. The Brazilian weekly news magazine *Veja* acridly observed that the IMF contingent had difficulty reconciling the government's avowed intent to restrict fiscal spending with what it was reading in the newspapers. Among other things, Brazilian officials were promising to double available water supplies in the parched Northeast, complete 250,000 new houses before 1985 and extend clinic hours at the socialized medical treatment centers. In São Paulo, the state-run electric utility requested a $300 million loan from the government and the government promised to assist companies heading toward bankruptcy. That same week, Brazil successfully tested the engines for a future space rocket and agreed to buy electronic components for a proposed satellite from the French.[48]

Other disclosures by the IMF team questioned the integrity of the technocrats' debt management expertise, which had been universally accepted by the international banking community as *nonpareil.* According to published reports, no figures were available on the consolidated Brazilian debt after November 1981. Worse yet, the estimated public sector deficit of 5.7 percent of GDP was revised by the IMF to a more realistic 6.5 percent. These and other revelations relating to the austerity program — such as an ultra-conservative inflation rate estimate for 1983 (70 percent) and the formidable export surplus — shook the confidence of bankers and Brazilians alike and created divisions among the technocrats themselves. Most criticize the flaccid, tardy government response to the liquidity crunch and rail at the absence of a coherent thread of economic policy. "I don't see a compass pointing to the economic reforms that are needed," remonstrates Mario Henrique Simonsen, whom Delfim succeeded as Planning Minister in 1979.[49] And Octávio Bulhões, a first generation technocrat from the mid-1960s, claims he is bitterly disillusioned by the three financial leaders, who "refuse to combat inflation in a decisive manner."[50]

The subtle irony of present contingency planning by the government is not lost on the middle class either. Economic autonomy, always valued as a policy premium in Brazil, is now being compromised. Strategies adopted from the 1960s onward sought to diminish the power of foreign enterprises and the populace has heartily endorsed such actions. A highly

47. *Ibid.*, p. 141.
48. *Ibid.*, p. 139.
49. *Ibid.*, p. 141.
50. *Ibid.*

restrictive regime compressing profit repatriation and limiting the extent and nature of private direct foreign investment attested to this will to reassert national control. The deficit development policy followed in the early 1970s at the behest of the international banking community further affirmed this goal; the consensus among government policymakers was that borrowing external capital would enable Brazil to exercise greater leverage over the direction and quality of its national development. Ironically, however, the very act of exerting local control over local investment *caused* local control to revert back to foreign interests. Borrowing the capital to support state intervention effectively mortgaged the state sectors to foreign commercial banks.

Brazil now appears to have come full circle. In January 1983, generous incentives to stimulate foreign investment were unveiled. Profit repatriation will be eased, taxes on exchange transactions removed, progressive taxes on profits pruned and interest rates lowered.[51] The technocrats are banking on a surge in foreign investment. Doubtless foreign capital will also be participating in the round of acquisitions and mergers that are sure to occur in the wake of deteriorating economic conditions and moves to diminish public sector enterprises.

This will have a visible effect on the sensibilities of the Brazilian middle class, which the government has up to now been able to placate. The sense of social malaise already expressed in the election returns and in the headlines is certain to be exacerbated. The combination of middle class disaffection, an alienated business community and the frustration of the lower class as it absorbs the brunt of the austerity measures may be more than existing government policy will be able to withstand. Historically, Brazilian authoritarianism has managed to persevere by virtue of its willingness to compromise, to co-opt dissidents and to respond pragmatically to new economic imperatives. The present situation, however, introduces two new variables in this equation. The middle class will be paying as never before for the excesses of government spending. This may cause them to forge a stronger alliance with the lower classes and present a considerably stronger front to the ruling elite. In addition, the enhanced political awareness of the electorate should be taken into consideration. Two-thirds of the voting population chose anti-government candidates in the November 15, 1982 elections. The opposition carried the day in all but one of the southern states, which account for 60 percent of Brazil's population and 70 percent of its industrial might.[52] This illustrates the extent of popular dissatisfaction with the government's programs.

51. Interview with Alberto Viera, Commercial Section, Brazilian Embassy, Washington, D.C., 24 March 1983.
52. "The Brazilian Blend Suits All Tastes," *The Economist*, 20 November 1982, p. 47.

Despite the success of opposition candidates, Brazil's military government still holds the reins of power. It retained its majority in the senate, and it has a small majority in the electoral college which will elect the next Brazilian President in 1985. Control will remain with the generals until 1991. Barring an unforeseeable crisis, President Figueiredo should be able to build upon welling popular support, precipated by his advocacy of *abertura* and the elections themselves.

There are those who insist that the "resurgent Brazilian democracy" will make it easier for the government to impose the austerity measures that it will need in 1983. Certainly it will have some mitigating effect on the tensions which are sure to mount. But the crux of political stability rests with the new dialogue to be hammered out between the opposing camps when they converge in Brasilia, a process which may take up to a year. The ensuing dialectic may well determine the ease and speed with which Brazil regains its momentum following 1982s' devastating financial crunch.

Coping with the Crisis

Three possible scenarios suggest themselves for 1983. In the first, the government holds to its grim austerity program and tightens visible control over both political and social domains. A massive public relations campaign would have to accompany such a policy to muster sufficient popular support. Quite possibly, some of the features of political freedom which recently have been permitted will be curtailed. Overall, this policy would entail a more visible, repressive state presence — highly unlikely given the noticeable gains that have been accomplished by *abertura*, or democratization.

A second possible situation would be one where the Brazilian government would execute only portions of the austerity program or dilute its impact by easing up on most of the performance targets. In this event, the response of the international community would be pivotal. Quite possibly, new fund flows would be available from the IMF (which just received a 50 percent increase in fungible assets from the industrialized nations) and the World Bank's soft loan window. The OECD countries, heeding the well-publicized call from various Western leaders, might abandon deflationary policies and adopt expansionary policies. The resulting surge in world trade would have a favorable impact on Brazilian export activity, already strengthened by February's 30 percent cruzeiro devaluation. Brazil could regain its former momentum within five years, assuming that growth in gross domestic product practically doubles each year.

In the third scenario, the government chooses one of the two preceeding options in combination with a major internal revision of the government's visible ruling elite. In casting about for what would amount to a scapegoat, the military may decide to single out the technocrats, possibly modifying their power or composition. Such a move, at a stroke, could defuse the volatile social and political climate and free the military's hand in the short-term guidance of state policy. It might also spell the end of Brazil's heedless pursuit of growth and development.

The case against the technocrats has been building over the past decade. It surfaced in 1974 among members of the business community and gathered force as the political and social consciousness of the populace sharpened its focus on the technocrats' inability to reconcile social needs with economic growth. Mistakes in strategic planning that emphasized technology at the expense of Brazil's given resource endowment further eroded the popular conception of technocratic competence. The reluctance to keep spending within bounds — accelerated in 1974 when the technocrats refused to align domestic policy with the OPEC price hike — has been roundly denounced. In addition, a perceived notion of economic policy incoherence combined with the technocrats' disregard for and/or aversion to confront inflation has fueled the public debate. With the disclosure of the 1982 external debt debacle, criticism mounted over the technocrats' decision to create an overwhelming dependence on external capital markets and contract a debt which clearly overextends Brazil's ability to repay. The net effect of this is very simply that, in the eyes of many Brazilians, the technocrats can no longer be depended upon.

It may be highly expedient for the military government, therefore, to deflect mounting dissension in an already fragmented society by singling out such a visible target. The exact form and cadence of such a move is impossible to predict. Delfim Netto has consolidated his power position since regaining the helm in the spring of 1979, and a fall from grace is highly unlikely. On the other hand, a shuffle in the technocratic ranks might signal to the people the ruling elite's "capitulation" to reason and successfully co-opt any moves to forcefully interdict the government's chain of command — a very real threat in the face of the November election results, the tenuous political truce and the constraints of austerity. Delfim may be shunted laterally within the government bureaucracy and new, younger officers schooled abroad may be promoted to technocratic status. Channels for citizen input may be devised as a consequence of the inevitable rapprochement between the opposition and the military government, thereby diluting the technocrat's hegemony. The military may as well draw upon the opposition's pool of newly elected officials, singling out and elevating those combining least-objectionable political tendencies with the training and skills that are the hallmark of technocracy.

It is possible that the 1982 debt crisis will cause that peculiar Brazilian institution, the technocrat, to undergo a radical transformation. The military will not suddenly dispense with the technocrats once and for all — their expertise is essential. The passive *dependencia* of both the military and the Brazilian people on the counsel of Delfim and his cohorts will not soon shift to a vacuum. But today's technocrats will probably in time be replaced by other technocrats who will be accountable to society and sensitive to its needs. This new technocrat will combine knowledge with social awareness and political acumen — in short, all the elements that constitute a leader. Already this new technocrat may have surfaced within the ranks of the opposition's appointees. São Paulo's new Secretary of Planning, Celso Serra, may prove to match this description. Exiled by the government in the aftermath of a political crackdown in 1968, Serra trained abroad in the sciences and economics and repatriated under the 1979 amnesty program. No doubt the fusion of principles which initially radicalized him and his acquired knowledge will result in the enlightened vision and judicious decision-making that will be needed in Brazil's coming post-expansionist development phase.

Modulations in the tenor and composition of Brazil's technocracy are certain to occur in the aftermath of the 1982 debt debacle. But though superficially they may be perceived as cosmetic, on a deeper level they may signal a sea change in the Brazilian government's basic infrastructure. The orderly and peaceful nature of the 1982 elections — and the demonstrated political maturity of the Brazilian electorate — have sounded the death knell to the military rulers, who readily concede that seizing power has been far easier than exercising power. Brazilians are confident that eventually democracy will prevail, but they recognize that its ultimate form will be uniquely Brazilian, one which will have incorporated existing mechanisms of governance. Necessarily, this means that the technocracy, as important a feature as it presently is in the government, will accompany this transition. Its character and mandate will be constantly revised as the nation passes through successive stages of political modernization, and future technocrats may be scarcely recognizable by today's standards. But they will surely be able to do what today's technocrats seem incapable of: blending the pragmatism of economic growth with the idealism of social equity. Perhaps the critical nature of Brazil's economic plight in 1983 will inspire Brazilian society to begin fashioning the institutions they will need to bridge the gap between autocracy and pluralism, begetting a new breed of technocrats — and possibly Brazil's future civilian leaders.