

Chapter Title: From Disorder to Growth and Back: The Military Regime (1964–1984)

Book Title: Brazil in Transition

Book Subtitle: Beliefs, Leadership, and Institutional Change

Book Author(s): Lee J. Alston, Marcus André Melo, Bernardo Mueller and Carlos Pereira

Published by: Princeton University Press. (2016)

Stable URL: <http://www.jstor.org/stable/j.ctt1q1xsg3.10>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <http://about.jstor.org/terms>



Princeton University Press is collaborating with JSTOR to digitize, preserve and extend access to *Brazil in Transition*

CHAPTER 3

From Disorder to Growth and Back: The Military Regime (1964–1984)

IN 1964, A MILITARY COUP INTERRUPTED THE DEMOCRATIC INTERREGNUM that Brazil had witnessed since 1946. The 1946–1964 period was a tumultuous time as the country simultaneously went through the growing pains of industrialization and of democracy. The state was the dominant organization, and the economy was fairly closed. The electorate consisted of only 18 percent of the population. The dominant network, who enjoyed rents, consisted of industrialists in protected sectors; bankers who shared seigniorage gains with the state; and regional (more so than national) politicians. The fiscal basis of the state was narrow and depended on the inflation tax and increasingly on compulsory savings mechanisms that the developmental state created. Declining economic performance led to increasing inflationary pressures, prompting an escalation of redistributive demands from those outside the dominant network. The outcomes from this closed order were increasingly at odds with expectations from the dominant network but did not lead to an abandonment of the belief in developmentalism to shape institutions. Developmentalism actually achieved its apex under authoritarian rule. GDP growth was highly volatile and inflation high (27 percent yearly average). By the early 1960s, inflation grew to 64 percent and growth slowed to under 1 percent, prompting a crisis with the military mounting a successful coup in 1964.

FROM CHAOS TO A SHORT PERIOD OF ORDER

Though the average level of GDP growth was high in this early period (6.9 percent from 1946 to 1964), it was also extremely volatile and accompanied by recurring inflation (26.8 percent yearly average). The year before the coup, GDP growth was 0.6 percent and inflation 64.3 percent, respectively, the lowest and highest values for the period 1946–1964. Industrial policy consisted of an overvalued exchange rate, which discouraged foreign investment, and high tariffs, which protected the national industry.

Similarly, the political front was marked by polarization and decision paralysis as well as rampant populism, clientelism, and electoral fraud,

all in a highly unequal, poor, and uneducated society with several rural conflicts for land reform. The populist coalition that governed Brazil for almost the entire democratic period of 1946–1964 (except for a seven-month interlude in 1961) lacked partisan support and agenda-setting powers in Congress and had few constitutionally derived powers to assure governability. The president did not have the prerogative of permanent or temporary decrees; could not initiate new legislation or propose changes to the constitution; could not discharge bills from gatekeeping committees; did not have the right to craft the budget; and could not withhold legislators' amendments to the budget (Figueiredo and Limongi 2006). The executive's role was limited to enacting or vetoing new laws devised by the legislature. This constitutional design, which combined multiparty fragmentation with a powerless president, produced an environment prone to political instability, gridlock, and lack of political coordination. No single party was able to hold the majority of seats in Congress, nor was government able to build or sustain a postelectoral majority coalition. Minority governments were the norm, not the exception. Additionally, the main political parties in that period—Social Democratic Party (PSD), União Democrática Nacional (UDN), and Brazilian Labor Party (PTB)—presented very low levels of party discipline (Amorim Neto and Santos 2001). It was not a coincidence that during this democratic phase Brazil experienced much political turbulence: several failed military coups; a president who committed suicide after being involved in a frustrated effort to assassinate his major opponent; a coup inside of another coup to assure the inauguration of this president's successor; a president who resigned; his vice president assuming power only under a negotiated regime change to a parliamentary system; and finally the democratic breakdown in 1964 that recentralized the political game.

Without agenda-setting powers, Brazilian presidents frequently fell hostage to a fragmented and polarized Congress, leading this period to be dominated by recurring gridlock and legislative paralysis. Figure 3.1 shows that from 1946 to 1964, most laws originated from Congress rather than the executive, a pattern that was dramatically reversed after 1964 and would not return even after redemocratization, as we shall see in forthcoming chapters.

The military regime was a reaction to disorder and uncertainty. At first, the agenda of the military was not clear. Would they persist in the pursuit of economic growth through the same state-led protectionist development model that had come to dominate Brazil since the 1930s? Or, would the priority be stabilization and fiscal discipline? Would political participation be allowed and dissension tolerated? How much influence would Congress retain? In the early years of military rule, uncertainty shrouded these questions in large part because of lack of political cohesion within

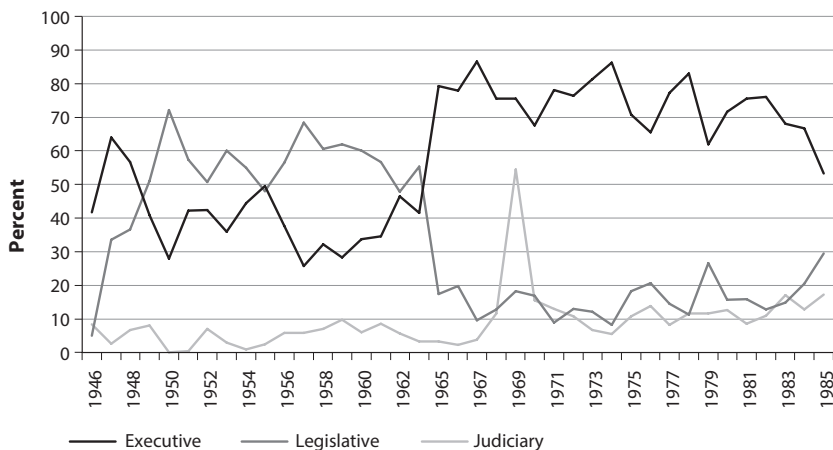


Figure 3.1. Percentage of bills enacted by proponents in Brazil (1946–1985). Source: Data provided by Pessanha (1997); figure created by the authors.

the military, which had several factions with distinct economic and political agendas.

Several distinct features of the Brazilian military regime enhanced this uncertainty vis-à-vis other authoritarian Latin American counterparts: first, initially the military rulers retained many democratic institutions, such as the constitution, political parties, elections for states and *municípios* (counties), and a functioning Congress. That is, the military kept many features of political life relatively intact. Second, the armed forces also decided to preserve the basic components of the pre-1964 liberal democratic constitution, suggesting that they did not have the intention, at least in the beginning, of staying indefinitely in power. Furthermore, the military regime in Brazil was not centered around a personalistic leader or traditional caudillo, but rather on an institutionalized collective junta with some degree of alternation of power among different factions within the military. As a consequence, the five different administrations in twenty-one years of military rule presented considerably more variation than is typically the case with military regimes that are anchored on a single individual or tight-knit group.

At the outset of the military period, two different sets of beliefs about what kind of economic policies the regime should pursue prevailed within the military factions: developmentalism and economic liberalism. The belief in liberalism had roots in the pre-1930 commodity-export era, and the belief in developmentalism originated with state-led industrialization beginning in the 1930s.

In Brazil, economic liberalism evolved into a very different notion than the original economic liberalism that arose in Europe, where it was essentially an ideology of a rising bourgeois against privileges from the rurally based aristocracy (Bresser-Pereira 1984). In Brazil, on the other hand, economic liberalism was essentially the ideology of the rural aristocracy, along with agricultural exporters, importers of manufactured products, and the more traditional urban middle classes. These social and economic sectors opposed policies that protected the emerging industrial sector at their expense by restricting trade and manipulating exchange rates. They saw Brazil's comparative advantage lying in agriculture and free trade as the best way to pursue growth and development. The agricultural business sector espoused the belief in liberalism and the UDN defended their interests in Congress.

The belief in *developmentalism* started after the 1930 revolution but intensified in the early 1950s Vargas era. This belief formed the basis of the Import Substitution Industrialization (ISI) model driven by state-led industrialization associated with foreign indebtedness and populist incorporation of diverse sectors of the society, in particular workers and middle classes. Both sets of beliefs had their proponents in the early stages of the military regime. After a brief foray with liberalism based on macro-economic adjustments as the main belief, and stagnation the result that emerged from those policies in the short-run, the tide turned to the belief in developmentalism, which became the driving force behind institutions and policies through the majority of the military rule. Developmentalism established growth, economic might, and industrial progress as imperatives, leaving issues of democracy and combating inequality and poverty as secondary and subservient objectives.

Although the military had a common enemy in the threat of communism, they were far from united, and it is possible to identify at least four divergent internal factions: (1) soft-liners (or *sorbonistas*, since their main leaders had been trained at the Ecole Supérieure de Guerre in France, at the Army Command and General Staff College in Fort Leavenworth, Kansas, and at the Superior War College in Brazil), (2) hard-liners, (3) developmentalists, and (4) techno-bureaucrats.

The sorbonistas were not only politically moderate and economically liberal but also espoused a quick return to democracy. This is one of the reasons why the military retained the democratic Constitution of 1946 and the electoral calendar (for mayors, in March 1965; for governors, in October 1965; and for the presidency, in February 1967). The sorbonistas planned to reestablish democracy after cleaning up the country against the imminent risk of socialist alternatives and against the nationalist state-led development model installed by previous administrations relying on populist coalitions.

The internal faction of hard-liners did not have a clear-cut economic agenda. Rather, they were mostly concerned with preserving internal security and social/political order as well as forestalling the rise of communist ideologies in Brazil. They were not particularly committed to democratic procedures or to returning power to a different civilian political elite.

The developmentalist faction within the army, on the other hand, was fully committed to an agenda of nationalist development of industry, yet not through the same populist variants of policies used in the pre-1964 period. They believed that, after restoring the country's fiscal health, the state should play a key role with large-scale intervention and participation in the economy.

Finally, the fourth military faction, techno-bureaucrats, was mostly composed of top-ranking officials who supported the unity of the army around bureaucratic and hierarchical principles and in favor of the interests of the military corporation such as higher salary, perks, and better work conditions.

Initially, the sorbonistas, under the leadership of General Humberto Castelo Branco, controlled the "revolutionary" government from 1964 to 1967 with the support of the military and civilian political elites, including the governors of some of the major states. This first administration followed an economic agenda fundamentally oriented toward economic stabilization and fiscal discipline, frustrating the expectations of the national industrial elite, which was eager for expansionist economic policies, subsidies, and external borrowing. In 1964, the Brazilian economy had stagnant GDP growth, annual inflation above 100 percent, no access to external credit, lack of international credibility, and a foreign debt of about US\$3 billion. The economic team, coordinated by Roberto Campos and Octavio Bulhões, two outspoken advocates of vigorous anti-inflation measures, followed an orthodox prescription aimed at restricting excess demand, high public debt, excessive credit for the private sector, and high salaries, which together were seen as the main sources of persistent inflation. The government launched the Economic Action Program (PAEG), which was the most comprehensive stabilization plan put in place in Brazil. According to R. Cardoso (2013), the PAEG had three targets: (1) to lift restrictions on balance of payments, (2) to control inflation, and (3) to develop institutional conditions favorable to economic growth after a return to monetary stability.

The administration created new institutions in order to pursue the agenda of economic adjustment. However, the measures were not a consequence of a well-thought-out institutional blueprint but rather aimed at dealing with specific problems. A few days after the coup, the military decreed the Institutional Act (IA) #1, which provided institutional

conditions for the executive to overcome the lack of powers in dealing with Congress under divided government. Institutional Act #1 granted the executive the power to submit constitutional amendments and exclusive powers to propose expenditures. Institutional Act #1 denied legislators the ability to increase expenditures on any bill proposed by the president. In another measure aimed at recentralizing the fiscal game, the government prohibited state governments from issuing new bonds to cover state budget deficits without federal authorization.

As Brazil did not have a proper Central Bank or the administrative capacity to coordinate fiscal and monetary policies, the government created several administrative and economic organizations to increase state capacity in these areas. The government created the National Monetary Council to coordinate fiscal and monetary policy and in 1965 created a Central Bank. To address the large public deficits that were one of the important determinants of inflation, the government took special measures to put in order the accounts of state-owned enterprises, in particular those in the railroad, shipping, and oil industries.

The new administration greatly increased tax revenues. Brazil did not have instruments or mechanisms to adjust late payments to inflation. The government established an inflation indexation system to halt the erosion of the real value of taxes. With taxes indexed, taxpayers no longer had incentives to delay payments. Very soon, the government applied indexing to several credit and financial operations including indexed government bond and mortgage contracts within the newly created National Housing Bank (BNH). Indexation quickly became a fundamental instrument of economic policy because of the significant tax revenues it generated. The government also implemented a number of legal measures to take control of wage policy so as to keep wages from rising faster than inflation, not only for public servants but for the private sector as well.

FROM ORDER TO UNSUSTAINABLE GROWTH

In less than one year, the situation of the Brazilian economy improved dramatically. As a consequence of higher tax revenues and a drastic decrease in public expenditure, the public deficit, which was 4.2 percent of GDP in 1963, declined to 3.2 percent and 1.6 percent in 1964 and 1965, respectively. Although inflation was still high, it was cut in half. Personnel expenditures in the public sector declined as well. These results enabled the government to renegotiate the external debt with the IMF and foreign banks, which helped the country regain external credibility, which in turn led to a new influx of foreign investments (US\$222 million from the United States and US\$650 million from USAID (United States Agency

for International Development). In February 1965, the World Bank announced a new set of loans, and the IMF announced a new standby agreement of US\$126 million.

Although the anti-inflation program was partially successful, the stabilization of the economy also led to a slowdown of the economy with a 5 percent drop in national industrial production. Naturally, economic stabilization was much criticized by the domestic industrial interests that resented the withdrawal of subsidies, especially those in São Paulo who felt deeply the slowdown of the economy. The political vulnerability of the first military government became apparent with the electoral defeat in the gubernatorial elections of 1965 of its candidates in five states, especially in Rio de Janeiro and Minas Gerais. The electoral defeat caused great distress among the hard-liners and tipped the balance in their favor. Hard-liners criticized the decision of the sorbonistas to maintain the electoral calendar instead of simply appointing the new governors indirectly.

Realizing that the stabilization of the economy would take longer than originally planned and under pressure from hard-liners and developmentalists, Castelo Branco issued a congressional amendment that extended his own term in power until March 15, 1967. This decision led to the loss of political support from prominent UDN (conservative) politicians and from important governors who were potential candidates for the presidency in the upcoming election, all of whom strongly opposed the program of economic stabilization.

As a response to the adverse electoral result in the gubernatorial elections, and with the support of the techno-bureaucrats and national developmentalists groups, Castelo Branco unilaterally decreed Institutional Act #2, which, among other things, abolished all existing political parties and instituted the provisions for the formation of a two-party system, establishing them as the only legal ones: Aliança Renovadora Nacional (ARENA), supporting the military regime; and Movimento Democrático Brasileiro (MDB), representing the opposition.¹ Through this maneuver, the military regime assured a stable parliamentary majority supporting the government in both houses, leaving to the opposition party a minority role. This biased two-party system would last until 1979, when multiple parties would finally be reestablished.

Institutional Act #2 also reshaped executive-legislative relations by transferring to the executive formerly legislative initiatives in budgetary matters, and enabling the president to request the urgency (discharge) procedures of forty-five days in each house (or thirty days for both houses

¹ Interestingly, although IA #2 decreed the two-party system in Brazil, it preserved the open-list proportional representation electoral rules, which in principle favors the development of a multiparty system.

in a joint session) to all bills initiated by the executive. If a bill was not approved or voted within this period, it would automatically become law. Later, party fidelity was also introduced to make sure that ARENA members would not vote against its party leader's orientation. As a consequence of these institutional changes, Congress approved the overwhelming majority of bills introduced by the executive, thus overcoming the decision-making paralysis of the pre-1964 Congress.

In February 1966, the military tightened its grip on the electoral process through IA #3, which introduced indirect elections for the presidency, governorships, and mayors. Although Castelo attempted to stay in power for a longer period (his term was extended for one extra year), he turned out to be a reactive and weak lame-duck president. In March 1967, Castelo's minister of war, Costa e Silva, representing the conservative hard-liners, became the next Brazilian president. The loss of political rights to the electorate prompted social protests and subsequent military repression.

In many ways, the first military administration was a lost window of opportunity in which Brazil could have broken away from the dominant developmentalist beliefs that had dominated since the 1950s. As should have been expected, the sorbonistas suffered from the overwhelming political unpopularity of attempting to control inflation through fiscal discipline and austerity. In addition, political contingencies associated with electoral setbacks while pursuing the unpopular anti-inflation program increased interfactional tensions and competition within the military regime itself. Lacking political support for the orthodox stabilization and fiscal measures, Castelo's administration came to a melancholic end. Having lost the battle and as a final way to consolidate his achievements and tie the hands of his successor, Castelo Branco issued IA #4 to reconvene Congress for an extraordinary session to approve a new constitution in 1967. By replacing all the institutional acts with a new constitution, Castelo Branco attempted to weaken the hand of the developmentalists and hard-liners. The new constitution reproduced the basic principles of representative democracy present in the Constitution of 1946, while at the same time retaining all unilateral mechanisms that had been instituted through IA #2, thus institutionalizing the means for a strong executive.

The "election" of Costa e Silva inaugurated a new cycle of the military regime with a distinct dominant network supporting his government and a new set of political and economic policies. Instead of emphasizing inflation control, fiscal discipline, and international credibility with foreign investors, Costa e Silva implemented a set of policies that aimed at pleasing sectors of the domestic business that had felt betrayed by the previous administration's orthodoxy. Although the hard-liners did not have a clear economic agenda, conservative nationalist and developmentalist

ideologies influenced them. The Costa e Silva administration advocated economic development pursued under state planning and intervention following the ISI model, with fewer concerns over inflation control.

While Castelo Branco's government diagnosed inflationary pressures as a demand-induced problem, the new economic team saw inflation as being mostly cost induced. Therefore, the great majority of economic policies and initiatives stimulated, rather than limited, demand. For example, the new faction reformulated wage policy to make up for the wage losses due to the indexation of the previous period. In the same vein, the administration provided more access to credit to stimulate demand. The government's goal sought expansionist development without inflationary pressures. In many ways, these new policies benefited from the financial and fiscal reforms implemented under the first administration, especially the reduction of the deficits of the government.

Consistent with the diagnosis that inflation was cost-induced, in 1968, the Costa e Silva administration imposed strict controls over industrial costs and the prices of final products under the newly established Interministerial Price Council (CIP). CIP oversight of the domestic industry took the form of extremely active price interventions and the imposition of tough penalties for violations. During the initial economic boom, the strategy contributed to moderate price increases, and inflation fell 25 percent in 1968. Except for the problem of income distribution, the economic performance of the new military faction was excellent, with stabilization of inflation at around 20 percent and with GDP growth at 11 percent. The striking growth was a consequence of the growth of national industry led by passenger vehicles, chemicals, electrical equipment, and construction. Bresser-Pereira (1984) notes that the basic force behind this new economic expansion was the middle classes' increased capacity to purchase consumer goods, especially automobiles, as well as the availability of large-scale consumer credit.

Foreign borrowing was critical to Brazil's economic and political development after 1967. . . . The overwhelming majority of the borrowing went, directly or indirectly, to boost production of basic industrial products. . . . In principle, the system was magical: foreign finance boosted industrial production, and enough of this production was exported to cover interest and principal payments. (Frieden 1987: 95–96)

Additionally, during the relative prosperity of the borrowing boom, Brazil pursued state intervention policies that helped to cement the alliance between the national industrial interests and the military.

Despite the good economic performance, the regime became more repressive and concentrated even more power with IA #5, which further empowered the executive to dictate emergency measures at his own

discretion. Different from its predecessors, the fifth act bore no expiration date. Although it did not abolish the 1967 Constitution, it allowed the executive to suspend activities of Congress and habeas corpus indefinitely, allowing the government to rule by decree. Torture became the dominant *modus operandi* of the new military faction. It was perhaps the inevitable next step in the general direction of concentrating all power in the executive. Concentration allowed, for example, a tax reform that reduced from 20 to 12 percent the share of the main federally collected taxes transferred to the states and counties (including urban areas) without any opposition from subnational units. With the new economic prosperity and less redistribution to subnational units, the tax revenue of the federal government increased considerably.

Institutional Act #5 provided unprecedented governability, but at the same time it rapidly increased the degree of popular discontent. Dissatisfaction with the growing repressive nature of the system led to strikes by workers, student protests, and the early signs of what would over time grow into a strong reaction against authoritarian rule. Confronted with these manifestations, the military regime fought back with increasingly repressive measures. The tension reached its climax in August 1968 when President Costa e Silva suffered a stroke. The Constitution of 1967 stipulated that the vice president should replace the president in case of incapacitation of the president. But, the council of military ministers decided to keep the presidency under their control and chose General Emilio Medici as the new president: “not because he or his military electors thought he had the vision or the knowledge a president needed, but because he was the only four-star general who could stop the army from tearing itself apart” (Skidmore 1988: 105).

The Medici administration was a continuation of the dominant network composed of the nationalist and developmentalist factions of the military, but now with a strategic alliance with techno-bureaucrats, along with increased repression. The important distinction of this administration was a much greater level of delegation to bureaucrats, who were insulated from political pressures. Congress played a minimal role in policy making. For example, prior to Medici, in 1967 Congress initiated 44,485 amendments to the national budget and approved 39,248. In 1973, legislators introduced only 4,110 amendments and approved only 17 (Martínez-Lara 1996).

To insulate the technocratic autonomy, the government relied heavily on repression and censorship, on the one hand and, on the other, provided autonomy to techno-bureaucrats (notoriously Delfim Neto) to manage the economic policies pursuing a strategy of accelerated industrialization. The techno-bureaucrats’ control of the National Monetary Council allowed them to filter demands from different sectors of the economy as

well as decide which groups and sectors benefited from state economic policies. The government secured the support of the cadre of top bureaucratic professionals, public managers, and technocrats by substantial increases in salaries. The Medici administration delegated issues related to noneconomic or domestic policy making to the National Security Council and all political matters to the chief of civilian affairs.

The belief in developmentalism reached its apogee from 1967 to 1973. The combination of economic growth with a strong repressive authoritarian regime led to political stability and weakness of opposition with acquiescence achieved via repression. High growth rates undermined criticism of the prevailing economic model. Economic policy rested on a combination of state intervention and the inclusion and protection of selected sectors of the national economy in the pursuit of industrial development and economic might. The nationalist approach to development was combined with the patriotic appeal of supporting the domestic industrial sector. Skidmore (1988: 110) summarizes this period as follows: “the hard-line military needed the technocrats to make the economy work. The technocrats needed the military to stay in power. The high growth rate in turn gave legitimacy to the authoritarian system.”

THE MIRACLE FADES

The Brazilian Miracle of high growth was short-lived and ended in early 1973 with an oil shock that brought external indebtedness and rekindled inflation. Instead of adjusting to the new reality by slowing down the economy, the government chose to go ahead with import substitution in the hope of reducing Brazilian dependence on imported products. The strategy still retained substantial economic growth (6–7 percent a year) but at the expense of increased public spending, unbalanced government accounts, foreign debt, and inflation.

Income inequality reemerged as a key problem as a consequence of accelerated growth without explicit concerns for income distribution. The belief in economic development as an imperative relegated any concern with equity to the sidelines. The tendency for income concentration resulted from the nature of Brazilian industrialization: capital-intensive and technologically sophisticated goods intended for consumption by a small minority of the population in the upper and middle classes, part of the dominant network (A. Castro 1994). The close association of the Brazilian business elites to the authoritarian rulers and the mutual benefits generated by the regime for members of the dominant network sustained the belief in ISI leading to growth with little care for redistribution.

Despite its successful reliance on repression and economic growth, the political alliance formed by hard-liners, national business elites, and

technocrats lost control of Medici's succession in 1974. This seems odd, given that the government ended its term apparently stronger than at any time since 1964: the economy was booming and armed threats from the left no longer existed. Some factions of hard-liners tried to prolong Medici's term, yet the president decided to stick to the preestablished timetable. Soft-liners, captained by General Golbery do Couto e Silva, advocated the need for liberalization and the return to rule of law, with a gradual elimination of the arbitrary and repressive nature of the regime.

General Ernesto Geisel, a soft-liner closely identified with Castelo Branco and president of Petrobrás, the massive state-owned oil company, won the nomination of the government party in 1973. Geisel's brother, Orlando Geisel, who was minister of the army, neutralized the opposition by hard-liners. In addition, a very carefully orchestrated campaign by the moderate faction within the military led Ernesto Geisel to be chosen by almost unanimous decision in the army.

Similar to Castelo Branco in 1964, Geisel started his administration offering clear signs that the goal of his government was to lead Brazil to a return to democracy; however, different from Castelo Branco, the return would be at a "slow, gradual, and secure" pace, under the control of the governing party. Geisel balanced opening up politically and initiating the transition to democracy with guarantees, while at the same time appeasing the hard-liners who continued to worry about threats from the left. The transition to democracy became viable through the design of an electoral game that was simultaneously in the interest of both the military government and the opposition (Lamounier 1989). It may seem contradictory, but the majority of the opposition was willing to play this game. Unlike the redemocratization in Argentina, Portugal, or Greece, where collapse of the military regime triggered the transition to democracy, in Brazil the process was endogenous and gradualist, in which the maintenance of the electoral calendar played a key role in the opening process.

To be credible, Geisel carried out elections for Congress and state legislatures in November 1974 with fewer restrictions and less censorship. The government showed commitment to a clean, open, and fair electoral process, allowing even candidates from the opposition to have free access to radio and television for the first time. However, the results of the 1974 election surprised the government. The opposition almost doubled its representation in the lower house of Congress, jumping from 87 to 165 seats, out of 364 seats. The results in the Senate accorded with those in the Chamber of Deputies, the opposition-held seats increasing from 7 to 23. However, the party representing the military government, ARENA, still held the majority of the seats in the Senate. The elections for state legislatures also led to striking defeats to the military government. The opposition gained control of six states, including the powerful states of São Paulo, Rio Grande do Sul, and Rio de Janeiro. Similar to what

had happened with Castelo Branco's electoral defeat in the gubernatorial election of 1965, the consistent electoral success of the opposition threatened Geisel's view of gradual liberalization. Nevertheless, President Geisel moved quickly to affirm the results of the election. In practical terms, however, the opposition regained the power of blocking constitutional amendments only because the overwhelming legislative power remained in the hands of the executive.

Afraid of facing another electoral defeat in the upcoming election for governors in 1978, the government exercised the dictatorial powers of the fifth act and closed Congress in 1977, once again using as pretext the refusal by the opposition to support a government bill to reform the judiciary. Geisel then announced a series of constitutional changes, which became known as the "April Package," clearly designed to provide electoral advantages to the military. The package postponed the direct gubernatorial election from 1978 to 1982; established that one-third of the Senate be elected indirectly; altered the composition of the electoral college; and changed the rules for amending the constitution to a simple majority instead of the former two-thirds majority.

Even with these and other arbitrary measures, the opposition continued to play along with the military. At the end of 1978, President Geisel repealed IA #5, depriving the president the authority to declare a constitutional recess, remove congressmen, or strip citizens of their rights. The decision reaffirmed Geisel's personal power and control over the army, and it further legitimized the process of political opening. Next, Geisel initiated negotiations for an amnesty law, which restored political rights to politicians and a pardon to members of the military faction involved in torture and repression.² At this time, the president also reestablished the freedom of the press.

Geisel's political similarities to the Castelo administration did not carry over to economic policy. Geisel retained a belief in developmentalism. In 1976, the government launched the second National Development Plan (PND II),³ establishing a target rate of 10 percent growth a year, led by intermediate industrial products and capital goods. The strategy sought to take advantage of the great international liquidity of petrodollars to finance ambitious programs of investments led by state enterprises in the areas of energy (hydroelectric, with power plants like Itaipu; ethanol based; and nuclear), metallurgy, petrochemical, industrial goods, and infrastructure for transportation.

² Pardons are an important mechanism to prompt society to be forward looking. Chile and South Africa also gave pardons to repressive factions.

³ An earlier PND had been implemented 1972–1974.

Geisel's plans failed to materialize, in part because the international economic environment deteriorated further in the late 1970s with the second oil shock, which led to massive increases in the value of imports. Unfazed, the government maintained the policy of pursuing accelerated growth without further concerns for inflation, which shot from 15 to 35 percent. The easy availability of foreign capital allowed Geisel to pursue his strategy, but it ran the country deeper into debt. Geisel undertook a new vigorous wave of import substitution. Now, the government extended the dominant network to include producers of sugarcane and ethanol, steel, iron, cellulose, petrochemicals, and other raw materials. The government directly and heavily invested in electricity, transportation, and communication. In addition, the government used fiscal credits and tax incentives to stimulate the private sector and state-owned enterprises (SOEs) to pursue other import substitution projects. The nature and technological characteristics of these new import substitution projects required further investment, leading to an increase in the external debt and extra pressure on inflation. It was during the Geisel administration that state intervention in the economy, in the form of direct ownership of SOEs, reached a historical peak. As a consequence of the investments associated with the PND II, gross capital formation by federal SOEs jumped to 4.3 percent of GDP or 16.3 percent of the total fixed capital formation in 1975 (Musacchio and Lazzarini 2014).

In 1978, Geisel managed to appoint as his successor General João Figueiredo, the former head of the Intelligence Service Agency. The new administration showed great continuity with its predecessor, reappointing Mario Henrique Simonsen, the finance minister of Geisel, to become a new "super-minister" for economic policy. To deal with rising foreign indebtedness, an overheated economy, and an inflation rate of 40 percent, Simonsen pushed to slow down the economy with a Five-Year Plan. The strategy made Simonsen extremely vulnerable both within the government as well as among the national business community, who refused to accept that the economic miracle was over. Simonsen resigned after five months. Figueiredo brought back Delfim Neto, the developmentalist techno-bureaucrat from the early Miracle Years. Neto promptly returned to ISI policies, satisfying both the expansionist aisles of government and the national business community.

BACK TO DISORDER

In the early 1980s, intensifying import substitution proved extremely costly to Brazil. As the international crisis spread to Brazil, unemployment increased and rates of GDP per capita turned negative. The economic

downturn had its biggest impact in the industrial and durable goods sectors, located in the main urban areas of the country. With the Mexican default in 1982, the economic situation worsened, as markets anticipated a subsequent Brazilian default. Brazil went to the IMF, who lent money and facilitated access to international private banks. But, when Brazil failed to meet the initial targets established by the IMF, the IMF halted disbursements.

The economic recession shattered the belief in ISI leading to growth. The military lost the support of powerful segments of the domestic economy that had previously been part of the dominant network. The core of the country's business community (the national industrial bourgeoisie) abandoned the military and joined other dissenting groups, including industrial workers, the middle class, and intellectuals, in expressing growing discontent against the regime. In the absence of the economic miracle, the previous network fell apart, and with it dissolved the overarching belief in developmentalism.

Prominently, the *Manifesto dos Oito* (Manifesto of the Eight), which was publicized in 1978, articulated the dissatisfaction among the "young Turks" who took over the leadership of the Federation of the Industries of the State of São Paulo (FIESP).⁴ In the manifesto, they criticized both the exclusionary nature of the regime and the increasing state regulation of the economy under Geisel. Amid a wave of strikes, they pressed for the political opening of the regime and for reforming capital-labor relations.

The transition to democracy in Brazil forced the national business community elites to rethink their political activities and reorganize themselves for articulating focused political influence (Payne 1994). Despite the incentive, no cohesive business organization emerged in Brazil, but only rather ineffective and informal lobbying by individuals or small groups (Schneider 1998).

In 1979, prior to the deep recession, the administration restored the multiparty system. The soft-liner strategists realized that the two-party system was no longer capable of preserving the legislative majority supporting the military regime. On the contrary, it electorally consolidated the opposition under the big partisan MDB umbrella that was about to win control of not only Congress but also state assemblies and many municipal governments in the upcoming general elections. To avoid this massive defeat, the alternative was to fragment the opposition by reestablishing a restricted (no Marxist parties allowed) multiparty system with the emergence of several new parties, especially on the center and left of the ideological spectrum. This decision pleased segments of the opposition

⁴ Interestingly, the leader of the young Turks, Dilson Funaro, was appointed finance minister and president of BNDES during the first democratic government in Brazil (see Cruz 1995).

and factions that would no longer have to squeeze under the MDB partisan umbrella. This military strategy of preserving open-list proportional representation without restricting the number of political parties proved successful with the creation of several new political parties, including the Workers' Party (PT), founded by unionists, intellectuals, and members of the church under the leadership of Luiz Inácio Lula da Silva.

In addition to this radical change in the party system, the government required a straight ticket (all votes to one party) for all elected positions available in Congress. The outcome of the election of November 1982 confirmed the multiparty strategy. The combined opposition parties managed to win a slight majority of 240 to 235 seats in the House, but in the Senate ARENA (the military party) enjoyed a comfortable majority of 46 to 23. In the electoral college, which would be responsible for choosing the next president, ARENA retained the majority of 359 to 321. Nevertheless, the 1982 election represented a turning point in the process of democratization because it marked the end of the government's control of the congressional agenda. In addition, the opposition managed to win ten subnational governments, including the most economically powerful states: São Paulo, Rio de Janeiro, and Minas Gerais.

The electoral success of 1982 emboldened the opposition to propose in 1983 a constitutional amendment to restore the direct presidential election in November 1984. However, no political force in Congress had the two-thirds majority necessary to reform the constitution. To forestall the indirect election through the electoral college, the opposition launched a national campaign in favor of direct elections "now"—*Diretas Já*, which mobilized the entire nation and is still the largest popular movement ever seen in Brazil. Despite its success in motivating the population, the movement did not succeed, as the amendment to the constitution fell short by 22 votes of the required two-thirds threshold in the Chamber of Deputies. The remaining alternative was to find a candidate capable of attracting the support of sectors of the dissenting group within the government party, who split and formed a new party called the Liberal Front Party (PFL). To be successful in the electoral college, the Democratic Alliance was formed, with Tancredo Neves from the Brazilian Democratic Movement Party (PMDB) as the candidate for the presidency, and José Sarney, representing the PFL, as the candidate for the vice presidency. The Democratic Alliance's ticket obtained an overwhelming majority of 480 out of 686 votes in the electoral college in January 1985, putting an end to twenty-one years of military rule in Brazil.

The newly elected president inspired hope and enthusiasm among the population, recapturing the spirit of the campaign for direct elections. Dramatically, however, he was hospitalized before his inauguration with a serious abdominal infection and died five weeks later. The death of

Tancredo shocked Brazil, as expectations ran high of him truly moving Brazil to become more inclusive. Change required firm leadership, which Tancredo may have possessed. The electorate expected Tancredo to implement an agenda of political and economic reforms capable of leading the country to economic growth, inflation control, income redistribution, and social inclusion.

Disappointment turned to despair as the presidency fell to José Sarney, a conservative and oligarchical politician who had been closely associated with the previous authoritarian regime. Redemocratization thus began under considerable uncertainty.

THE DECLINE OF DEVELOPMENTALISM

The rise and fall of military rule represents a full cycle in the framework discussed in chapter 2. The cycle began when the uncertainty and poor economic performance of the previous period (1946–1964) ushered in a military coup with a new dominant network that followed a new belief of developmentalism. For a period in the late 1960s to early 1970s, the institutional changes delivered strong economic growth, so that the outcomes matched the expectations of developmentalist beliefs. The positive economic results compensated for the authoritarian and repressive nature of the regime (at least for some). But as economic growth proved unsustainable after 1974, the belief in developmentalism increasingly seemed an inappropriate interpretation of how the world really works. The next ten years (1975–1985) represent a long and gradual transition to a new cycle in the framework. Declining but still relatively high growth rates in the mid-1970s protracted the transition.

The military blamed external shocks for the disappointing economic results. At first, this view seemed plausible, but it held less purchase over time as economic performance continued to deteriorate in the late 1970s and early 1980s. “Young Turks” at FIESP replaced the old guard, and the new business community became increasingly critical of statism and supported the transition to democracy. The two decades of military rule illustrate that a window of opportunity in which the old belief is discarded and a new belief emerges can sometimes be long and protracted.