

ECONOMIC DEBATES UNDER AUTHORITARIAN REGIMES: THE
CASE OF THE INCOME DISTRIBUTION CONTROVERSY IN
BRAZIL IN THE 1970s

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Economic debates under authoritarian regimes: the case of the income distribution controversy in Brazil in the 1970s

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Abstract. The paper investigates the political and economic contexts of the controversy about the causes of the significant increase of income concentration in Brazil during the 1960s. That was the most important economic debate that took place under the military dictatorship that ran the country from 1964 to 1985. The perceived sharp increase in income inequality posed a challenge to the economic legitimation of the military regime, which had by the early 1970s achieved high rates of economic growth accompanied by falling inflation. The paper discusses the reasons behind the relatively open economic debate during a period of political repression, as well as its international dimension as reflected in the role played by institutions such as the World Bank.

Key words. Authoritarianism, income distribution, debate, censorship, Brazil

JEL codes. B20, D30, N16

1. Introduction

In 1960 the Brazilian government carried out a social and economic census that collected, for the first time, detailed information about individual incomes. Ten years later another census took place, which also gathered data about personal income. The Brazilian government began releasing preliminary results from the 1970 census in 1971.¹ Social scientists would finally have robust data to analyze Brazilian income distribution over a time span. Rodolfo Hoffmann (1971) and João Duarte (1971) – consolidated in Hoffmann & Duarte (1972) – were the first Brazilian scholars who discussed the data. The topic was also investigated at the time by American economist Albert Fishlow (1972). Numbers showed an increase of inequality in Brazil between 1960 and 1970. Fishlow, Hoffmann and Duarte believed that this resulted mainly from economic policies – particularly a minimum wage squeeze, together with stimulus to capital-intensive projects and production of durable consumption goods through credit and tax subsidies to capital – implemented by the Brazilian military rule after the 1964 coup d’etat (Fishlow 1973).

At a speech at the UNCTAD meetings in Santiago in April 1972, Robert McNamara, President of the World Bank, singled out Brazil as the main example of a country incapable of transforming high economic growth rates into improvement in the welfare of the poorest segments. McNamara's (1981, chap. 9) speech attracted worldwide interest and was instrumental in igniting the Brazilian controversy over inequality, which became the most debated economic issue in Brazil at the time (Hirschman 1981, 22).

Our goal is to reconstruct the limits and circumstances of public and academic debates on the theme in the early-mid 1970s. In order to build a narrative, archives from the press were used. We also interviewed the protagonists of the 1970s distribution controversy. Despite the authoritarian environment, even the critics of the regime agreed that there was some degree of freedom to discuss the issue. Hoffmann stated in correspondence of 25 January 2019 that the Brazilian government “did not get to the

¹ Because of administrative and processing problems, the 1960 census was only published in 1978. Until then, just samples were available.

point of attacking every researcher ... who criticized the regime”, but it would impose obstacles for those who were unpleasant to it.

The apparent paradox of a relatively open economic debate that challenged economic policy, amidst a period of political repression, is solved if some factors are considered. McNamara’s criticism had the character of an institutional appraisal from the World Bank, which Brazilian policymakers could not simply ignore or silence. Brazil was going through its fifth year of economic “miracle” in 1972, with average annual rates of GDP growth around 11%. Brazilian military regime was aware that its legitimacy depended on economic performance. Hence, pro-government economists and officials reacted strongly to the charge that the economic welfare of large parts of the population had not improved (see Skidmore 1988, pp. 143-44; Bethell and Castro 2008, p. 198). Moreover, Delfim Netto and other government officials thought they had the best side of the argument, as represented by Carlos Geraldo Langoni’s (1972, 1973a) attempted demonstration that increasing inequality was the market (temporary) effect of economic growth under conditions of skilled labor scarcity.

Indeed, the regime’s policymakers – Roberto Campos, Antonio Delfim Netto, Mário Henrique Simonsen and João Paulo dos Reis Velloso – were also scholars who valued economic discussion. Campos had a master’s degree in economics from George Washington University (1947); Velloso had a similar degree from Yale (1964). Simonsen was a leading professor at FGV-Rio (Fundação Getúlio Vargas) since the 1960s. Delfim Netto started his career as professor at USP (Universidade de São Paulo) upon writing a doctoral thesis in 1958, and kept close ties with the university, having a group of young protégées known as the “Delfim Boys”, which at some point included Langoni. The other protagonists in the controversy were young economists who had recently obtained their PhDs from prestigious American universities or finished graduate studies in Brazil. Edmar Bacha received his PhD from Yale (1968); Langoni was the first Brazilian to obtain a PhD in economics from Chicago (1970); Pedro Malan went to Berkeley (Fishlow was his advisor) and finished his PhD in 1973. They were part of the first big wave of Brazilian economists who obtained post-grad titles abroad, and they all worked at universities or government agencies like IPEA (Institute of Applied Economic Research). As Bacha told us in

correspondence of 7 December 2018: “my PhD protected me”. Hoffmann submitted his professorship thesis (“tese de livre docência”) in 1971.

Analytical surveys of the controversy may be found in Bacha & Taylor (1978), Malan (1979), Ramos and Reis (1991) and Hoffmann (2018), with attention to the empirical relation between growth and distribution – the famous “Kuznets Curve”, as it has been called since the mid 1970s. Our objective is not to assess the debates, but to discuss how they took place under a military dictatorship. Two recent doctoral dissertations by Souza (2016) and Morgan (2018) have provided new insights about long-run income distribution in Brazil. Sections 5.2.3 of Morgan (2018) and 2.6 of Souza (2016) partially overlap with this paper, with their concern with political aspects of the controversy.² Lopes (1973) provided a contemporary perspective on how the restrictions imposed on open demands by social groups involved in the income distribution process turned the discussion into a “private debate” between economic experts, which then became “public” in a limited controlled way as it was reported on the press, reverberated in the Congress or attracted intellectual groups in the meetings of SBPC (Brazilian Society for the Advancement of Science) and ANPEC (National Association of Centers for Graduate Economic Studies).

Brazilian military regarded themselves as “democrats”. In order to maintain a positive image abroad, they tried to avoid an overt military dictatorship. Elements of representative democracy were kept. It is tempting to imagine that either a country is a democracy in which there is absolute freedom of opinion, or it is a dictatorship where no disagreement is allowed. Things are usually more complex. The Brazilian dictatorship maintained a veneer of democracy, with functioning Congress (although emptied of powers) and opposition party. However, the attempt to keep “democratic respectability” gave way, in December 1968, to the Institutional Act no. 5 (AI-5), which suspended the rule of law and *habeas corpus*, sharpened censorship and increased torture (Bethell and Castro 2008, 172-73, 195; Gaspari 2002, 2003; Stepan 1973; Skidmore 1988, 82-83, 112-14). AI-5 remained in force for 10 years, including the period of the distribution controversy.

² The supervisors were Marcelo Medeiros (Souza) and Thomas Piketty (Morgan).

Censorship was a reality.³ For instance, Celso Furtado had a paper about the influence of race on income distribution, submitted to *Opinião* in 1972, censored (Furtado 2014, pp. 513-18). In that same year, the Sunday supplement of *Jornal do Commercio*, with articles by critical economists about income distribution, was held back and destroyed (Caldas 2003, pp. 15-16). In 1977 the weekly *Opinião*, founded in 1972, became financially infeasible because of censorship and had to close. *Cadernos de Opinião* (later *Ensaio de Opinião*) circulated between 1975 and 1979. *Jornal do Brasil*, *O Estado de S. Paulo*, *Veja* and other outlets also suffered from censorship. They implemented self-censorship, in order to keep operating. The political debate was also limited. In 1969, 79 federal deputies – including even members of the ruling party - were abruptly removed from their positions. Senator Franco Montoro and congressman Ulysses Guimarães stood out for questioning the causes of income concentration. In correspondence with the authors (6 December 2018), Edmar Bacha recalled how Senator Filinto Müller, leader of the government, surprisingly asked him to explain the causes of inequality.

Although some social scientists and economists were arrested, had to flee the country, or lost their jobs in the aftermath of AI-5, there was a relative degree of freedom of expression in the economic professional debates. At first sight, economists were perceived as "technicians," who were not directly challenging the legitimacy of the dictatorial regime, but dealing with econometric procedures, Gini index, Lorenz curves, etc., even if critically. However, at closer look, the distribution controversy illustrates how the boundaries of what is seemingly technical and politically neutral are constructed by the actors and institutions involved. Indeed, since the usual channels of political expression were restricted, the “private” conversation among experts, in their debates about income distribution, became an important instrument to articulate criticism of government policy – as economists from both sides now agree (e.g. Langoni 2019 and Hoffmann 2018).

³ It was not as widespread in the economic realm, though. Delfim Netto told us dialectically that “there was no real censorship in the economic area, because the military hard line hated the ruling ‘liberal’ and ‘pro-market’ economic policy ... The more intense the criticism the larger the loss of prestige of policy makers” (27 November 2018).

2. “The economy is doing well, but most people are still doing poorly”

In March 1970, then President, General Emílio G. Médici, stated that

Despite six years of revolutionary effort, when we look at the reality of living conditions of the majority of Brazilian people, we come to the pungent conclusion that the economy may be doing well, but most people are still doing poorly. (Médici 1970, 5)

A severe drought was hitting Brazilian Northeast, the poorest area of the country. Starving peasants agglomerated in small towns, threatening to loot public depots and privately owned stores in search for food. In a country with 95.3 million people, 68 % of Brazilians were classified as “poor”. The president’s confession was in contrast with the pride and confidence of the economic team, led by Delfim Netto (Minister of Finance) and Reis Velloso (Minister of Economic Planning), based on the remarkable rate of economic growth.

In March 1964, when a military coup overthrew President João Goulart’s leftwing government⁴, the economic situation was distressing. 1963 inflation rates approached 100 percent a year, while GDP grew only 0.6 %. Bad economic situation was used by the “Revolution” – a term deployed by the 1964 coup supporters – as justification for the movement. The rhetoric of the “revolutionaries” referred to the necessity of restoring “economic and financial order in Brazil”. During Marshall Humberto Castello Branco term (1964-1967), Octávio Bulhões (Minister of Finance) and Roberto Campos (Minister of Economic Planning) implemented the Government Economic Action Plan. It included short-term measures to stabilize the economy, as well as structural reforms aiming to modernize Brazilian economic institutions (Skidmore 1989, 31-9; Luna & Klein 2014, 191-9). Economic performance during that period, however, was mediocre, with GDP growing below the 1948-1962 average.

⁴ See Skidmore (1989, chapter 1)

With the inauguration of General Arthur da Costa e Silva's (1967-1969) term, Antonio Delfim Netto became Finance Minister⁵, and in 1968 the so-called Brazil's economic "miracle" began. Between 1968 and 1973, average GDP annual growth was around 10%. This outstanding economic performance reinforced the "revolutionary" narrative: an authoritarian government, above populist political interests, was necessary to impose sacrifices on society, in order to create conditions for economic development⁶.

Médici (1969-1974) ruled Brazil during the period of increasing authoritarianism, known as the "lead years" (*anos de chumbo*). Thanks to economic growth and censorship, Médici became a relatively popular president⁷, while the "Brazilian military regime" became "the standard bearer of those who insisted that only a strong, heavy-handed government could produce the conditions necessary for economic development"⁸. The "Brazilian model" was viewed with eager interest by other developing countries (Fishlow 1973). The country served as an example for authoritarian regimes that would be soon implemented in Chile (1973), Uruguay (1973) and Argentina (1976). American President Richard Nixon famously stated in 1972: "We know that as Brazil goes, so will go the rest of the Latin-American continent" (NYT 1972a, 30).

In 1965 Campos created IPEA⁹, appointing Velloso as its first director. As recalled by Velloso, in an interview in D'Araujo, Farias and Hippolito (2005, pp. 23-26), IPEA was a sort of economic "think tank" inside the government, with significant degree of freedom despite occasional pressure from the military. That same year, IPEA signed a cooperation agreement with the University of Berkeley; a first group of American economists was sent to Brazil straightaway in 1965. Upon spending short periods in Brazil between 1965 and 1967, Fishlow became the leader of the group, a position he held until 1968, when the agreement ended by the initiative of Berkeley, dissatisfied with Brazilian political conditions after AI-5. Fishlow kept visiting and studying Brazil after 1968, particularly income distribution. In December 1971, at the meetings of the American Economic Association, Fishlow presented the first

⁵ See Skidmore (1989, 66-70)

⁶ See Campos (1972a)

⁷ See NYT (1971, 24).

⁸ NYT ("Colombia nudging Brazil in economic leadership", September 4, 1972, 21).

⁹ The first name was EPEA – with "E" standing for "escritório" (Office) – but it soon changed to IPEA.

results of that research. His paper was discussed at a session chaired by Hollis Chenery, who in 1972 would become the World Bank Vice-President for economic development.

McNamara was interested in questions of poverty and income distribution, and established that the World Bank's lending policy should ameliorate the living condition of the poorest sections of underdeveloped countries. However, in 1971 one main obstacle was the absence of data on income distribution in such countries (McNamara 1991, 82-3). Under those circumstances, Fishlow's research became especially relevant. Having a high quality study for Brazil – a poor country that was experiencing an economic “miracle” and was also one of World Bank's biggest clients – was very useful. That is why Chenery took Fishlow to a meeting with McNamara shortly after the 1971 AEA conference (Fishlow in D'Araújo 2005, 54).

Fishlow's statistical analysis impressed McNamara, “tipping the scales on a long-run debate” at the World Bank over the “seriousness of Brazil's distributive deficiencies and encouraging McNamara to take a tougher line, including holding up a loan” (Kapur et al 1997, p. 240). However, there was a division in the Bank between those who believed Brazil was showing the way forward to other countries, and those who supported Fishlow's arguments (ibid; Fishlow's letter of 9 September 2019). As put by Fisher in his letter, “by providing the military with the alternative view of the necessity to wait until one could take up distribution issues, Medici succeeded in preventing further deterioration as past deviations in real income grants was subsequently adjusted.”

Fishlow's article came out in May 1972. Fishlow (1972, 392) claimed that “by American standards of poverty, virtually the entire population [of Brazil] would classify as such”. Using a sort of Brazilian measure of poverty – i.e., the minimum wage in the Northeast region as the “lower limit of acceptable income” – he found that 31% of the population lived below that limit in 1970. These extremely poor families were found mainly in the country's low-productivity rural regions. Not only were poverty and hardship widespread, but data also showed that income concentration had worsened over the decade. “The upper 3.2 percent of the labor force commands 33.1 percent of the income in 1970, compared to about 27 percent in 1960” (ibid, 399). He used a decomposition of the Theil index to

measure the contribution of education, age, sector and region to inequality. Education was important to explain the degree of inequality, but minimum wage policy played a major role in accounting for changes in distribution throughout the decade.

What bothered the Brazilian government the most was not the fact that Fishlow was showing that inequality had worsened, but the reasons he presented to explain it.

The increased inequality thus measures the failure of the conventional monetary and fiscal instruments applied during the Castello Branco administration. In a larger sense, however, the result was accurately indicative of priorities: destruction of the urban proletariat as a political threat, and reestablishment of an economic order geared to private capital accumulation. (Fishlow 1972, 400)

Delfim Netto, in correspondence of 27 November 2018, expressed the view that “the problem with Fishlow” was his perceived “disloyalty”. He “had access to data provided by the government”, thus he should have, at least, submitted his results to an analysis, so that some sort of replication could be “published along with his article”. Roberto Campos shared that feeling:

I was angry with Fishlow because he was part of the Howard Ellis's mission from the University of Berkeley that had been hired to give me technical assistance in the Economic Planning Ministry. Instead of formulating corrective recommendations and discussing them with me at that time, he made his academic critique years later. Those critiques fed the left-wing literature, which started to talk about "wage squeeze" and "distributive injustice." It even came to the absurd claim that there was a deliberate intention of the Castello Branco government to annihilate the unions in order to reduce workers' share in national output. (Campos in Biderman, Cozac and Rego 1996, 45-6)

Concerning data, Fishlow recalled (in correspondence of 9 September 2019) that “the only data I took [to Berkeley] with me was the sample I had drawn from the never published 1960 census, and from which my 1960 distribution is based. I did not take the extensive tapes from which the final census permitted Langoni's calculation. I was operating with preliminary published results, generally available.”

Hoffmann & Duarte (1972) obtained results close to Fishlow's. One of their main conclusions was that "50% of the paid population" in Brazil had a monthly average income so low that one "can consider them outside organized consumer markets". Moreover, not only had inequality increased, but also “per capita income of this [poorest] part of the population may have suffered some reduction”, and “in the subsequent three deciles, average incomes have had negligible increases”. (Hoffmann & Duarte 1972, 58, 60).

If the criticism of the "Brazilian model" had been restricted to academic circles, its impact would probably have been less profound. Things changed on April 1972, when Robert McNamara said at his UNCTAD speech:

In the last decade Brazil's GNP per capita, in real terms, grew by 2.5% per year, and yet the share of the national income received by the poorest 40% of the population declined from 10 in 1960 to 8% in 1970, whereas the share of the richest 5% grew from 29% to 39% during the same period. In GNP terms, the country did well. The very rich did very well. But throughout the decade the poorest 40% of the population benefitted only marginally. (McNamara [1972] 1981, 174)

Shortly after that speech, Delfim Netto visited McNamara at the World Bank headquarters in Washington. As McNamara vividly recalled in an interview years later,

So Delfim Netto came up here and just gave me hell. The first time he gave me hell because the figures were wrong. Preparing for this meeting I checked back as to the origins of the figures: I learned they were basically Al Fishlow's, that they were based on tapes

that he obtained from the Brazilian government ... The second time he came, argued “Well, that’s what you’d expect, that they were – the income distribution is skewed because at this stage in our development income is a function of education. You can’t expect to educate all people overnight, so you have skewing”. I said, ”Hell, you ought to look at Sri Lanka, whatever. That’s not an answer, clearly” ... The third time he came in he said, “Okay, A, you’re right, the income is skewed; B, it’s not solely a function of education; C, I would agree, you know, it’s mispricing of capital and subsidized interest and all the rest of the stuff.” (McNamara 1991, p. 83)

Troubled by foreign critiques, the government decided to counterattack.

3. “Let the pie grow before sharing it”

Even before the Fishlow-McNamara assessment, Simonsen (1972a, 4) published a newspaper article in March 1972 with reactions to Hoffmann (1971) and Duarte (1971). He admitted that “statistical evidence, although precarious”, suggested a worsening in income distribution. In a book published few months later, Simonsen reproduced much of what he had said, with a more aggressive rhetoric against the critics. After making some caveats about the quality of the 1970 census, he appealed to a somewhat exotic hypothesis to debunk the results. He assumed that in 1960 the level of tax evasion was higher than in 1970 and that the interviewed population in 1960 used to report an underestimated level of income, in order to make it compatible with what they declared on their income taxes. Consequently – wrote Simonsen (1972b, 50) – “the simple fact that the richer classes declare their income with more trustworthiness in 1970... could generate an illusion of an increase in concentration indexes”.

Because data was not good, Simonsen (1972b, 50) wrote that “the debate on the increase of income concentration from 1960 to 1970 can only be sustained with a fair dose of statistical dishonesty”,

which did not preclude analyses of the kind performed by Hoffman (1971), Duarte (1971) and Simonsen himself. Simonsen, as the intellectual creator of the wage readjustment formula implemented in 1965, admitted that it had provoked “a fall in real wages”, but that trend would have been reverted after 1968 when the formula changed.

Simonsen (1972a; 1972b) claimed that all classes had improved their welfare. “The share held by the poor” in output, “although it has fallen, now corresponds to a significantly larger pie”. He believed it would be possible to improve income distribution through more generous wage adjustment: “The poor classes would increase their share of the pie, but the price would be stagnation, or at least, a brake in the pie’s growth” (Simonsen 1972a, 4). Simonsen (1972b, 64) repeated that argument: “When the pie is small, it is necessary to reproduce the old cliché: it is no use to share poverty before creating wealth”. Simonsen was probably inspired by a phrase introduced in the 1970 edition of Samuelson’s influential *Economics*: “In seeking a *better* division of the pie, you will *reduce the size* of the pie by creating *distorting inefficiencies*” (Samuelson, 1970, 834, italics in the original; see also 767). That is, redistributive policies may not be Pareto optimum (see Boianovsky 2019).

The *pie* metaphor was widely used in Brazil, to a larger extent than abroad. Many still remember the motto “let the pie grow before sharing it” (*primeiro deixar o bolo crescer para depois distribuir*) as the official distributive doctrine during the military regime. The phrase is commonly credited to Delfim Netto, something he fiercely denies. He told us in correspondence of 27 November 2018 he believes “the phrase was stupid”, as it could only be applied to a socialist regime in which the “capital goods industry grows without concomitant development of the consumption goods sector”. Even though Delfim never used the pie metaphor – we could not find it in any archives – he occasionally espoused a similar belief. In 1973 he stated: “A poor country cannot ... distribute an income that it does not have ... the basic problem is to grow and distribute the income off a larger production” (Delfim Netto, 1973, 22).

On 16 April 1972, when interviewing Delfim Netto, journalist Joelmir Beting acknowledged that the “pie is growing”, but questioned the “division of the pie’s slices” (*Folha de S. Paulo*, 1972). Shortly after, on 2 July 1972, *Jornal do Brasil* (“JB” henceforth) asked D. Avelar Vilela, vice-president of the

National Conference of Brazilian Bishops, his opinion about the “proposition that it’s necessary to make the pie grow first in order to take care of its distribution later on” (p. 43). The thesis that it was “necessary to let the pie grow before sharing it” was seen as central to Langoni’s 1973 book (JB, “A renda mal distribuida”, 28 July 1974). The metaphor became widely and critically used after the publication of the second National Development Plan (II PND), at the outset of General Geisel’s term as President, with its view that distribution should improve together with economic growth. The document (elaborated by IPEA) rejected the “theory of waiting for the pie’s growth” and instead argued for redistributive policies “while the pie grows” (Brasil 1974, p. 69).

Roberto Campos did not deny Brazilian inequality. However, he believed “this injustice is characteristic of periods of intense capital accumulation”. He defined the critics as “left-wing intellectuals that consider obscene Brazil’s boldness in practicing a capitalistic model of development” (Campos 1972b, 2). According to Campos “the unpleasant truth is that the objectives of social justice and economic development are to a certain point conflicting in the short run”, and that “the acceptance of a high level of income concentration” was “the most rational policy for an underdeveloped country, needy of savings” (Campos 1972b, 2). The “enemy” of the Brazilian growth strategy was exactly “distributionist populism” (Campos 1972c, 50).

Delfim Netto (1972b, 6) acknowledged that “bad income distribution” was “a fact”, but Brazil had had it forever. He defended the regime by saying that inequality in Brazil was similar to what prevailed “in the USA during the 1930s”. He insisted that the Gini index revealed nothing about welfare, since everybody was getting better, despite higher inequality. Campos, Simonsen, and Delfim Netto all agreed that income concentration was a natural market outcome and that any attempt (besides those already implemented by the government through its social policy; see Skidmore 1988, p. 144) to “artificially” distribute income would harm growth, leaving only poverty to share. Other authors close to power, such as Kingston & Kingston (1972, 71-2), also posed the trade-off in those terms: “concentration or low average income”.

A “senior officer” from Brazil defined the country in 1973 as “an *economic* dictatorship with the support of the military” (NYT 1973, 8). The economic technocracy had decided that “the priority” was economic growth. “Growth for its own sake, growth as a panacea for all ills”, while “distributionism has become an enemy of the State”, as Fishlow observed (NYT 1974, 37). The policy makers’ reactions were unsatisfactory. Disqualifying the censuses data and the statistical tools used, or claiming that inequality was the unavoidable other side of economic growth, were fragile rhetorical devices. “The government realized that it was necessary to have an academic counterattack ... Delfim understood everything quickly” (Langoni 2019, 52).

Langoni’s 1970 Chicago thesis was based on T. W. Schultz’s and G. Becker’s human capital theory. Its main result was that the return rate of investing in education in Brazil was almost two times the rate observed on fixed capital investment. Back in Brazil, Langoni lectured at two of the most influential schools of economics, responsible for educating the elite of the bureaucracy: FGV-Rio and USP. In São Paulo, he attended regular meetings promoted by Delfim Netto with young staff members from USP. A “Delfim was still more an academic than a politician”, Langoni (2019, 48) recalled.

When Fishlow's paper appeared, Delfim realized that it was serious and deserved qualified discussion. It was not only a question of defending the government's policy. It was necessary to deepen the debate. Therefore, USP staff asked me to prepare a commentary on Fishlow's study... At the meeting, I made this connection between these two themes [education and distribution]. Delfim liked it very much and proposed: "Let's do something serious. Langoni, could you do a research on income distribution? We will support you..." The Ministry of Finance formally requested a study from [USP], and I was in charge of doing it. (Langoni 2019, 48-52)

Shortly after, in June 1972, the weekly magazine *VEJA* published the first results of Langoni's research. One of them, quite relevant for the government’s narrative, was that "in none of the [income] brackets, an

income decrease was observed - that is, everyone has increased their income, except the illiterate who remained where they were in 1960” (VEJA 1972, 68).

The magazine also featured a short text by Fishlow. In the introduction to the article, the publication warned its readers that "VEJA considers little realistic many of Fishlow's theses" (VEJA 1970, 70). As the press was under censorship, it is difficult to know to what extent such a warning reflected the thinking of the magazine. In the face of poverty and starvation, Fishlow believed that for those people, “the aid should not be postponed into a remote future” (Fishlow in VEJA 1972, 71).

VEJA also interviewed Delfim Netto. The Finance Minister raised doubts both about the quality of the censuses data and the Gini index itself. “It is clear that the ideal of distribution... is that everyone receives the same wage. This is the ideal of the Gini coefficient, not mine. That should raise a suspicion about this coefficient” (VEJA 1972, 72). Delfim claimed that it would only be possible to redistribute income if “the Brazilian society decided to reduce economic growth” (ibid). Asked by the journalist how he knew Brazilian citizens preferred growth to distribution, Delfim presented *anedoctal evidence*: “this is easy to know, anyone can discover it with their personal contacts... it is evident that Brazilian society as a whole made an option for development” (ibid, 74).

A few month after that, Langoni published a paper in USP’s academic journal, which is an earlier version of his 1973 book. The impressive pace with which Langoni finished his research was due not only to his capacities, but also to government’s assistance.¹⁰ Langoni (1972, p. 5) acknowledged support from two analysts from SEPRO, Brazil’s federal data processing service. The Brazilian government also granted Langoni access to privileged microdata, not available to other researchers¹¹. The general perception among oppositionists was that Langoni’s work – a “study ordered by the Finance Ministry” as VEJA described it – was an official academic response to government’s critics.

In November 1972, Langoni (1972b) published a newspaper article summarizing his findings. In the introduction, an anonymous author stated that “following the phase of accelerated growth”, Brazil

¹⁰ Langoni had written his PhD thesis in 6 months.

¹¹ See Morgan (2018, 142); Veja (1972, 68). In correspondence of 4 February 2019, Hoffmann pointed out that only powerful computers – such as those used by Langoni and Fishlow at SERPRO and Berkeley University respectively – were able to process microdata at the time.

would reach “a phase in which the growth of per capita income would be associated with lower levels of income concentration”. In the preface to Langoni’s book, Delfim Netto noted that income distribution had become one of “the most controversial issues” in Brazil, exactly “at the moment when the success of our model of economic development implemented in 1964” showed its accuracy. Delfim recognized that the publication of the census “allowed us to verify an increase in income inequality between 1960 and 1970” (Delfim Netto, in Langoni 1973a, 13). In a criticism addressed to Fishlow (1972), he claimed that

Some people of little imagination, with more ideology than theory, tried to pin the blame in the economic policies implemented during the second half of the 1960s, with the major responsibility for what has happened. Others... even suggest a tradeoff between a few percentage points of economic growth for proportional reductions in concentration indexes, a confidence trick (*conto do vigário*) that ends by leaving the country sharing poverty in a more equitable way [...]. Langoni proves that the observed increase in inequality is a direct consequence of the market disequilibrium typical of the process of economic development. (Delfim Netto, in Langoni 1973a, 13)

Langoni (1973a, 78) exempted wage policy from any influence, claiming that it is “important to recognize that the minimum wage has been declining in real terms since 1961, and that the policy of wage contention initiated in 1965 and 1966, was an appendix to the anti-inflationary policy”. Moreover, Langoni (1973a, 15) argued that “there is a set of forces working in the direction of *increasing* the level of inequality in an economy in which the level of *per capita* income is still relatively low, but where growth rates are extremely high” – a Kuznets’s curve-like reasoning (Kuznets 1955). Langoni (1975, 2) clarified that his concern was the “long-run distributional consequences of the economic development process, rather than focusing on specific policy measures”.

The first paper to use the term “Kuznets curve” according to *Jstor Database* was Pyatt (1977)¹². In a newspaper article from December 1973 Langoni cited Paukert (1973), who had shown that the relation between per capita income and the Gini index behaves as a parabola. According to Langoni, “the experience from those countries is irrefutable evidence that the increase in inequality is an unavoidable consequence of the process of economic development”. Since those countries had adopted different economic policies, those who blamed the post-1964 economic policy as the main cause of higher inequality were wrong (Langoni 1973b, 18).

The Brazilian government treated Langoni (1973a) as an official response¹³. As a consequence, some tried to undermine Langoni’s research, treating it as a piece of propaganda instead of scientific work. Fernando Henrique Cardoso, without referring explicitly to Langoni, criticized the “reduced credibility” of those “*status quo* technocratic apologists”, who tried to persuade “the public opinion” by using “exoteric” mathematical language, and worked to justify “current government and dominant order” (Cardoso 1975, 9-10). Cardoso also suggested that the sophisticated econometric instruments were only smokescreen, witchcraft to distract the masses from the debate and to please the government. However, Cardoso realized that there were issues that demanded attention, such as the “spurious” statistical relation between education and income distribution.

4. The Critics

Cardoso’s tone was shared by other critical assessments, which dealt with the following issues:

(i) Like Simonsen, Langoni was an apologist of the regime, who used econometrics to deceive people into believing that inequality was a “natural” result, and that only economic growth could provide a proper – and also “natural” – income distribution pattern (Cardoso 1975, 9-10; Serra 1973, 134; Wells 1974, 9).

¹² Abramovitz (1986, 243) cites Bacha (1979) as a pioneer in the “Kuznets curve” empirical literature.

¹³ Simonsen (1973, 43), for instance, praised Langoni’s book in a review.

(ii) He ignored explanatory hypotheses other than human capital. For instance, he did not consider the possibility that wage readjustment formula could have had any impact (Wells 1974, 15). Even Simonsen admitted that it was “likely” that the wage policy had reduced real wages, as Fishlow (1974, 165) remarked. Moreover, Langoni’s model suffered from omitted variable bias.

(iii) Causality and the “identification” problem were also discussed. Langoni argued that education decided productivity, which determined remuneration. Critics pointed to the influence of family income on individuals’ schooling years. Fishlow (1972, 398) had already observed that the “assumption that inequality is directly affected by the rate of return and number of years of schooling alone is a long leap of faith”.

(iv) Langoni had privileged access to data; other researchers were not able to replicate his results or to develop a more robust critique of his analysis (Hoffmann 1973, 9; Malan & Wells 1973, 1104).

(v) The international evidence that income inequality would decline as income per capita increased was fragile. Langoni overlooked links between personal and functional income distributions, as well as the role of assets ownership in wealth distribution (Fishlow 1974; Hoffmann 1973).

In 1972 the weekly *Opinião*, which opposed the government, printed an anonymous article about the economic “miracle”. When analyzing Langoni’s results published by *VEJA*, the author stated:

[Langoni's] reasoning recalls Simonsen's explanation that there was concentration of income because of the 'exuberance of profits' of the richer classes. In both cases it would be fair to ask whether it was not exactly the opposite that happened ... Are the two economists not calling causes the consequences of the Brazilian economic model? [...] Worse than that, are Langoni and Simonsen not treating public opinion as naive, ready to accept any sophism? [...] Is this contempt not accompanied by the intention of throwing sand in the eyes of those who have them open, so that the 'miracle' is not demystified? (*Opinião* 1972, 14)

The publication also reproduced an excerpt attributed to Langoni, a response to the criticism in point (iii). Langoni wrote: "Many people believe there is a vicious circle between income and educational opportunity; that is, the individual's social situation determines his access to education. There is no empirical evidence for that" (Langoni in *Opinião* 1972, 14). Hoffmann (1973, 10) pointed out that, in the absence of "political variables" in Langoni's model, "a fair share of the government's actions is 'explained' by the variable education. (Something one can obtain by using a lot of econometrics!)"

In August 1973, an international conference brought to FGV-Rio some world-famous economists (see Chenery et al 1974). The conference provided further evidence of the discussion of Brazilian distribution issues in international forums. In his lecture, Myrdal (1974, 363) pointed out that "there are people who think it necessary to have a high national income so that a more equitable [income] distribution can be generated, but I disagree with that; the distribution can be made at any stage", as illustrated by the Swedish Welfare State. Similarly, Chenery (1974) claimed that many of Brazil's problems had their origin in its unequal income distribution, and argued that it was possible to redistribute income without hurting economic growth.

The first annual conference of ANPEC took place in November 1973 (that is still the most important Brazilian economic gathering), with a session on "income distribution". Many of the texts were later collected in Tolipan & Tinelli (1975), which gathered together authors critical of Langoni's thesis – as Langoni said in conversation with the authors on 18 January 2019, he was not invited to participate. Belluzo (1975) and Tavares (1975) illustrate the use of heterodox economics to discuss Brazilian distribution patterns. The contemporary "Cambridge Capital Controversy", with its dispute between marginal productivity theory and Ricardian surplus approaches (Harcourt 1972), provided part of the background for the Brazilian debate.

In its December 1973 issue, *Pesquisa e Planejamento Econômico* (PPE), an IPEA outlet, published a review of Langoni's book by Malan and John Wells, a British economist who came to Brazil to do empirical work for his 1977 Cambridge PhD thesis, upon a couple of years obtaining his masters degree with Fishlow at Berkeley. The tone used by the authors was quite critical:

A year has passed since the limited and confidential circulation of Prof. Langoni's work, until its presentation to 'the general public' as a book... Throughout that year the book has become a 'classic'; that is, a work that (almost) everybody has heard of and (almost) nobody has read, because (almost) everybody is satisfied with the interpretations that suit their idiosyncrasies. (Malan & Wells 1973, 1103)

Malan & Wells (1973, 1104) observed that "Langoni's access to individual data from the 1970 census allowed him – unlike others – to describe the personal income profile for 1970, without the necessity of any adjustment". In line with Hoffmann (1973), the authors were also surprised that "Langoni simply ignores, in a deliberate way, the existence of alternative interpretations to his own on the causes of the increase of inequality, particularly those that emphasize economic policy throughout the decade".

In Langoni's model, income differences among individuals are explained by five variables: education level, age (as proxy for experience), gender, job and place of residence. Those variables explain 51% of the variance in personal incomes in 1960, and 59% in 1970. Malan & Wells (1973, 1112-4) believed the model is "unsatisfactory", since its "variables leave a substantial fraction of the difference in incomes variance 'unexplained'". Thus, the "variables used not only have... a reduced explanatory power, but it is likely that they are masking the real explanatory variables". Malan & Wells (1973, 1120) believed Langoni's model was more "a *justification* of what effectively happened", than "a scientific attempt to explain the *causes* of what happened".

PPE published a reply from Langoni, who would have demanded that it should appear without a rejoinder. The editor published a special issue to accommodate Langoni's request. In the face of such interference, some members of the editorial advisory board resigned from their positions, including Bacha, as he told us in correspondence of 6 December 2018. PPE unilaterally decided that the debate was over. Malan, in conversation with the authors on 10 May 2019, recalled he was "kindly requested" not to

publish his rejoinder in PPE, which did not understand that as censorship¹⁴. The debate would continue in other journals, with Malan (1974a) and Wells (1974). The latter was able to show, by using non-census *annual* data about earnings in industry and services sectors, that the highest increase in inequality took place in 1965-66 under the new wage policy, not in 1968-70 when economic growth accelerated.¹⁵

In his reply, Langoni (1974, 168) retorted that the explanatory power of his model was “entirely satisfactory”, citing Griliches & Manson (1972), whose model explained less than 30 % of income variance. According to Langoni, this and other critiques of his econometric model would only show that the critics “simply did not understand the methodology used” (ibid, 171). In a further reply, Malan (1974b, 78) said it was “ridiculous” to answer to that charge, which meant to make him and Wells look “incompetent”. Against Malan & Wells, Langoni (1974, 77) claimed that “there is extensive international evidence ... endorsing the model’s prediction, that, in the long run, there is a tendency to reduce inequality levels”.

Malan (1974a) observed that the debate was “restricted to a few authors and meager audience”, and that there was a simplistic division between a “scientific” position on one side, and a “political” one, on the other. The “regime” saw Langoni as scientific, while its critics were political and blinded by ideologies. The “opposition”, in contrast, saw Langoni as supporter of the then current economic policy. The first oil shock in 1973 brought the economic “miracle” to an end, although the 1970s average GDP growth rate remained high (8.7 %). Nonetheless, the 1980 census would show a further worsening in income distribution, with the Gini index increasing from 0.561 in 1970 to 0.592, despite some reduction of poverty.

Bacha’s (1974a) term *Belindia*, coined in a contribution to *Opinião*, became another influential and critical metaphor of the Brazilian economy under the military rule. Brazil was perceived as the combination of a small rich *Belgium* surrounded by a large poor *India*. In Bacha’s fable, the “King of Belindia” is bewildered at a visiting economist’s revelation that the rate of growth would be low if the

¹⁴ Malan mentioned that episode in D’Araújo (2005, 63-4)

¹⁵ This has been confirmed by Souza’s (2016, chapter 6.2) and Morgan’s (2018, chapter 4.1) investigations, based on annual income tax data, which indicate an increasing share of top incomes from 1964 to 1971.

adopted weighting scheme was poor-based and democratic-based, instead of rich-based (see also Taylor and Bacha 1976 for an analytical take). Bacha's (1974b) own explanation of income concentration was based on the perceived wage squeeze together with the notion that income differentials reflected firms' organizational hierarchy and profit rates instead of skills, as indicated by sample data.

From a statistical perspective, the income distribution debate has been seen as inconclusive, as it is often the case in economics. American economist Samuel Morley (1982) provided what may be regarded as its last (but debatable) installment. A member of the original Berkeley 1965-67 mission, his conclusions differed from Fishlow's. Morley argued that Brazilian trickled-down economic growth was accompanied by larger social mobility and narrowing of wage differentials, especially after the end of the "miracle" period.¹⁶ The main drawback of the growth strategy, Morley (1982, p. 292) claimed, was political, as democracy was sacrificed to the growth imperative.

Paul Samuelson (1973, 871) described the Brazilian military regime in his *Economics* as a "fascist" dictatorship that imposed hardship on trade unions, intellectuals and the press – but, unpleasantly enough, was able to accelerate economic growth. That passage was removed from the Brazilian 1975 translation, after pressure from Brazilian economists (Eugenio Gudin and Campos) and the Brazilian publisher in correspondence with Samuelson (Gaspari 2003, 264-68). However, Samuelson (1980, 816) would again refer to Brazil as illustration of "capitalist fascism" featuring "superlative" growth accompanied by "unusual disparity" in income distribution (see Boianovsky 2019).

5. Conclusion

The 1960s and 1970s turn to authoritarianism in developing economies such as Brazil, that displayed high growth rates, made a mark on the evolution of development economics. As put by Hirschman (1981, 21),

¹⁶ Morley (1982) referred to Pastore (1979), who used age-specific income distribution data to argue that there was upward social mobility in Brazil both between and within generations, despite the increasing Gini index. Then Minister of Finance Simonsen (1978) claimed that, if corrected by age factors, the (adjusted) Gini index increased little in the 1960s, which raised criticism from anti-government economists.

in a “Freudian act of displacement”, development economists “‘took out’ their distress over the political side on the weaker aspects of the economic record”, that is, income distribution. Within authoritarian countries, that was reinforced by censorship that was more rigorous regarding political dissent than economic criticism. The concern with economic injustice, over and above economic growth, became pervasive. The origin of the concern with inequality – which became a main theme in development economics – was the Brazilian controversy of the 1970s, as started off by Fishlow’s (1972) findings and McNamara’s alarm (Hirschman, 22). That was also the period when economists shifted from functional to personal income distribution as their main focus (Sandmo 2015).

The Brazilian debate illustrates the role of statistical evidence in political controversies. The political economy of numbers comes out in Simonsen’s skepticism about the reliability of data, in the interpretation of what the Gini coefficient actually captures, and in the double standards used by the government regarding transparency. This is connected to the ways in which the technical nature of economics was used as a rhetorical weapon. Langoni’s access to microdata allowed him to deploy more sophisticated techniques, which were challenged by the critics. All the same, Langoni’s study established once and for all the *fact* of increasing inequality, even if its *causes* remained heavily disputed. As some other participants in that debate, Langoni was trained in the US. The “Americanization” of Brazilian economics started in the early 1970s was behind the conversation between supporters and critics of the authoritarian regime.

The technical dimension of that debate may explain the role played by metaphors in non-academic discussions and even in official documents. Hence, the *pie* metaphor became a dominant way to express the critical attitude toward the notion that early redistribution would hurt economic growth. That metaphor encapsulated for a broad audience the Kuznets curve hypothesis, contested throughout the controversy. Indeed, aspects of the criticism of that curve have come back recently in broader fashion in Piketty ([2013] 2014, 13-24) and others.

What bothered the Brazilian authoritarian government was not inequality but poverty, which affected political stability. The two issues were often intertwined, as in Fishlow (1972). However,

economic growth may take place and poverty may decline despite increase in inequality. That was the official rhetoric. Moreover, it is politically easier to fight poverty than inequality. Whether poverty actually declined during the military regime in the 1960s has remained a moot point. Two contemporary articles by World Bank economists reached different conclusions (Fox 1983; Pfefferman & Webb 1983). Infant mortality rates increased every year from 1965 to 1973 in the city of São Paulo (Bacha 1977, p. 64), indicating that the benefits of economic growth did not easily reach the poor sections of the population. The Brazilian 1970s controversy over income distribution proved to be seminal for the political circumstances in which it occurred, its international dimension, and implications for development economics at home and abroad.

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