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State–society cycles and political pacts in a national–dependent society: Brazil

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Abstract. The history of independent Brazil may be divided into three major state–society cycles, and, after 1930, five political pacts or class coalitions can be identified. These pacts were nationalist; only in the 1990s did the Brazilian elites surrender to the neoliberal hegemony. Yet, since the mid-2000s they have been rediscovering the idea of the nation. The main claim of the essay is that Brazilian elites and Brazilian society are “national–dependent”, that is, they are ambivalent and contradictory, requiring an oxymoron to define them. They are dependent because they often see themselves as “European” and the mass of the people as inferior. But Brazil is big enough, and there are enough common interests around its domestic market, to make the Brazilian nation less ambivalent. Today Brazil is seeking a synthesis between the last two political cycles – between social justice and economic development in the framework of democracy.

Key words: state-society cycles, political pacts, capitalist revolution, dependency,

Countries that experienced capitalist revolutions in the 18th and 19th centuries and are currently rich have all developed within the framework of a national project. In the 20th century, backward or latecomer countries underwent a similar experience, but one that was even more significant because they had to face an obstacle from which their predecessors were spared: they had to face the modern industrial imperialism of the countries that had industrialized in the previous two centuries. A backward country either asserts itself as a nation, builds a state, and defines a national development strategy, or it grows slowly and fails to attain the living standards of the rich countries.

In this process of social construction it is usually a political elite that takes the initiative, but in the end it is the state that drives economic development. Subsequently, in the process of democratization that follows the capitalist revolution, the civil society and the nation become legitimate intermediaries between the society as a whole and the state. In this theoretical framework, nation and civil society express the basic social contract that exists in modern societies. But while these forms of political organization of society are not strengthened, a second way of organizing it politically is through development-oriented pacts. In this case, the legitimacy of the state and its leaders is still based on the support they enjoy in the civil society or in the nation, but, more concretely, it now requires the class coalition that holds political power to succeed in promoting economic development. In such coalitions we must make a distinction, within the capitalist class, between the entrepreneurs and the rentier capitalists,¹ and, within the techno-bureaucratic or professional class, between the public and the private bureaucracies. Developmentalist pacts always imply a coalition between industrial entrepreneurs and the public techno-bureaucracy; and when it comes to a popular coalition, it also implies the participation of the popular classes.

In this essay I present an interpretation of Brazilian society based on the assumptions I have just spelled out. In order to understand it, I distinguish three *state-society cycles* through which Brazilian society has passed since it gained its independence in the early 19th century, and five *political pacts* or class coalitions since the 1930s. And I start from a basic assumption – that Brazil's bourgeois, political and intellectual elites are essentially ambivalent or contradictory regarding the national issue. Therefore, I argue that the idea that became dominant in Brazilian social sciences in the 1970s, and persists to this day, according to which there is not, nor has there ever been, a national bourgeoisie in Brazil, is false. And equally false is the opposite idea, namely, that Brazil's industrial bourgeoisie is as nationalist as the bourgeoisies of the rich countries by the time of their development, and as are today the capitalists and the professionals in the fast-growing Asian countries.

Each individual will be nationalist or dependent, according to her understanding of the role of her government and state. She will be nationalist if she believes that the government should defend the interests of the national workforce, knowledge, and capital, and if she thinks that it should therefore listen to its citizens rather than

accepting without criticism the policies and reforms proposed by the supposedly more competent individuals and institutions of rich countries. But this does not mean that the nationalists are not interested in the ideas developed in rich countries. For instance, the Japanese, after the humiliation they suffered in 1853, when the West forced them to open their country to international trade, achieved the first modern nationalist revolution, the 1868 Meiji Restoration, whose fundamental guideline was to imitate Western technology and institutions. Thus appeared the first case of a latecomer capitalist revolution – a development that, to be achieved, had to face the modern imperialism of the currently rich countries. The elites in Latin American countries find it more difficult to identify themselves with their nation than did the Japanese (and, more broadly, the Asian) elites, because some of their members see themselves as “Europeans” and reject the idea that the interests of their country conflict with those of the developed countries. These “European” elites often regard their poor and mixed-race fellow-citizens as inferior – and associate with foreign elites rather than with their own people. It is not surprising, therefore, that the dependency problem is more serious in Latin America than in Asia. But we should not therefore conclude that Latin American and Brazilian elites are always dependent. Given the inherent ambivalence of those elites, a more appropriate interpretation of Brazil is that it is a *national-dependent* society.

The State and Territorial Integration Cycle

Brazil established the preconditions for its national and capitalist revolution in the 19th century, when it achieved the unification of the national territory and began the process of modernization through growing and exporting coffee, and through the employment of the necessary wage labor. In the classical discussion about who was responsible for building Brazil – whether the society or the state, whether the nation or the patrimonial elite that ruled the imperial state – there is little doubt that, in contrast to what happened in Britain, in France, or in the United States, initial responsibility lay with the state, or, more precisely, with the politicians managing the state apparatus. In 1822 the small Brazilian population, spread as it was across a huge territory, could not be considered a nation. But the state – a patrimonial state – was a reality. Despite all the reservations we may have against it, it was Portugal’s great legacy to Brazil. When D. João VI fled to Brazil in 1808, he brought this state with him – its laws, its practices and its bureaucracy. It is this bureaucratic apparatus and this legal system that the Brazilian

elite of that time used in order to adopt a constitution and, subsequently, to build a nation-state. It was an elite consisting of a patrimonial bureaucracy, landowners and slave traders. It was, therefore, a heterogeneous elite, and, except for the patrimonial bureaucracy, with no idea of nation and state.

It is from this base that the three major political cycles of Brazilian development arose – cycles that marked the relationship between the society and the state – in the history of independent Brazil. The first cycle involved the formation of the state and the integration of the territory under its command, and covered the Empire period; I call it the State and Territorial Integration Cycle. After a transitional period that corresponded to the First Republic, we have the second cycle – the Nation and Development Cycle – which ran from the 1930 Revolution to the mid-1970s and coincided with Brazil's capitalist revolution. Finally, as of the mid-1970s, when the capitalist revolution could be reasonably considered as “completed”, Brazil was ripe for democracy. Although an authoritarian regime was in office and social inequality had achieved new highs, the fight for democracy and for the decrease in inequality gained strength; I therefore call this new cycle the Democracy and Social Justice Cycle, the state–society cycle that was completed in the mid-2000s. Since then, a synthesis may have been occurring between the second and third political cycles – a synthesis that might be characterized by a developmentalism that is not just economic but also social and environmental. But it is still too soon to evaluate this change.

In the 1950s, the great nationalist intellectuals from the High Institute of Brazilian Studies (ISEB)² taught that Brazilian history was divided into three periods: colonial, semi-colonial (Empire and First Republic), and the period of the national and capitalist revolution. I accepted this periodization, but I have always been bothered by the idea that all the major political players of the Empire had ultimately ruled over a “semi-colonial” period. In fact, during that period there was neither nationalism nor the idea of a nation. Cultural subordination to Europe was absolute. And the development that did occur – particularly coffee development – had no significant support from the state; it resulted from the initiative of an agrarian bourgeoisie that had abandoned slave labor, hired immigrant workers, and was able to profit from the opportunity presented by coffee production to pass from a mercantile and patriarchal capitalism to a capitalism

wherein the modern idea and practice of productivity were already present, albeit imprecisely.

But besides this economic achievement, a great political enterprise got under way in imperial Brazil. It was the enterprise of integrating the Brazilian territory, of extending the law of the state to the country's whole population. Today, when Brazil has an effective state, we are worried when drug dealers challenge it, trying to extend their jurisdiction over the slum areas. In the 19th century the "stateness" problem – the assertion of the power of the state and the law over the whole national territory – was a more serious problem.³ National integration simply did not exist. The communication and transportation difficulties were huge. Revolutions seeking provincial autonomy, slave rebellions, the appearance of "jagunços" or warlords who dominated large regions, were constant problems.⁴ The emperor's figure was important for the country to ensure a gradual increase in stateness and to achieve territorial unity, but we should recognize the achievements of remarkable politicians who fought for the integration of the national territory, such as Padre Feijó, Bernardo de Vasconcelos and the Visconde do Uruguai. The major parliamentary debate was that between the conservatives, who supported unitary government, and the liberals, who favored a federation.⁵ The terms "conservative" and "liberal" had little connection with their corresponding expressions in Europe. The conservatives were not trying to maintain order through the preservation of traditions, nor were the liberals seeking freedom at the expense of public order. The liberals defended the federation, but the conservatives eventually prevailed throughout most of the Second Empire because, at a time when a centralized government was a necessary condition for the country's territorial integration, they defended the unitary nature of the Brazilian state. As a result, a conservative patrimonial political elite, representing its own interests and those of the landed and mercantile classes, contributed to the formation of the state and to the country's territorial integration. But since, on the one hand, it was involved in the slave traffic and in agricultural export production, and, on the other hand, was culturally dependent on Europe, it lacked the idea of a nation and did not promote a Brazilian national and industrial revolution. On the contrary, it generally opposed this idea, either because industry would be "artificial" in Brazil or because Brazil was "an essentially agricultural country".

Discussion about the state–society relationship raises the classical issue of priority. Generally the society, the nation, precedes the state. But this was not the case with Brazil. In the dialectical relationship between society and nation-state, the nation-state prevailed during the first cycle. This is the reason why its large patrimonial bureaucracy – which was so well studied by José Murilo de Carvalho (1980) – was politically in command of the country. Together with the landowners, it was building the Brazilian state (the constitutional and legal system and the public administration that guarantees it) and at the same time integrating Brazil's nation-state. This elite was not nationalist, was not industrialization-oriented, and did not adopt a hostile attitude to imperialism, which, as Barbosa Lima Sobrinho (1981) stressed, defines nationalism in the peripheral capitalist countries. As observed by Adrián Gurza Lavalle (2004: 41), referring to the nation issue, “the impossibility of admitting the existence of the nation-state as a given of the nineteenth century was a blind spot for a good part of Brazilian political and social thought”. The elite was, therefore, unable to build the nation-state as a nation. Yet it built it as a state and as a unified territory.

The Nation and Development Cycle

The State and Territorial Integration Cycle was complete. By the end of the Empire, territorial unity and stateness – the extension of the power of the state over society – were practically guaranteed. However, the Empire had failed by delaying a solution to the fundamental issue of slavery. It solved the problem too late, and it is no accident that the Republic was proclaimed a year and a half later, in November 1889. But the Republic did not solve the existing problems; rather, it worsened them by prematurely adopting federalism, which opened the way for the reappearance of the “coronéis” and warlords.⁶ At the turn of the 20th century it was time for the state to give decisive support to the Brazilian industry that was then beginning to operate in São Paulo. It was the moment when it was necessary to strengthen the state in order to start the national and industrial revolution, but the state was then weakened. For these reasons, I consider the First Republic as a period of transition.

But it was also the moment when the Nation and Development Cycle began at the level of society. Now it was within society and not within the state that the first important

figures of Brazilian nationalism appeared: Silvio Romero, Manoel Bonfim, Euclides da Cunha, Alberto Torres, Olavo Bilac, Monteiro Lobato, and Roberto Simonsen. At the society level the cycle reached a classical moment in the works of Oliveira Vianna, Gilberto Freyre, Sérgio Buarque de Holanda, and Azevedo Amaral; and it attained its complete definition in the ideas of the great, already mentioned, ISEB intellectuals and in the work of Barbosa Lima Sobrinho and Celso Furtado.⁷

Shifting from the society level to the state level, we must take into account a fundamental change. Contrary to what happened during the Independence period, now it was the society that preceded the state. Whereas at the society level nationalist ideas had already been gaining ground since the beginning of the century, the first development-oriented political pact appeared only with the 1930 Revolution: the National–Popular Pact (1930–59) was an authoritarian and industrializing arrangement that might also be called “national” because it included the bourgeoisie committed to industrialization, and “popular” because it included the masses. Its chief political player was Getúlio Vargas. Vargas understood both the severity of the global crisis that had begun with the New York stock market crash in 1929 and the window of opportunity that was opening for Brazil. He therefore broke the alliance he had made with the liberals (who represented the coffee and the foreign trade interests) and joined the nationalists, who were increasingly active at the political level, particularly in the “tenentismo” movement.⁸ At the same time, as a populist political leader he sought support from among urban masses for the first time in the country’s history. Vargas succeeded in bringing together in an informal pact different classes and social sectors: the emerging industrial bourgeoisie, the modern public bureaucracy that was also coming into being, the urban working class, nationalist and left-wing intellectuals, and sectors from the old oligarchy, namely, the “import substitution” sectors (which did not produce for export), such as the cattle breeders (of whom Vargas was one) from the South and the Northeast. In the opposition were the agricultural-exporting oligarchy and the foreign interests.

The 1930 National–Popular Pact benefited from the Great Depression of the 1930s, which triggered the industrial revolution. The drop in coffee prices led to a strong depreciation of the local currency, which immediately stimulated industry. And it continued to do so because, from then until 1992, the Brazilian government maintained

control over capital inflows and the exchange rate. Gradually, from 1930 on a national development strategy began to unfold – a national-developmental strategy that enjoyed extensive support in society, except from the old commodity-exporting oligarchy and the traditional middle class that worked for this oligarchy. It was a state-led industrialization, similar to the late industrial revolutions in Japan, Germany, Austria and the Scandinavian countries.⁹ For the first time in the country's history the government successfully promoted an industrialization-oriented policy, and Brazil achieved high rates of growth .

Brazil was undergoing its national and industrial revolution, that is, its capitalist revolution, and was building its nation-state. The regime was authoritarian, as were, by the way, the political regimes of all other countries at the time that they experienced their corresponding capitalist revolutions.¹⁰ In 1945, with the end of World War II, a *coup d'état* ended Vargas administration; it had lasted for 15 years, and had imposed authoritarian government in the last seven (the “Estado Novo” [New State]). In the first two years after the war, the government of General Eurico Gaspar Dutra tried to liberalize trade and the exchange rate, but the attempt was a disaster and the government was forced to return to Vargas's national-developmental strategy. In 1950 Vargas was elected president with a huge majority, but in 1954 unfounded accusations of corruption made by the liberal party, the National Democratic Union, led to another *coup* and to Vargas's suicide. But a year later, with the election of President Juscelino Kubitschek, who favored accelerated industrialization, the 1930 National-Popular Pact and its corresponding strategy were restored. However, the economic imbalance left by Kubitschek, the 1959 Cuban Revolution (which strongly radicalized the whole of Latin America), and the election of in 1960 of President Janio Quadros, a right-wing populist, followed by his resignation six months later in 1961, resulted in a serious economic and political crisis. This crisis marked the end of the 1930 National-Popular Pact and led to the 1964 authoritarian-modernizing *coup d'état*.

With the 1964 *coup*, whose origin lay in the escalation of the Cold War in Latin America and in the political radicalization generated by the 1959 Cuban Revolution,¹¹ the nationalist cycle reached its end. The industrial entrepreneurs, who constituted the national bourgeoisie – that is, a capitalist class committed to national interests – and the military, which had always been the mainstay of Brazilian nationalism and was afraid of

the communist threat, joined the commercial and financial bourgeoisie, the traditional middle class, in establishing a military regime in Brazil with the support of the American government. A new political pact – the 1964 Authoritarian–Modernizing Pact – was then formed, which, contrary to what was thought at that time, would ensure the continuation of the national-developmental strategy of the previous period. This political pact comprised the same elites as the previous pact – namely, the national bourgeoisie and the public bureaucracy (in which the military had become dominant) – but it excluded workers and left-wing intellectuals, while foreign interests, which had been significant at the time of the *coup*, were later to lose a good part of their influence. Even so, the military regime did not lose the support of the rich countries, even though the national development strategy was nationalist and gave clear priority to domestic companies over foreign ones, and even though the economic development policy was based on the state and on exchange-rate control. Developed countries continued to support the Brazilian government because the country remained open to the investments of multinational corporations and because during the Cold War the United States was not particularly engaged in determining the form of social and economic organization of the developing countries, provided that it was not associated the Soviet Union.¹² The pact was headed by the public techno-bureaucracy and enjoyed the active participation of the industrial bourgeoisie, which was to be particularly involved in the capital goods industry, whereas the state continued to invest in infrastructure and in basic commodities industries – in the case of the petrochemical industry, in association with foreign capital.¹³

In both periods of the Nation and Development Cycle – those of the 1930 National–Popular Pact and the 1964 Authoritarian–Modernizing Pact – national developmentalism was the common national development strategy. Both pacts faced the opposition of the non-industrial bourgeoisie (initially a mercantile and later a rentier bourgeoisie) associated with professional financiers and with foreign interests. However, the collapse of the 1964 Authoritarian–Modernizing Pact involved the active participation of the popular classes, and the class coalition that replaced it – the 1977 Democratic Popular Pact – was democratic and developmentalist. Two other pacts followed – the 1991 Liberal–Dependent Pact and, perhaps, from 2005 a new developmentalist pact.

Table 1 presents the periodization I am adopting: like any periodization, it has problems, but I hope that it will make it easy to understand the whole picture.

Table 1: Society and state political cycles and political pacts

Society and state cycles	Political pacts
State and Territorial Integration	–
Nation and Development	1930 National–Popular
	1964 Authoritarian–Modernizing
Democracy and Social Justice	1977 Democratic–Popular
	1991 Liberal–Dependent
	2005 Democratic–Popular?

The Democracy and Social Justice Cycle

The Democracy and Social Justice Cycle was conceived in the early 1960s, when the fight for land reform and for other “basic reforms” mobilized significant sectors of Brazilian society, including the rural workers, who had so far been excluded from political life. The 1964 military coup interrupted the process, but the exclusionary nature of the new Authoritarian–Modernizing Pact established the basis on which the ideas of democracy and inequality reduction were to prevail in Brazil. The “economic miracle” of 1968–73¹⁴ that characterized the end of the Nation and Development Cycle created the impression, among the left and the intellectuals, that economic growth was now guaranteed, and strengthened the idea that the major challenge the country faced was no longer economic development (which was being promoted by the military) but the transition to democracy and a decrease in huge social inequalities.

It is in this context that the new state–society cycle emerged, the Democracy and Social Justice Cycle. It emerged among left-wing intellectuals, both Catholic and Marxist, several of them teachers at the Universidade de São Paulo, autocratically “retired” by the military regime, and who founded the Brazilian Center for Economic Analysis and Planning (Cebrap) in 1970.¹⁵ The background of the new cycle was the 1964 *coup* and

the subsequent economic miracle. It assumed that economic development would continue, but unequally, and criticized the concentration of income in the middle and upper classes caused by the economic policy of the military regime. Therefore, left-wing thought in Brazil during the 1970s was oriented to the criticism of the authoritarian regime and of the model of highly unequal development promoted by the Authoritarian–Modernizing Pact, and to the demand for democracy and social justice.

The new cycle gathered political momentum in 1977, with the beginning of the crisis of the authoritarian regime. The crisis broke as a reaction to the 1977 “April package”, a set of violently authoritarian measures that President Ernesto Geisel adopted in that month after having maintained during the two previous years that he was initiating a “distensão” (relaxation) or democratic “opening”. The authoritarian measures were negatively received by the business class, and from then on, for the first time since 1964, the bourgeoisie withheld its broad support from the government and gradually joined the democratic forces. With this new historical fact, the Democracy and Social Justice Cycle, and, within it, the 1977 Democratic–Popular Pact, gradually gathered strength. This comprehensive political pact for democracy and a reduction in economic inequality was empowered by the economic crisis (the major crisis of foreign debt and high inertial inflation) that broke in 1980. Democracy was achieved at the end of 1984, after an extensive popular mobilization – the “Diretas Já” (Direct Elections Now) Campaign. However, at the beginning of 1987 the pact collapsed because it failed to deal with the deep economic crisis.¹⁶ The most important moment of the Democracy and Social Justice Cycle was the enactment of the 1988 Constitution – a democratic, social and participatory constitution which was critically received by the country’s conservative elites, who judged it “utopian” and “unenforceable”. Nevertheless, its most significant goal – the establishment of a universal health-care system – became a reality with the Sistema Único de Saúde (unified health-care system).

When this cycle began in the mid-1970s, the country was marked by huge inequality; 30 years later, despite the neoliberalism that prevailed around the world and was reflected in Brazil, a welfare state was installed in the country, and inequality, although still high, was significantly reduced.¹⁷ But the country of “selective modernization”, in the words of Jessé de Souza (2000: 254, 266), did not disappear; Brazil modernized, adopted “the dominant values code – the code of the Western moral individualism”, but remained an

unequal society where the poor were second-class citizens. Change would start only in the 2000s, when the Brazilian poor, benefiting from the increase in the minimum wage and from a wide range of public social services, took on a proactive political role so that in the presidential elections of both 2006 and 2010 income and class divisions were decisive issues.¹⁸

Elites and dependency

In the late 1960s, as the Democracy and Social Justice Cycle was beginning, a critique of the national-developmental or national-bourgeois interpretation of economic development gained currency, namely, “dependency theory” or, rather, “the dependency interpretation”. The national-bourgeois interpretation prescribed that developing countries should first conduct their national and industrial, or capitalist, revolution and consider a socialist revolution only later. The dependency interpretation rejected this prescription. From its Marxist-inspired perspective, it argued that developing countries’ bourgeoisies would be intrinsically dependent; they would necessarily be subordinate to the major imperial powers or to the North; their societies were not dual (that is, modern and semi-feudal or traditional) but dependent-capitalist; and so developing countries could not rely on a national bourgeoisie to carry out a capitalist revolution. This interpretation, apparently confirmed by the military coups in Brazil in 1964, in Argentina in 1967, and in Uruguay in 1968, gained currency in Santiago de Chile, where between 1964 and 1973 left-wing Latin American political exiles gathered.

Dependency intellectuals soon divided into two groups: a radical one (which favored an “imperialist overexploitation” interpretation) and a moderate one (which promoted an “associated dependency” interpretation). Both groups rejected the possibility of a national bourgeoisie and a national revolution, but while the former advocated a socialist revolution, the latter assumed it was more advisable for Latin American countries to become associated with the North.¹⁹

The dependency interpretation was correct when it criticized inequality and authoritarianism, but it was seriously mistaken regarding nationalism and the bourgeois revolution. Between 1930 and 1980 Brazil had a national development strategy, which was possible only because it had a reasonably national bourgeoisie.

Both the “imperialist overexploitation” and the “associated dependency” theories simplified Brazil’s complex social reality. There was here an element of resentment and an attempt to identify those “internally” responsible for the 1964 *coup* – a resentment that became especially clear in an essay by Caio Prado Jr. (1966), which blamed the Brazilian Communist Party (PCB) for the defeat of the left.²⁰

Yet these new ideas contained a grain of truth that explains their success and in particular explains why the associated dependency interpretation prevailed intellectually in Brazil in the 1970s and 1980s. Prado clearly did not understand that Latin America’s business and intellectual elites were ambivalent and contradictory. It is true that elites of the developing countries, particularly those of Latin America, suffer to varying degrees from cultural and political alienation. This alienation arises from an objective fact – the higher degree of development of the hegemonic country – and a set of imaginary facts – the perverse desire to reproduce consumption patterns from abroad, the belief that, in order to grow, a country such as Brazil “needs” rich countries’ capital, and so forth.²¹ But, particularly in large countries such as Brazil, many factors make such elites national: a past of struggle, the power of cultural identity, the economic interests around the internal market, and the existence of a state able to protect such interests. In Brazil, these were powerful forces contributing to an economic and patriotic nationalism. After all, Brazil may be the country of Mário de Andrade’s *Macunaíma*, but it is also the country of Monteiro Lobato’s *Emília*.²²

Summing up, we must, however, acknowledge that the nationalism of Brazil’s economic and intellectual elites is fragile, and was so particularly in the 1990s, when the elites were the victims, in varying degrees, of cultural and political alienation. But Brazilian elites, particularly the industrial bourgeoisie, are not just dependent: they are also, and contradictorily or ambivalent: partly dependent, partly nationalist.

The elites’ basic ambivalence regarding the national issue is the reason why Brazilian society is not merely dependent, but *national-dependent*. It lives this permanent contradiction, which can be expressed only by an oxymoron. Sometimes its dependency increases, as happened in 1964 out of fear of communism, or as happened in the 1990s when the neoliberal ideological hegemony was absolute, and developmentalism, after the democratic transition, had become a populist sentiment. At other times, however, it

is nationalist, because the promotion of its interests depends on the country's development. The more dependent and the less nationalist the national elites are, the closer the country will come to semi-stagnation. The less dependent and the more nationalist they are, the greater will be the probability of real development.

The collapse of the Democratic-Popular Pact

During the process of democratic transition, economic development was interrupted in Brazil and in Latin America generally by a major and long- standing financial crisis – the foreign debt and high inertial inflation crisis – that began in 1980. At first, it was essentially a balance-of-payments crisis resulting from excessive capital inflows and from the corresponding exchange rate overvaluation; in other words, it was the result of a belief in the existence of an “external constraint” and of the mistaken growth with foreign savings policy that would overcome this constraint. Contrary to popular belief, the exhaustion of the import substitution model was not one of the causes of the crisis. As Maria da Conceição Tavares demonstrated in her 1963 classic paper, this model had become exhausted in the late 1950s. Reflecting this fact, since the late 1960s Brazil was successfully pursuing a policy of exporting manufactured goods, which by the beginning of the 1980s made up more than 50 percent of its exports.²³

The military and the nationalist businessmen who in the 1970s, along with their democratic critics, accepted foreign indebtedness ignored the dramatic warnings of Barbosa Lima Sobrinho (1973) to the effect that capital is made *at home*. They ignored (as Brazilian elites still do today) the fact that the “external constraint” theory, which is supported by all kinds of economists, including structuralist ones, becomes irrelevant when the country begins to export manufactured goods,²⁴ and they did not realize that this constraint is not overcome by resorting to current account deficits or foreign savings. They did not see that the “external constraint–foreign savings” compound – a questionable structural lack of strong foreign currency to finance investments, a lack which would be “solved” by foreign indebtedness – was a mistake. They did not have at that time, therefore, the economic theory required to criticize the “strategy” of development recommended to the developing countries by the rich countries, based on current account deficits and foreign indebtedness – a strategy that prevented economic

growth in the backward countries. They ignored three facts. First, since Brazil suffered from the Dutch disease, or the curse of natural resources (the chronic overvaluation of the exchange rate caused by Ricardian rents stemming from the exploitation of abundant and cheap natural resources), it could neutralize this disease only by achieving a current account equilibrium or surplus. Second, foreign savings are not simply added to domestic savings, but mostly replace domestic savings and lead to increased consumption, to the detriment of investment. Third, by opening its domestic market to direct investment, Brazil was offering a precious asset to direct foreign investment without the possibility of gaining access, in return, to the domestic markets of the rich countries for lack of the necessary multinational corporations. The growth of the 1970s, with high current account deficits financed by foreign indebtedness, resulted in the 1980s in the huge crisis of foreign debt and high inertial inflation that would paralyze Brazilian economic development.

The crisis of the 1980s hastened the demise of the military regime. However, the democratic transition produced a euphoria in Brazilian society that soon evolved into economic populism. The new hopes materialized in the price stabilization achieved by the Plano Cruzado of 1986, but were replaced by profound popular frustration when this plan collapsed at the end of that year. This collapse was not merely an economic disaster that reignited the financial crisis; it was also a political disaster because it led to the collapse of the 1977 Democratic-Popular Pact. The theoretically ingenious Plano Cruzado was implemented in the context of the fiscal and exchange rate irresponsibility then prevailing in the country. The economic constraints imposed by the unbalanced public budget and the appreciated exchange rate that was resulting in high current account deficits were ignored. In 1987 Luiz Carlos Bresser-Pereira was appointed Minister of Finance in a setting of absolute crisis.²⁵ Economic populism was so extreme that, when he decided that it was necessary to promote fiscal adjustment, he was almost expelled from the Party of the Brazilian Democratic Movement (PMDB).²⁶ He contributed to a minimal reorganization of the economy, devalued the exchange rate, and devised a model for the solution of the foreign debt crisis which would later become the Brady Plan.²⁷ But the Plano Bresser didn't succeed in controlling inflation, and at the end of 1987, lacking the political support needed to implement the necessary fiscal adjustment and adopt a definite plan to neutralize inertial inflation, he resigned. In the late 1980s a consensus was finally achieved on the imperative of fiscal responsibility. And with the

start of the following decade trade opening began. Brazil's enterprises were no longer "infant industries" and could abandon customs protection. However, the reform ignored the fact that an important role of what was supposed to be tariff protection of industry was, in fact, neutralization of the Dutch disease. At that time, however, this was clear neither to me nor to anyone else.

The loss of the idea of nation

In the period of substantial growth in the Brazilian economy, between 1930 and 1980, the liberals and later the neoliberals (who in the past were also significantly called "free traders") were excluded from the political power system as expressed in the political pacts. They took power only for brief periods, in 1945, in 1954 and in 1960. Yet in 1991, after a four-year power vacuum caused by the collapse of the Plano Cruzado and the subsequent failure of the 1977 Democratic-Popular Pact, Brazil surrendered to the North and adopted neoliberal reforms. This change is usually dated to the beginning of the Collor administration, but in fact it occurred after the failure of the Collor Plan, when a second group of ministers assumed the administration of the country.²⁸ A new dominant political pact – the 1991 Liberal-Dependent Pact – came into being that adopted the economic reforms and macroeconomic policies prescribed by the Washington Consensus. As a result, the country returned for some time to the semi-colonial condition it had been in before 1930. How can this be explained? Given that a nation is a challenge and an everyday construction, how is it possible that a country could abandon its national and capitalist revolution, when we know that this is the condition for economic development? This regression can be explained only by the loss of the idea of the nation at a time of a severe foreign-debt and high-inflation crisis which broke out in 1980, in conjunction with the associated dependency interpretation and the ideological neoliberal hegemony that materialized in the 1990s.

All the developed nations underwent a commercial revolution and an industrial revolution and, in between the two or concurrently with the latter, a national revolution or the formation of a nation-state. Nationalism was the ideology that consolidated the formation of each nation-state: it was the feeling of solidarity that transformed populations usually endowed with common reasonable ethnic and particularly cultural identities into nations. These nations, each endowed with a secure domestic market and

with an instrument of collective action, that is, its state, began to deliberately compete in the market or in the international arena and to promote their development. In the 1950s and 1960s, Hélió Jaguaribe (1953), Guerreiro Ramos (1955) and Ignácio Rangel explained development as a process of national revolution expressed in the transfer of the centers of decision-making into the country. And Hélió Jaguaribe in particular showed that this revolution implied a major agreement between the classes, involving the entrepreneurs or the national bourgeoisie, the workers and the government officials. Nationalism had no ethnic or religious nature; it was only economic, and a source of pride for its followers since they were all involved in the formulation of a great common development project. Their opponents, at that moment, were the agricultural-exporting oligarchy, which used liberalism to avoid the neutralization of the Dutch disease through a tax on exports, and the rich countries that are not interested that developing countries have a competitive exchange rate.

In the 1980s and 1990s, however, the dilution of nationalism caused by the military regime and the critique of the associated dependency interpretation, the severity of the debt and high inflation crisis of the 1980s, and the new hegemony of the neoliberal ideology together paralyzed the Brazilian national revolution, and Brazil lost its conception of the nation. The entrepreneurs endowed with national spirit became a minority, while rent-seeking capitalists interested in maximizing the returns from investments in government debt, and the financial sector that worked for them, took advantage of the country's macroeconomic instability to ensure the maintenance of a policy of high domestic interest rates, an overvalued exchange rate and strong foreign dependency. In modern economies – characterized by knowledge capitalism or professionals' capitalism – the power of the financial sector reflects its quasi-public role of creating money and its knowledge of macroeconomic policy – a knowledge that derives from its need to hire a large number of economists to manage its own accounts and the wealth of its customers. Macroeconomic policy and knowledge of finance theory became strategic: those had or appeared to have this knowledge enjoyed more power. In the Brazilian case, such power was enhanced by chronic macroeconomic instability.

A new developmentalism?

The moment when Brazil lost its national autonomy under the Collor administration coincided with the collapse of the Soviet Union and the hegemony of both the United States and neoliberal ideas. However, after the early 2000s the failure of neoliberal policies became increasingly evident, at first in the developing countries and later at the center of the world economy; and the ideological setting began to change. Certain reforms such as the privatization of non-monopolistic companies, and economic policies such as the restoration of the public finances, were necessary or advisable. But they were accompanied by mistaken policies, such as the financial opening, indiscriminate liberalization and deregulation, growth with current account deficits financed by foreign indebtedness, and high interest rates and exchange rate appreciation in order to control inflation; at the same time there was no interest in neutralizing the Dutch disease or the tendency of the exchange rate to cyclical overvaluation. Consequently, these policies caused a low level of development and a re-primarization or de-industrialization of the economy. And so we increasingly started to see members of the Brazilian elites becoming aware, on one hand, that a strong and autonomous nation-state was still important in the context of worldwide competition that is globalization, and, on the other hand, that the orthodox reform policies were promoting neither growth nor the financial stability; they guaranteed only low inflation. As a result, there was scope for thinking about a national development strategy – a new developmentalism.

From 1999 on, nationalist political leaders were being elected throughout Latin America. In Brazil this occurred with the election of Luiz Inácio Lula da Silva, of the Workers' Party (PT). The Lula administration of 2002–10 puzzled conservative elites, frustrated the most radical on the left, was hailed as a return to the idea of the nation by center-left nationalists, and dazzled the great mass of poor workers. However, the first two years of the Lula administration were marked by an economic crisis and a political crisis. This latter crisis – the “Mensalão” (vote-buying scheme) crisis – almost cost the president his position. But Lula then displayed great personal and political leadership, appealed to the people for support, and managed to be reelected with a huge majority in 2006. He ended his second term, in 2010, with an unprecedented level of popularity, and was able to choose Dilma Rousseff to replace him as President of the Republic.

Lula took on the presidency in January 2003, when the 2002 balance-of-payments crisis was at its peak, the rollover of foreign debt was blocked by the creditors, and the exchange rate approached R\$4.00 to the US dollar. While the PT was a left-wing party that criticized social democracy and pretended to be revolutionary, it had suggested radical or even irresponsible policies on taxes and public spending and on servicing the foreign debt. Knowing that this had been one of the causes of its electoral defeat in 1998, it changed the tone and the content of its proposals in its manifesto in the 2002 electoral campaign, the *Carta aos Brasileiros* (Letter to the Brazilian People). But this did not prevent the financial markets and the local business elites from distrusting the PT's presidential candidate. To this distrust was added in 2001 the Central Bank's misguided policy of increasing the basic interest rate in order to prevent the devaluation of the real and thus to control inflation. The increase in the interest rate led to an increase in the current account deficit, which weakened the country's already fragile creditworthiness. The result of this pro-cyclical economic policy and of the distrust of the new government was the balance-of-payment crisis of the end of 2002, when international creditors once again suspended the Brazilian foreign debt rollover, as they had already done in 1998, causing a new and violent devaluation of the real.

During the first two years of the new PT administration, the Brazilian economy experienced a greater adjustment of its foreign accounts than was really necessary. Faced with the crisis and the distrust for which he was partly responsible, the new president decided not to take any chances. The essential thing for him was to regain the confidence of the financial markets and, to this end, he did everything the market asked of him: he raised the interest rate and intensified the fiscal adjustment, even though the real interest rate was already very high and the adjustment had already been under way since 1999. The recession of 2003 was a reflection of this policy. It is true that inflation had also fallen, but this was due less to the recession and more to the exchange rate appreciation and to the fact that the inflationary bubble caused by the depreciation of 2002 had subsided. Faced with this mistaken macroeconomic policy, the center-right opposition, now represented by the Brazilian Social Democracy Party, which was associated with the rent-seeking and financial elites and with orthodox economists, concluded that "nothing" had changed in the new government as compared with the previous one, which therefore "demonstrated" that the orthodox policies that had been implemented since 1991 were correct.

It was a mistake, however, to say that nothing had changed. The change began in the third year of the Lula administration, on the supply side, by the adoption of a firm policy of support for manufacturing industries through several industrial policy measures, including the return of the preference for Brazilian enterprises in the state's purchases, and through the increased support of the Brazilian Economic and Social Development Bank for national enterprises. On the income side, change was expressed by a distributive policy based primarily on a major increase in the minimum wage (which increased by 50 percent in real terms over four years) and on the expansion of the "Bolsa Família" (family allowance). This policy, along with an increase in credit to households, assured domestic demand for the manufacturing industry, which, with the constant appreciation of the exchange rate, had been losing its foreign markets since the Real Plan stabilized prices, but set up a very high real interest rate and a substantially overappreciated exchange rate.

Yet the exchange rate, that had sharply devalued in the 2002 currency crisis, appreciated steadily during the Lula administration because (a) neutralization of the Dutch disease had ceased with the trade and financial liberalization of 1990–91, (b) the increase in the prices of commodities exported by Brazil aggravated this structural market failure, and (c) capital inflows grew due to the high interest rates of Brazilian treasury bonds. The exchange rate depreciated during the global financial crisis of 2008, but soon appreciated again. Finally, in 2009 Finance Minister Guido Mantega decided to counter-attack, and introduced capital controls. Although the controls were only moderately successful in stopping the appreciation, they represented a major change in macroeconomic policy.

On the other hand, the interest rate fell, partly because of the 2008 global financial crisis (which led to a fall in the interest rates in all countries) and partly because of the informal pressure exerted by President Lula and by more and more sectors of the Brazilian society against the absurdly high real interest rate implemented by the Central Bank. Although neoliberal intellectuals said that an interest rate around 9 percent would be Brazil's "natural" rate, below which inflation would increase, the real interest rate settled down at 5 percent of GDP by the end of the Lula administration, without runaway inflation.

The Dilma Rousseff administration that began in January 2011 soon demonstrated a clearer developmental approach than the Lula administration had. This was demonstrated on the supply side, where more industrial policies were implemented. Monetary policy also changed, principally after the Central Bank's decision in September 2011 to reduce the interest rate. This decision surprised the financial markets, which immediately accused the Bank of being "populist" and inflationary; but it soon became clear that the policy was a sensible response to the worsening of the international economic environment caused by the euro crisis and the weak recovery of the US economy. This change of policy by the Central Bank was possible because, for the first time in many years, its board did not include a single economist associated with the financial sector. At the beginning of 2012 President Dilma Rousseff decided to go further: she pressured the private banks to reduce their margins by asking the public banks to reduce their own margins. Most definitely, Brazil in 2012 is very far from where it was in the 1990s, when a political coalition of rentier capitalists and finance professionals was in power.

Conclusion

Given these changes in economic policy, is it legitimate to refer to a new developmentalist political pact in Brazil? In a developing country, a state ceases to be semi-colonial and becomes developmentalist only when the country achieves high growth rates that guarantee its catching up. In the 1980s the Brazilian economy stagnated, and between 1990 and 2005 it grew at a per capita rate of around 2 percent. This rate did not guarantee a catching up and was too low for Brazil to qualify as a developmental state. Between 2006 and 2010 Brazil might have so qualified as it grew at a rate close to 4 percent per annum; but in 2011 its growth rate fell to 2.7 percent, and in 2012 it will probably fall further. Indeed, even a rate of 4 percent per annum is not sustainable given the long-standing levels of the interest rate and the exchange rate in the Brazilian economy. This growth rate was possible, despite the low exchange rate and the high interest rate, because, as of 2004, the prices of the commodities exported by Brazil had greatly increased, and because Lula's distributivist policy, by expanding the domestic market, offset the industrial enterprises' loss of foreign markets. But this kind of compensation is necessarily temporary. Soon, as started to happen as early as

2010, the overvalued exchange rate, besides reducing manufactured exports, stimulated imports, which stole domestic market share from domestic enterprises. Commodity prices, in turn, ceased to grow and the recession continued in the rich countries. It is not surprising, therefore, that Brazil's current growth rate is insufficient, and substantially lower than those of the fast-growing Asian countries, including the other three BRICs, namely, China, India and Russia.

The discourse of former President Lula was distributivist rather than nationalist. The PT never accepted neoliberal ideas, but was affected by the anti-nationalism of the associated dependency interpretation. Even if it included developmentalist intellectuals, it is a party that was launched during the Democracy and Social Justice Cycle. But it seems to have already realized that this cycle is also coming to an end, and that economic development, in the broader context of sustainable development, is imperative. The discourse of President Dilma Rousseff is clearly developmentalist, or social developmentalist, since it tries to combine a reduction of inequality with nationalist and responsible economic policies.

Brazilian development will always be conditioned by its economic policy, but the essential thing is to know whether it has a political pact that allows it to define a national development strategy or a strategy of international competition. What is the situation, in July 2012, of Brazilian society and its elite? Is the elite still alienated, or are nationalism and developmentalism reviving? Even more than the Lula administration, the Dilma administration is contributing to the realization of the latter alternative, and to the formation of a new political pact that may be called the 2005 Democratic–Popular Pact. The creation, as early as 2003, of the Conselho de Desenvolvimento Econômico e Social (Economic and Social Development Board), which combined business, trade union and NGOs elites, showed a desire to re-create a national political pact. The determination of both presidents to bring together the industrial bourgeoisie and the workers was always clear. Although the penetration of the PT among Brazilian left-wing intellectuals was shaken by the orthodoxy of the first years of government, it is still significant. As André Singer (2009) remarked, the government's concessions to the conservative sectors led to a loss of support of part of the left wing; yet the president won the support of the mass of the poor Brazilian voters in a way that seems durable, and constitutes "lulism". Eli Diniz and Renato Boschi (2010: 8–9) conducted a survey of

the perceptions of the federal bureaucratic elite in the economic area, and found that a substantial portion of the interviewees saw a significant change in the Lula administration, some since the first term, others from the second term on, “when the developmentalist group expands its space within the government”.

Presidents and governments are important to the revival of a national and popular pact, but more fundamental is agitation for one in society itself. Well, in civil society or in the nation, we can also observe the social actors working toward a developmental state. For this, the fundamental association is between industrial entrepreneurs and organized workers. It is no longer possible to characterize the way they relate to each other as a “class struggle”. In May 2011, Fiesp, the trade unions CUT and Força Sindical, and the Metalworkers Union of São Paulo organized the seminar “Brazil of Dialogue, Production and Employment”, which attracted more than a thousand businessmen in a large convention center in the Mooca neighborhood. In October of the same year the trade union federations and Fiesp issued the manifesto “For a Brazil with Lower Interests, More Production and More Employment”.

There are signs, therefore, that a new democratic and popular pact is forming, bringing together businessmen, public techno-bureaucrats and workers. And, if this prognosis is confirmed, we are heading toward a new state–society cycle – a social and environmental developmentalist cycle – that will constitute a synthesis between the Nation and Development Cycle and the Democracy and Social Justice Cycle. But such optimism will be vindicated only when Brazil eventually escapes from the macroeconomic trap of high interest rates and an overvalued exchange rate that has prevailed since 1994. Progress has been made in this direction, but the political obstacles are great, given the difficulty that workers have in accepting the devaluation of the real because it will temporarily reduce their real wages, and given the even greater resistance of the agribusiness to variable export taxes – a condition for the effective neutralization of the Dutch disease. The producers will be fully compensated by the devaluation of the currency, but, as we saw in Argentina recently, they nevertheless oppose the tax.

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¹ Rentier capitalists or inactive capitalists live on interest, rents and dividends, while entrepreneurs or active capitalists live on profits flowing from their work and innovation.

² I refer to Alberto Guerreiro Ramos (sociologist), Álvaro Vieira Pinto (philosopher), Hélio Jaguaribe (political scientist), Ignácio Rangel (economist), Nelson Werneck Sodr (historian) and Roland Corbisier (philosopher).

³ On stateness and the formation of the state, see Oscar Oszlak (1997: Introduction), .

⁴ The warlords were armed and in certain regions (such as the Chapada Diamantina, in Bahia) were referred to as “jagunos” (Walfrido Morais 1963); this name was also given to the gangs of outlaws who operated in the “serto” (arid outback), as well as to rebels and fanatics. Given the imprecision of the word, I refer here to “jagunos or warlords” in order to make it clear that I am not referring to armed gangs or to fanatical rebels.

⁵ Diogo Antnio Feij belonged to the Liberal Party and, as Regent, made a major contribution to the territorial integration of Brazil. Bernardo de Vasconcelos, who was originally a liberal, broke with Padre Feij and founded the Conservative Party.

⁶ We should not mistake “coronis” for “warlords” or “jagunos”. The coronis were local authoritarian political chiefs, usually landowners, who rose to the rank of colonel in the National Guard – a state police force that was in charge before the army took over this function. The classical work on the politics of coronis is by Victor Nunes Leal (1949 [1975]). On the “jagunos”, see note 3.

⁷ ISEB was an agency of the Ministry of Education between 1955 and 1964; the group of intellectuals who formed it had been active since the early 1950s, and between 1952 and 1955 published five issues of *Cadernos do Nosso Tempo*. On ISEB, see Toledo (2005).

⁸ The “tenentismo” consisted of a number of political movements led by lieutenants of the Brazilian army. It is usually considered the first systematic nationalist and

modernizing manifestation in Brazil. See Virgínio de Santa Rosa (1933) and Maria Cecilia Forjas (1978).

⁹ The classic work on the subject is of Alexander Gerschenkron (1962). As for Japan, which Gerschenkron does not analyze, the industrial revolution occurred between 1880 and 1910, and was entirely state-led. The Japanese, however, decided to imitate foreign technology, not only as regards engineering but also institutions. This is why, between 1908 and 1910, they promoted an extensive privatization.

¹⁰ Contrary to the entrenched belief, the United States was not an exception to this rule. It achieved universal suffrage (that and the assertion of liberties or civil rights are the minimal conditions for democracy) only in end of the nineteenth century, long after its industrial revolution had been completed.

¹¹ On the new historical facts that determined the military coup and the end of Vargas's National-Developmentalist Pact, see Bresser-Pereira (2003: ch. 4). The chapter cited has been included in the book since its first edition, published in 1968.

¹² The United States became concerned with this issue only in the early 1980s, in the context of the neoliberal ideas that were then dominant. With the Baker Plan of 1985, named after James Baker, the US Secretary of Treasury in the Reagan administration, the policy of market-oriented institutional reforms was formally drafted, and the World Bank charged of their implementation, while the IMF remained responsible for macroeconomic or structural adjustment.

¹³ Peter Evans (1979) has analyzed the "triple alliance" involving state, national capital and foreign capital, which in the case of the petrochemical industry was a formal alliance sanctioned by the state.

¹⁴ Between 1968 and 1973 the GDP growth rates were nearly 10 percent per annum.

¹⁵ Cebrap was in the 1970s the major intellectual center of criticism of Brazil's authoritarian regime.

¹⁶ See Bresser-Pereira (1978).

¹⁷ Spending nearly a quarter of GDP on social services in education, health care, culture, social security and welfare, Brazil on this criterion currently approximates the European countries defined as "welfare states".

¹⁸ It was only since the second election of President Lula in 2006 that the poor voted for him, and for President Dilma Rousseff in the 2010 election, while the rich voted for the main opposition candidate. See André Singer (2011).

¹⁹ The two founding texts of the dependency interpretation are by André Gunder Frank (1966) and by Fernando Henrique Cardoso and Enzo Faletto (1969); the former text elaborates the overexploitation interpretation, the latter the associated dependency interpretation. My critique of the dependency interpretation appears in Bresser-Pereira (2011).

²⁰ As a matter of fact, the PCB had already adhered to the bourgeois revolution theory in its 1958 convention – a theory that had already been clearly supported by ISEB's nationalist intellectuals since the early 1950s.

²¹ The need is “imaginary” because, as I have demonstrated in other papers, the growth with foreign savings policy causes an increase in consumption rather than in investment; and it is ideological because the main interest of the rich countries is to persuade developing countries that they need their capital in order to grow.

²² Macunaíma is the “hero without character” of Mario de Andrade; Emilia is the active and resourceful doll-girl of the juvenile books of Monteiro Lobato.

²³ The manufactured goods export policy was devised and developed by Antonio Delfim Neto, first as Finance Minister (1967–73) and later as Planning Minister (1979–84). It involved the neutralization of the Dutch disease through a comprehensive system of subsidies to manufactured exports. These “subsidies” merely corrected Brazil's nominal exchange rate, which remained overvalued due to the Ricardian rents generated by the export of commodities that used Brazil's abundant and cheap natural resources.

²⁴ Contrary to the structuralist development economics of which the “foreign constraint” thesis forms a major part, the lack of dollars and other reserve currencies that characterized developing countries did not derive from any such “foreign constraint” explained by different income elasticities of imports of manufactured goods by developing countries and exports to rich countries where the income elasticity of import of primary goods is inferior to 1 (one), but rather, principally after the developing country becomes an exporter of manufactured goods, from the tendency to the overvaluation of the exchange rate. See Bresser, Oreiro and Marconi (2012).

²⁵ The week I took over the ministry, Celso Furtado and Olavo Setubal, two very different but equally remarkable men, told me, separately, nearly the same thing: that I was “crazy” to take over the Ministry of Finance in the worst crisis Brazil had faced since 1930.

²⁶ The intervention of representative Ulysses Guimarães, President of the PMDB, was necessary to prevent my expulsion.

²⁷ The Brady Plan of March 1989 was the plan of Nicholas Brady, US Secretary of the Treasury, which solved the foreign debt crisis. It was based on two ideas that I had presented at the annual meeting of the IMF and the World Bank in September 1987.

²⁸ In President Collor's second ministry, the finance minister would be Marcilio Marques Moreira. Under his administration Brazil signed a letter of intent to the IMF undertaking to open its capital account. Combined with the ongoing trade liberalization, this meant that the country lost control over its exchange rate – a control that had been carefully conserved since 1930.