

# 11 The new-style of developmentalism in Latin America

Kubitschek and Frondizi

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## Introduction

The economic policies of Juscelino Kubitschek (Brazil, 1956–1961) and Arturo Frondizi (Argentina, 1958–1962), completely bear out the postulations in the classical work of Bloch (1963; 1964; 1983) in regard to comparative analysis. Here we have two administrations in geographically close countries that share the same historical conjuncture (globally marked by impressive economic growth, the Cold War and geopolitical upheavals including the Cuban Revolution), and show similarities and differences that justify and encourage comparison. The economic policies of both countries are the subject of this chapter. However, the focus here is not comparison *sensu stricto* – although this inevitably occurs. Our main concern is to show that the economic policies of both countries are what several scholars denominate ‘populist economic cycle’ or simply *economic populism*, as has been observed in the similarities between both administrations in relation to their economic policies.

These analyses of Kubitschek and Frondizi’s economic policies contribute to the debate of the models themselves and their analytical purpose. Neither president conforms to what the literature traditionally regards as either political or economic populism. Although the latter seem interconnected, they do not necessarily need to coexist historically, and represent research topics in their own realms (Bresser-Pereira 1991: 8). The term ‘populism’ is used in a variety of meanings by leading twentieth-century Latin American sociologists and political scientists including Germani (1978), Torcuato di Tella (1965) and Laclau (1977; 1978), followed by Cardoso and Faletto (1970), Weffort (1966; 1977; 2004; 2006) and Ianni (1977). They use the term to designate leaders of masses of people who are charismatic, have a strong nationalistic appeal and who manipulate the labour unions to their own profit, disregarding the parties and institutions. However, the literature on economic populism that will be analysed in this chapter is more recent, including Canitrot (1975; 1991) and O’Donnell (1977; 1991), prompted by events in Argentina. Their followers substitute the structuralist-Marxist approach of political populism by the economic mainstream. F.C. Diaz-Alejandro (1981; 1991), Sachs (1989; 1991) and

Dornbusch and Edwards (1989; 1990; 1991) formulated the so-called ‘populist economic cycle’, which was followed by Bresser-Pereira (1991), from a different theoretical perspective. Despite the differences in nuances, these authors show common positions on political populism as they associate the phenomenon in their economic analysis with industrialization by import-substitution, nationalism, state interventionism and leadership of the domestic market. In the 1990s, this way of conducting the economy was considered responsible for the uncontrolled inflation in both countries, as well as the low growth and increasing public deficits, and was used to justify the liberal agenda, more open to foreign countries and with less state intervention.

Although Kubitschek and Frondizi embraced the industrialization proposition, they deviated from the typology in aspects that harm its hard core. They not only showed openness to foreign capital, but launched into their project of accelerated growth based on investment by the big international corporations and on foreign financing. In this respect they were against the ‘populist’ leaders, whose preferences were for domestic capital, either state or private, and for financing via domestic savings and transfer of income from the export sector (or the ‘rural oligarchies’) to industry, through taxes and/or discretionary measures in the foreign exchange area. Although they were more cosmopolitan and ‘centrist’ in the political field, Kubitschek and Frondizi were elected, respectively, with the support of labourers in Brazil and Peronists in Argentina. However, their administrations departed from the project historically connected to Vargas and Peron – often called ‘national developmentalism’ –, representing a tendency towards industrialization by import-substitution (IIS) as they took over another project, the so-called ‘dependent-associated’ project.

The hypothesis formulated here, consistent with the objective previously stated, is that the economic policies of the Kubitschek and Frondizi administrations are, contrary to the usual interpretations, close to what the above-mentioned authors describe as a ‘populist economic cycle’. Criticism of the ‘populism’ category comes from countless authors in an attempt to deconstruct the concept and show its analytical imprecision (Gomes 1989, 2005; Ferreira 1997, 2001, 2005; Fonseca 2010, 2011). The purpose of this chapter is more humble: it assumes the validity of the very same models formulated by the authors who support the theoretical category of ‘economic populism’ in order to show that the economic policies of Kubitschek and Frondizi moved in the opposite direction to what was proposed in their formulations. Consequently, what is shown is the unfoundedness of the undissociable relationship between IIS, nationalism, ‘national developmentalism’ and populism in terms of what a great part of the literature considers to be the case, and which has found an established place in Latin American intellectual, political and economic thought.

Despite the various meanings of the term ‘populism’, which makes it difficult to pin down analytically (Weyland 2001), there is a certain consensus in the literature on the definition of ‘economic populism’. The authors usually assume the existence of a Phillips Curve in the short term that is negatively bent, which would force the policymakers to an option between output growth and

1 employment versus stabilization. The populist administrations opt for acceler-  
2 ated growth and reject the stability option. Problems such as inflation, public  
3 deficit or deficit in the balance of payments, unemployment and concentration of  
4 income are usually imputed to previous administrations. As Dornbusch and  
5 Edwards state: 'Policymakers explicitly reject the conservative paradigm' (1991:  
6 9). They usually accept not only a compatibility between growth and stabiliza-  
7 tion, but also advocate more growth as an advisable path in the face of the  
8 above-mentioned problems. The aim of this chapter is not to detail each of the  
9 widely known approaches (see Bresser-Pereira 1991); it is important to highlight  
10 that, analysing the points of convergence between the authors, they all assume,  
11 implicitly or explicitly, the proposition that economic populism is revealed soon  
12 after the president takes office (sometimes even before, during the campaign) in  
13 the first phase of a 'cycle', when he is already showing his intentions, presenting  
14 his goals and adopting the first measures of his administration (Fonseca 2011).  
15 However, each author emphasizes mechanisms that are not always coincidental,  
16 although all are expansionist in relation to the aggregate demand. F.C. Diaz-  
17 Alejandro (1981, 1991: 79) mentions wage and public expenditure increases,  
18 which are not covered by taxation but by expansion in the money supply. Sachs  
19 (1989, 1991: 131), along with O'Donnell (1977, 1991), creates a model with two  
20 sectors: one that exports primary goods and the other that produces labour-  
21 intensive non-tradable goods and depends on imported raw materials. The popu-  
22 list administration gives priority to foreign exchange (for instance, fixing it  
23 nominally and expanding the monetary supply), which brings down the interest  
24 rate and raises the aggregate demand, the employment rate, labour demand in the  
25 non-tradable sector and the purchasing-power of wages (the ratio between  
26 nominal wages and the prices of consumption goods). Dornbusch and Edwards  
27 (1989, 1991: 154) following the same line, mention wage increases and the  
28 unconditional growth option. Bresser-Pereira (1991: 111) describes several  
29 options for the first phase of the 'cycle': wage increases, whether from the public  
30 or the private sector, brakes on prices and public tariffs, incentives to foreign  
31 exchange with consequent growth in imports, wages and domestic consumption,  
32 increase in expenditure and the public deficit, and an artificially low interest rate.  
33 These are not mutually exclusive and can be adopted simultaneously; they all  
34 converge to a 'naive distributivism' and a 'developmentalism that disregards  
35 costs' (ibid.: 8).

36 The leaders are reluctant to change the path of their economic policy but  
37 sometimes, due to the circumstances, they end up surrendering. The final phase  
38 of the populist cycle is always tragic: inflation goes rampant, foreign exchange  
39 devaluation becomes inevitable, the public deficit deepens, and so does the polit-  
40 ical crisis, and in the end 'the ministers in charge are replaced or even worse  
41 there is a *coup d'état*' (ibid.: 111).  
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**Accelerated growth as a priority**

According to the formulation of the models, Kubitschek mentioned his proposal of an accelerated growth back in his presidential campaign. In 1955 he published *General Guidelines of the National Development Plan*, a work that anticipated his Plan of Goals. It begins with a historical analysis where he associates colonialism and underdevelopment with agricultural exportation, and defines the country as being in a transitional phase that started in the 1920s with the first consumption good industries (Kubitschek 1955: 15). In order to reach a higher stage of full development and emancipation (ibid.: 18), massive investments were required, especially in hard industry (steel, cement, chemicals, non-ferrous metals, equipment and ore) and infrastructures (petrol, electrical, mineral and atomic energy, transportation, and communication). Brazil could not rely on the possibility of spontaneous development; as it was lagging in the race for industrialization, it had to ‘replace a sporadic and uncoordinated state intervention with the formulation of an organic program’ (ibid.: 26).

It is true that for both Vargas and Peron ‘national-developmentalism’ did not exclude foreign capital, but restricted it to certain areas, in a game of bargaining that assumed the state had a relevant role as a brake on globalization of the productive sectors; foreign capital was ideologically seen as unethical, in contrast with values such as national independence and sovereignty. However, under Kubitschek, foreign capital was the cornerstone of development proposals, and the state would no longer be in a vigilant position. On the contrary, it would become a partner since both sides were interested in achieving the same project. As a challenge to those who try to interpret political discourse as an exercise in logic, foreign capital itself would now begin to contribute to ‘our progress and emancipation’. The plan considered it essential to attract foreign savings to reach accelerated growth and criticized ‘the high income segments, usually prone to hedonic consumption and to reproducing the consumption patterns of the individuals that reached high levels of prosperity’ (ibid.: 30). Thus the domestic businessmen (or the domestic bourgeoisie, as it was then called) were no longer held in honour, but their behaviour was criticized. This rhetoric reinforced the thesis that foreign capital had to be attracted, culminating with the paroxysm of appealing in strong emotional terms like ‘fatality’ to highlight its importance for the success of the Plan of Goals: ‘In the definition of a policy of *attraction* of foreign capital, one cannot forget the *fatal* contingency that *forces* the poorly developed country to *directly interfere* in foreign trade in search of situations that *facilitate* or allow its development’ (ibid.: 31).

Repetition of the content of these quotations permeates the work, and we must return to it here in addressing the interpretation of the models of economic populism as a phenomenon responding to the explicit intentions of the ruler. Also to be noted is the strong purposefulness behind its implementation. Before taking office, Kubitschek travelled to the main international centres and communicated his intention to attract direct investments and foreign financing. He guaranteed that the nationalistic and union influence of the ‘Vargas Era’ had

1 been left behind, and that, contrary to statements by Goulart, his vice-president,  
2 the left wing and the labourers would not revoke Instruction 113 of SUMOC  
3 (Superintendência da Moeda e do Crédito, Brazilian Bureau of Currency and  
4 Credit). Instruction 113 became a symbol, to the eyes of these segments, of the  
5 ‘surrender’ of the previous Café Filho administration, whose minister of treasury  
6 was Eugenio Gudin, a traditional critic of import-substitution industrialization  
7 and strongly opposed to Vargas. Instruction 113 allowed foreign companies to  
8 obtain licenses to import equipment to extend their facilities without foreign  
9 exchange backing, a privilege that was not granted to domestic capital and was  
10 regarded by the nationalists as a way for the foreign corporations to export scrap  
11 equipment. These imports with no foreign exchange backing reached a ‘signifi-  
12 cant portion (70 per cent) on average of the total imports of machines, vehicles  
13 and equipment’ in the Kubitschek administration (Fausto 1984: 84). On the other  
14 hand, the administration initially maintained Instruction 70 of SUMOC, from  
15 1953 (Vargas administration), which established foreign exchange auctions,  
16 fixing a system of multiple foreign exchange rates with five categories of impor-  
17 tation according to how essential the good was – this was established depending  
18 on the priorities of the project of import-substitution. In August 1957, these cat-  
19 egories were replaced with two, maintaining the essentiality criterion. *Ad*  
20 *Valorem* taxes were created (hitherto archaic specific taxes had predominated,  
21 not very effective in an inflationary economy) of up to 150 per cent to tax similar  
22 products, as well as to exempt the import of goods considered essential to indus-  
23 trialization, such as machinery and raw materials.

24 As a consequence, the GDP began to grow at significant rates: 7.7 per cent in  
25 1957, 10.8 per cent in 1958 and around 9 per cent in the three following years.  
26 To make this possible, both the exchange rate policy (as in the models of  
27 economic populism) and the fiscal and monetary policies were geared to this  
28 end. This resulted in a cash deficit in the treasury throughout the entire period of  
29 governmental and while inflation reached 238.5 per cent between 1955 and  
30 1960, federal expenditure rose by 318.2 per cent (IBGE 1986: 571).

31 The monetary base grew 19.3 per cent in 1956, jumped to 35.1 per cent the  
32 following year, and soared still higher in the last two years of the administration,  
33 near 40 per cent. In relation to wages, the problem of interpretation was due to  
34 several factors, but they can all be traced back to the criteria adopted in the  
35 models to define ‘wage populism’. The need arises for real wage increases, or  
36 nominal increases may suffice, once the models themselves admit that one of the  
37 consequences of populism is inflation; however, the intention of the government  
38 can only be manifested in nominal increases, because a real increase could defeat  
39 its ends. Which is the variable used to test ‘wage populism’? Is it the minimum  
40 wage, over which the government has a more direct interference or is it the wage  
41 of the industry wage? As we know, determination of wages in the private sector  
42 depends on some variables that escape governmental interference – although the  
43 government does intervene, whether in fixing the minimum wage itself, which  
44 can be a parameter for the labour market and wage negotiations, or with the pro-  
45 union atmosphere that the ‘populist’ government stimulates.



If the variable is the minimum wage and its real growth, there is no doubt as to its increase: Kubitschek continued the policy initiated by Getúlio Vargas, of periodical readjustment of the minimum wage. In his administration, there were three nominal increases that raised it in real terms; the first, in June of 1956, by 58 per cent; the second, in January of 1959, by 58 per cent, and the third in October of 1960, by 60 per cent. Consequently, during the Kubitschek administration the highest real minimum wage until then (and to the present day) was registered in the country, with a peak in the year of 1959.<sup>1</sup> Therefore, in relation to the minimum wage, there seems to be no doubt that the data follow the direction proposed by the models. However, when the impressive productivity growth in the period is taken into account – 41.1 per cent in the manufacturing industry between 1955 and 1959 based on the Colistete data (2009: 389) – it can be seen that neither the real minimum wage nor the wages paid by the industrial sector in the period kept up with it (only at the peak did it come close to this rate).

The conclusion is that Kubitschek's economic policy reflects to a remarkable degree the behaviour structured by the authors as 'economic populism'. They do not require that the mentioned behaviour be expressed in *all instruments* of economic policy. However, in this case, it can be undoubtedly detected in both the fiscal and the monetary, wage and foreign exchange areas, even taking into account the above observation on wages. It must be stressed, in addition, that the proposal of an accelerated growth is intentional, explicit in the discourse and consistently reaffirmed in the actions.

As was the case in Brazil with presidents Kubitschek and Vargas, it is quite impossible to understand the Frondizi government without explaining the political and economic context of the government under Peron, whom he succeeded after his fall in a military coup in 1955, when a temporary government was installed followed by an election that put Frondizi in power. One of the characteristics of the Peron government – as of the Vargas government – was a typical political post-war phenomenon in Latin America: a strong government leadership with popular support, profuse in nationalist speech and practices. Peron led a radical change in conducting the Argentine economy, mainly in terms of the new relationships with the popular working classes.

Frondizi was elected by the Unión Cívica Radical Intransigente and supported by the non-legal Peronism. His electoral campaign had as its main flag the idea of a country with a development project, stressing that the strategic aim of Argentina would be to reach industrial self-sufficiency. The diagnosis of the causes of an underdeveloped Argentine economy presented in his electoral campaign plan identified its low growth in terms not only of savings but of investments as well. His speech clearly referred to the structural problems of the country and emphasized the importance of the development of the productive forces and the new role that entrepreneurs should play. So, it would be a task for industry, levered in external investments, to free Argentina from the situation of economic stagnation in the closing years of the 1950s. A strong drive in infrastructure and basic industry investments to overcome the general conditions of poverty was seen to be imperative, and it had to be decisive and simultaneous

1 to shatter the pessimistic expectations present in the economic set. The fact of  
2 Brazil having adopted this kind of policy with Juscelino Kubitschek could have  
3 reinforced the Argentine decision to tackle it through similar measures. In this  
4 particular case, however, the stimulus to the massive entry of foreign capital was  
5 much sharper due to insufficient national savings, a former law having been  
6 widened, with further relaxation of a law passed by Peron, at the end of his  
7 period of government, which had already tolerated the inflow of capital into the  
8 country.

9 In his inaugural address, on 1 May 1958, Frondizi stressed the role the  
10 national development should play, above all emphasizing that this development  
11 could not be performed without the entry of foreign capital because the national  
12 capital proved insufficient to provide the necessary apportionment.

13 When starting his government, Frondizi found not only an economy with  
14 serious structural problems, but also one that was bogged down in an intricate  
15 conjuncture. The international reserves of the Argentine central bank had been  
16 severely reduced and a considerable amount of them were earmarked with a  
17 view to the payment deadlines of the next foreign credits. Serious import process  
18 difficulties were detected and worsened because of the shortage of cattle stock  
19 for export. In 1957, inflation started looming as a new problem with a 24.7 per  
20 cent tax, the fiscal deficit having reached an equivalent 8.08 per cent of the GNP,  
21 in 1958.

22 Frondizi tried to bring about a new equilibrium in relations between Argentina  
23 and the United States and also tried to reassert Latin American identity in his  
24 diplomatic speech in order to dissipate the distrust that could undermine his claim  
25 to be a leader in a developing world. The Argentine opening for North American  
26 capital, international economic cooperation and integration of the productive  
27 chains in the region stabilized the development project along industrial lines.

28 As for the wage policy, the outstanding fact was a 60 per cent rise in basic  
29 wages<sup>2</sup> under a decree (in 1958). It adjusted wages, which had been frozen since  
30 1956, as part of a policy to boost consumption, but mainly to honour electoral  
31 promises made to Peron and Peronists; and above all to raise Frondizi's popular-  
32 ity. Thus, the presence of a popular bias in keeping with the models and contrary  
33 to his electoral speech becomes clear.

34 One of the first findings of the new economic team was the 'strangulation' of  
35 the energy sector in Argentina, in essence represented by the combustion of pet-  
36 roleum derivatives, which made the proposed industrial development quite  
37 impossible. However, the advancement of local petroleum extraction was no  
38 easy task because the country had insufficient money resources and equipment  
39 to increase production on a large scale in the short run (Accotto and Gugliano  
40 1995). In fact, in previous years, production growth had lagged behind the  
41 increase in consumption, which substantially raised the difference to pay in  
42 terms of imports. While still in the early days of his mandate, Frondizi allowed  
43 the opening of petroleum exploration by foreign capital.

44 The thesis that insufficient resources could be overcome with foreign capital  
45 was considered a contradictory issue in Frondizi's policies. In 1954 he had

severely criticized the contract Peron had signed with the American company Standard Oil, but he began to change his point of view after his electoral campaign, emphasizing that without the help of foreign investments it would be impossible to handle the petroleum problem, this position having provoked rejection by both leftists and national rightists. In a speech (24 July 1958) Frondizi announced the '*battle of petroleum*', explaining the problems and consequences to the country if they were to continue importing these mineral resources. The essence of Frondizi's economic policy was marked by the laws of permanence of foreign capital and industrial promotion, passed in 1958. The new laws guaranteed the foreign companies free repatriation of profits and capital. At the same time, high customs taxes were brought in and an industrial promotion law protecting national production while stimulating industrial export was passed. According to Rapoport's data (2000: 559) the increase in domestic investment in relation to GDP rose from 19.0 per cent in 1958, to 22.6 per cent by 1962. Self-sufficiency in oil supply was almost reached and steel and vehicle production had grown to a spectacular extent.

Argentine industrial development soon took a hopeful direction under the Frondizi government. From 1958 on, the industrial branches that had been leaders in growth in the past – in terms of non-durable consumption goods – suffered relative stagnation, while the branches of intermediate production goods and durable consumption goods became greatly dynamic. The petrochemical and metal–mechanic sectors showed outstanding performance. In the energy area, annual petroleum production, which had formerly stood at 5.6 million cubic metres, reached around 16 million cubic metres, the currency obtained amounting to US\$300 million a year (C. Diaz Alejandro 2002). Similar performance was shown with the growth of ironworks after the establishment of a new ironworks plant and the exploitation of local iron ore, while cement production also increased due to the growing civil construction. As for petrochemical activity, production growth was stimulated by a high level of foreign investments. According to Gerchunoff and Llach (1998), around 80 per cent of the manufacturing production increment, between 1958 and 1961, can be accounted for by the expansion of this branch of industry. The production of motor vehicles was stepped up (more than 400 per cent) in five years, from 28,900 in 1957 to 134,418 in 1961, due mainly to the effect of so many foreign investments.

Although presenting high growth indices during Frondizi's period, industry showed some gaps in other extremely important sectors. The import matrix reflected a clear deficit in chemical, plastic, metal and ironwork products. However, the main deficiencies were in the machinery, instruments and transportation material sectors, in some cases exceeding 50 per cent of the import costs. Thus we may infer that despite his declared intentions, Frondizi's economic policy at the beginning of his period of government could not make a clean break with the former economic policies, particularly considering that his government started with a high wage increase. At the same time, the functions of the state were considered necessary to implement a new industrial policy and attract foreign capital. The difference clearly lies in the proposition of a new



1 industrial matrix, emphasizing the base industries, self-sufficiency in petroleum  
2 supply, and above all in the open approach to foreign capital, seen as an essential  
3 instrument for this new kind of development.  
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### 5 **Growth reversion and costs**

6  
7 Kubitschek's Plano de Metas had an inherited difficulty pointed out as lying at  
8 the very core of the scheme associated with the popular economic cycle models:  
9 its design stipulated sectorial goals in growth but had not clearly specified the  
10 financial sources to make it viable. Even in its implementation, efforts concentra-  
11 ted on the follow-up of performance in each sector and in detecting possible  
12 bottlenecks (for these tasks 'executive groups' were formed, directly subordinate  
13 to the Republic presidency). The financial investment, we may take it, was not  
14 declared, but implicit, with foreign capital coming in through direct investment  
15 or financial flows. In fact, significant increments in foreign capital flows were  
16 registered in the first years of the government's term, to diminish gradually from  
17 1958 onwards. In 1958, Kubitschek launched the Pan-American Operation,  
18 which proposed, in the Cold War environment, that the best way to combat com-  
19 munist in Latin America was economic growth, hence meeting the ideological  
20 and geopolitical reasons for the 'collaboration' of the United States and other  
21 international organizations. But in the first years the realization of these goals  
22 demanded much more. As Tavares points out (1972: 41), the ISI process was not  
23 meant to eliminate relations with foreign countries or even reduce them linearly  
24 because their dynamics implied a further quality change in the import schedule  
25 due to the growing need to import capital goods and basic funds. As for the  
26 Plano de Metas, according to Lafer (1975: 40), the main 'zone of incertitude of  
27 the system was external', because 43.9 per cent of the alleged resources to its  
28 implementation was based on goods and services imports. This author also  
29 recalls that the costs of building the capital city Brasilia alone, in 1960 prices,  
30 were around 2.3 per cent of the GDP (ibid.: 48). An alarming situation when  
31 recalling that at the end of the 1950s the international price of coffee plunged  
32 dramatically – a fact that forced the government to purchase stocks whose  
33 values, according to Pinho's figures (1990: 191), were kept three or four times  
34 higher than the costs of building Brasilia.

35 The inflection point of the cyclic reversion occurred in the middle of 1958;  
36 there was not only a fall in the inflow of foreign capital, with an impact in cur-  
37 rency volume, but inflation abruptly jumped to 24.3 per cent from the index of  
38 the past year (7 per cent). The downturn also demanded a cut in public spending,  
39 credit and wage costs, as well as modification of the multiplicity of taxes associ-  
40 ated with the management of the exchange rate. The worsening of the crisis was  
41 heavily reflected in the balance of payments. The credit of the balance of trade,  
42 which had been US\$407 million in 1956, fell to a level around US\$70 million in  
43 1958/1959, reaching a 24 million negative figure by 1960. On the other hand, the  
44 current account consistently presented a negative balance in the period, but with  
45 exponential growth from US\$23 million in 1956 to US\$300, US\$265, US\$345

and US\$519 million, respectively, from 1957 to 1960. In June 1958, Alkmin was substituted by Lucas Lopes in the Ministry of Finance. The new minister opted for a gradual approach to fighting inflation, rejecting the shock treatment proposed by the IMF and set out in the Monetary Stabilization Plan (PEM) sent to the National Congress on 27 October 1958. Initially, in 1959, he proposed a practical approach to tackling the consequences of inflation, including the maintenance of real wages, implementing more effective policies such as monetary control, betterment of the tax collecting system, income tax reform and also elimination of exchange subsidies. In other aspects, the plan was vague and showed Kubitschek's strategy, that is, postponing the costs of the adjustments to the future. While having an 'ambiguous' and 'politically' inconsistent format, Orenstein and Sochaczewski suggested (1990: 193) that the plan could neither calm the opponents who considered it recessive, nor convince the foreign financiers and the IMF of the seriousness of the proposition. In June 1959 Lopes was substituted by Sebastião Paes de Almeida under Kubitschek's orientations to finish negotiations with the IMF in Washington, all 'in the middle of a disturbed political atmosphere' (Skidmore 1976: 223).

It is interesting to note that in the beginning of his mandate, Kubitschek started on an apparently steady stream of rhetoric to tackle inflation as a problem demanding great attention and immediate action. As was demonstrated by Campos (2007), the rhetoric was changing precisely when inflation accelerated. It was not just mere advocacy that the *policymakers* should try to address growth together with an anti-inflation policy – a traditional proposition part of the development ideology. And moreover, in Kubitschek's words: 'one cannot fight inflation only through comprehension, but by compression and expansion' (Kubitschek 1958: 25–26). It was appropriate for the two antithetical words to be treated as compatible, but it was peculiar in political discourse. With the worsening of the crisis, the president started to use a more radical tone, with strong nationalist appeals in response to the IMF requirements: 'Those responsible for Brazil are the Brazilians'. But, at the same time, he used common sense and prudence to legitimate his attitudes ('No prudence will make me practice imprudence and abandon our industry or consent that it could fall into foreign hands'). And, moreover, he would not retreat even 'a step when the task is defending Brazil'. Ultimately, he courageously assumed the stabilization plan with a historical reminiscence: 'We are not going back to the tribal places, going back to times when we consumed everything from abroad' (Kubitschek 1960: 188–189). In this speech, as can be seen, he implies that growth and stabilization are incompatible, a point that sometimes he opposed and sometimes rebelled against. Thus, foreign capital that was cherished during the first years of government came to be deemed as improper and could no longer be considered as the main propulsive force of the Plano de Metas'. This change in rhetoric and its radicalization once again converges on the described path of the popular cycle models.

With no political conditions to tote towards a revenue reform and without any security market where he could gather in resources (the '*Usura Law*' imposed

1 maximum year interest rates of 12 per cent), the only government option was the  
2 issue of money, that is, an 'inflation tax'. The growing rates started to fall gradu-  
3 ally from 1958 on, but remained at a high level till the end of his government,  
4 afterwards quickly falling again, reaching 0.6 per cent in 1963. With the impos-  
5 sibility of re-election, Kubitschek left to his successors, Jânio Quadros and João  
6 Goulart, the costs and the unpopularity associated with adjustment and, as we  
7 know, he was aware of all this (Maram 1991). He intended to run for another  
8 mandate (Skidmore 1976: 332), maybe when thinking about and comparing the  
9 good performance of his government with the next, but he was prevented by the  
10 1964 military coup – a tragic event considered as possible definitive closing of  
11 the popular cycle, according to the above-mentioned authors.

12 In the first months of the Frondizi government, the expansionist policy, as in  
13 the Kubitschek government, provoked a huge rise in public expenditure, as men-  
14 tioned in the previous section. The former governments had left a substantial  
15 fiscal deficit that had to be helped by increasing the money supply. It is true that  
16 the great currency expansion had contributed to economic growth, but its eco-  
17 nomic cost was significant because it worsened the inflationary phenomenon,  
18 which quickly corroded the fiscal adjustments (Fausto and Devoto 2004). Infla-  
19 tion peaked in 1959, reaching three digits, with a 129.5 per cent rate that year.

20 By the end of 1958, only eight months after the beginning of Frondizi's  
21 mandate, the country had already asked the IMF for external help and launched  
22 a stabilization plan, basically through currency devaluation, a wage freeze and  
23 elimination of the state's rules and regulations, the consequences of which were  
24 a sharp reduction of workers' income and generalized unemployment. In the  
25 middle of 1959, Frondizi took even more drastic measures with the appointment  
26 of Alvaro Alsogaray as his finance minister, who adopted economic policy  
27 measures that aggravated the recessive tendency of the plan. Raising the banks'  
28 compulsory deposit and the cuts in public expenses brought about a severe  
29 reduction in money supply along with delays in payments to the suppliers and  
30 civil servants. Besides, the extraordinary growth in imports of intermediate  
31 goods – due to the great demand for resources of the industry in expansion –  
32 constituted a serious drain on the country's international reserves.<sup>3</sup>

33 The economic crisis left Frondizi in a difficult situation, marked by strong  
34 social mobilization and increasingly widespread rioting. Given this state of  
35 affairs, the following year the government implemented a successful plan  
36 against social turmoil, which involved not only the repression of terrorist activ-  
37 ities and similar actions but also punished people who instigated and promoted  
38 subversive acts.

39 At the beginning of 1961, Frondizi ended the stabilization policy and adopted  
40 a more flexible social one, throwing himself into the hard task of facing the Per-  
41 onists on an electorate basis once the prohibition of formal participation could  
42 no longer be maintained. The economy started showing signs of slowing down,  
43 due mainly to the fall in foreign investments (Rapoport 2000). As for the balance  
44 of trade, a commercial deficit was observed throughout almost the entire period  
45 under Frondizi. Only in 1959, under a heavy contraction policy, did it see a

surplus of 16 million dollars. In that particular year, imports started to show a considerable reduction while exports remained at about the same level as the previous two years. The exports/GDP ratio varied between 8.7 and 12.0 from 1957 to 1962.

State expenses soared tremendously from 1957 on. In 1958 the rise exceeded 100 per cent and the rising trend was only controlled in 1959 with the adoption of a stabilization policy, when the rise was slightly above 70 per cent. Fiscal deficit/GDP had also risen from 1957 to 1958, but succeeded in recovering in the subsequent year; two years later, its figures were almost equal to those of 1957. This can be observed in the behaviour of the GDP rising tax, as shown by Rapoport (2000: 559); after a fall in 1959, taxes rose considerably in 1960 and 1961, reaching 7.8 per cent and 7.6 per cent respectively.

The new industrial sectors, such as petroleum, steel, cellulose, petrochemical products and motorized vehicles quickly grew due to incentives and by taking advantage of the presence of a rising demand that needed to be satisfied. Conversely, the leading sectors in terms of growth in the Peronist period (the textile and electrical home appliance industries) stagnated because their markets were already exhausted.

Although the Frondizi government had not succeeded in tackling the most serious problems of the Argentine economy, it was able to overcome its chronic energy deficit, and promoted capitalization, modernization and concentration processes in several industrial sectors. This was of great importance for the continuity of economic and social development in Argentina in the years to come, leaving as its heritage the increase in productivity capacity. However, with the introduction of intensive technology in terms of capital, employment and wages declined. From 1956 to 1959, real wages decreased by more than 30 per cent, mostly because of an extremely recession policy in 1959. But in 1969 there was a rising trend, which was confirmed under the government of President Illia, who took office in 1962, after Frondizi fell.

Another factor to highlight is the issue regarding the terms of trade during the period. Based on the logic of the development model, imports should have grown either through being boosted directly or by raising capital. On one hand, climate factors reduced exports while the terms of trade – whose trend had shown a 14.8 per cent improvement, between 1958 and 1961 – started declining at the end of 1962.

The Frondizi economic denationalization policy, providing incentives to foreign capital investment, contributed to his deposition from power in 1962, through another military coup. Two factors were decisive in both the military forces' loss of confidence in his government and the identification of leftist tendencies in Frondizi and his team work: (i) The devolution of the CGT (Workers Confederation) to several union representatives; and (ii) his meeting with Ernesto Che Guevara. Together with these two facts, the Peronists' support for the government declined during his mandate. In this way, after several political crises, the military again interfered in the Argentine democratic process and ousted Frondizi from the government in 1962.

## Conclusion

Resorting to foreign capital in order to implement projects like Kubitschek and Frondizi's is nothing new in history. However, this chapter aimed at highlighting the new style of development established by both administrations, which differs from what the literature considers to be 'populism'. Both the authors who wrote about political populism and those who wrote about economic populism were inspired in their analyses by administrations that were seen as advocates of the domestic market and domestic capital (either public or private), based upon labour unions, pro income distribution and against stabilization and restrictive policies. Vargas and Peron are the best examples of this kind of behaviour. Criticism of these administrations is usually based on the existence of an association between populism as a political phenomenon and 'national-developmentalism' in economic terms; the 'irrationality' of both would materialize in a cycle whose outcome is the opposite of what is expected, and is always bad.

However, even in a new style, far from the theoretical construction that is typical of 'national-developmentalism', analysis of the economic policies implemented during Kubitschek and Frondizi's administrations shows evidence of trajectories resembling those proposed by models of populist economic cycle. Both presidents had accelerated growth as the main goal of their administrative programmes and both adopted strong monetary, exchange, fiscal and/or wage policies to make it happen. Similarly, both were faced with scarcity of domestic sources of financing and even before taking office they explicitly stated that they intended to rely on foreign financing and investment. Likewise, after an initial phase of vigorous growth – which lasted longer in Brazil than in Argentina – inflation, public deficit and a bottleneck in the balance of payments occurred. The deepening crisis in both cases contributed to the increase in political conflicts and ended up in military *coups d'état* (although Kubitschek had enough support to finish his term and postpone adjustment of an economic crisis, which was inherited by the Jânio Quadros and Goulart administrations).

The Kubitschek and Frondizi administrations, despite what has been described, undoubtedly have merits that are worth recalling, such as expanding the capital goods industry, in the case of Brazil, and tackling the Argentinean energy deficit, in Frondizi's; likewise, both attained a project of modernization and increase in industrial productive capacity, strengthening the import-substitution process.

## Notes

- 1 Mention must be made of the fact that the foreign exchange policy conforms exactly to what is described by the models of economic populism in relation to the option for accelerated growth and to the income transfer from the agrarian-exporter sector to industry and to the domestic market, which would result in a future problem in the balance of payments. However, this differs from the proposition of some authors, like Bresser-Pereira: he associates 'exchange populism' and the valuation of the exchange rate in order to increase the consumption demand as well as the transitory popularity of the ruler. In the case of the Kubitschek administration, like that of Vargas, there is a



- difference as to intentionality: the import bands associated with the exchange auctions restrained the exchange values for consumption in order to stimulate the import of capital goods and raw material.
- 2 It must be emphasized that, according to Rapoport (2000: 550), this rise was not the same for all categories, because it had to absorb previous given rises in former years.
- 3 In order to continue the policy proposed by Frondizi it was necessary to import capital and intermediate goods, which could not be produced in sufficient quantity in the country.

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