Economic policy and crisis in Brazil: the second Vargas Administration (1951-54) and the Goulart Administration (1961-64)

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This paper will focus on the economic policy and the crisis of the second Vargas Administration (1951-1954) and the Goulart Administration (1961-1964) in Brazil taking an interdisciplinary approach using economics and political science. These two Administrations are usually considered the most typical examples of populism in Brazil, a phenomenon that is present in several Latin-American countries from the 1930s. The meaning, historical motivations and different manifestations of populism are subjects of intense discussion in the literature, making an agreed conceptualisation difficult, although there are common traits that are widely mentioned by analysts. They almost always highlight phenomena of a markedly political nature, such as the existence of a charismatic leadership, the direct relationship between this leadership and the people, dismissing intermediary instances, the distributivist speech and the symbiosis between demagogic and authoritarian political practices.

Analysis of the economic policy of the Vargas and Goulart Administrations allows us to detect certain regularities that may help clarify its behaviour in this field and to better understand the populism in terms of economics. The economic policies of the two Administrations follow a pattern that is quite close to the model proposed by Barro (1986) which, based on the governmental dilemma between lowering inflation and speeding up growth, simulates the interaction between the government and the private sector as a repetitive, non-cooperative game with incomplete information and finite duration. As a result of the equilibrium of this game, economic policy is implemented in a sequence of three phases. The Administrations began with measures to fight inflation which improved the credibility of the economic policies. As time passes, though, the policies became random, alternating measures for and against stabilisation. Later, as a result of the costs associated with the policies, they abandoned austerity and, as a consequence, credibility decreased and the attempts toward stabilisation failed.

Although the boundaries of each of the three phases can be a controversial issue, it seems clear that the first phase of each conjuncture started with the advocacy of the need for a stabilisation policy, not dismissing, however, in rhetoric, the need for a long-term development. In this sense, we see that both the economic team and the presidency adopted the language of austerity, trying to convince economic agents that it was a priority. It is not reasonable to state, therefore, that “populist” governments are unable to incorporate a pro-stability practice or speech, since resorting to orthodoxy is not only detected in rhetoric but also in the effective handling of economic policy, which happened in the initial phase.

Considering this, various aspects of how the literature deals with these governments, affecting the very understanding of what populism would be in terms of economic policy, may be brought into question. Then, we may imply that: a) there is a logic and a coherence in the economic policies implemented which cannot therefore be considered irrational or erratic; b) orthodoxy is present both in the speech and in the actual implementation of the policies, especially in the first phase of each of the economic policies. This prevents us seeing the populist phenomenon only as an option for growth, totally disregarding stability; c) despite being present, this anti-inflation option was not maintained through either of the periods studied. This opposes theses that try to associate either the second Vargas Administration or the Goulart Administration with orthodoxy, with no qualification, or even without restricting this influence to a certain phase of these governments; d) the transition between the option for stability and the one for growth was never abrupt. This does not support theses that mention a “shift” that would have occurred at a point in time that could serve as a landmark separating the two opposing economic policies; e) the pro-development rhetoric was present in the three phases of the analysed economic policies, but only in the end of each one was the option for growth set as a priority, putting stability in the background; and f) finally, the pro-development speech in these final phases took quite a critical tone, associated with nationalistic pledges, usually blaming foreign capital and international organisations for the deepening of the crisis, in a radical tone not seen in the first stages.

In an attempt to summarise such conflicting interpretations in the literature about the economic policies of these Administrations, we may say that the various authors emphasised peculiar aspects of each phase and generalised them on the whole, in search of a more comprehensive approach. Thus, those who considered

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the Administrations orthodox based their theses mainly on empirical evidence from the first phase. Those who emphasised the erratic and irrational character of the policies certainly found their evidence in the randomisation phase, the second one; and those who emphasised the nationalistic and pro-development character emphasised the third and last phase. However, we may infer that the denomination “populist economic policy” cannot be reduced to any one model and that focusing on separate phases limits understanding of a complex phenomenon. Populism, therefore, can be better understood having in mind this repetitive pattern, observable in the three stages of each conjuncture. In the evolution of events, that is, in the movement that can be modelled in the interaction between government and other agents, we can more accurately detect a logic in the handling of economic policy that we might call populist, in light of historically determined concrete experiences.