



## STATE CAPITALISM AND POLITICS IN BRAZIL

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## **ABSTRACT**

This paper examines the patterns of political organization and class dominance engendered by state capitalism. Drawing from the developmental experience of the Brazilian state of Minas Gerais, this study suggests that state capitalism empowers State elites, politicizes the economy and the implementation of public policy, and establishes state clientelism as the dominant form of political representation. In Minas Gerais, such a system of economic organization privileged territorially-based traditional political elites who presided over the distributional arm of the State. These elites secured their positions in the State by their ability to translate the distribution of State resources to state clients into political support for the authoritarian regime.

## **RESUMO**

Este trabalho examina os padrões de organização política e dominação de classe decorrentes do Capitalismo de Estado. O estudo, baseado na experiência de desenvolvimento do estado brasileiro de Minas Gerais, demonstra que o Capitalismo de Estado confere poder às elites estatais e estabelece o clientelismo como forma dominante de representação política, enquanto a economia e a realização de políticas governamentais são politicizadas. Em Minas Gerais, este sistema de organização econômica favoreceu as elites políticas tradicionais que presidiram sobre a alocação de recursos do Estado. Estas elites consolidaram suas posições no Estado através de sua capacidade de traduzir a distribuição de recursos públicos para clientes do Estado em apoio político para o regime autoritário.



## Introduction

The growing intervention of the State\* in the economy of developing countries has generated a burgeoning literature on the subject of state capitalism. The focus of this literature has been state capitalism's determinants and characteristics, the most familiar theme the State's 'inevitable' role in leading economic development. According to this line of reasoning, industrialization in late developing countries hinged on the State's organization of channels of capital investment; in the dependent economies of Latin America, the State was further required to become a producer.<sup>1</sup> More recent debate has tended to focus on the degree of contemporary State success as a developmental agent. Some authors have highlighted the limits of the State's role as producer;<sup>2</sup> others have countered that strong States on the periphery of the world economy can effectively pressure foreign and domestic private capital to invest and reinvest in national industrialization.<sup>3</sup> While illuminating from an economic standpoint, this body of scholarship has been, by and large, sterile for political analysis.<sup>4</sup> Beyond offering the proposition that State intervention in the economy may explain nondemocratic political situations,<sup>5</sup> this literature has devoted little explicit attention to the political consequences of state capitalism.

This paper will explore how state capitalism has changed politics in developing countries. Our argument runs as follows: by restructuring patterns of economic ownership and redrawing the lines between public and private economic activity, state capitalism produces a distinctive constellation of classes and class power. Because the State is responsible for industrial

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\*Note: To distinguish the national Brazilian state from the "states" of the Brazilian Union, we have capitalized state in the former case. Thus, "State" as used in this paper refers to the national State, while "state" refers to the state level of government: the "state" of Minas Gerais, the Brazilian "states", and so forth. This distinction is maintained to avoid confusion when referring to certain state properties, such as "State resources" and "State elites". Where there is no ambiguity of meaning, however, as for "state capitalism", "state clientelism" and "state clients", we use the lower case for state, even though these belong to the realm of the national "State". In the specific case of "state enterprises", this usage encompasses public enterprises belonging to the federal, state, and municipal governments. Finally, it should be borne in mind that, conceptually, "State" embraces sub-national governments, including the states of the Union.

expansion, the movement of national resources from agriculture into industry is not accompanied by a transfer of power from the agrarian to the industrial classes (most often from a landed aristocracy to a bourgeoisie), but from private to State elites. State elites not only command productive resources, but also dominate the "popular classes" who are more fully integrated into the public than the private economy. The State's pervasive intervention into the economy supports a growing client stratum dependent upon State employment, credit, transfers, and development aid programs. Unlike advanced capitalist societies in which most State support is automatic, the distribution of State benefits in state capitalist developing countries is highly politicized. Contrary to the belief that state capitalism relegates politics and politicians to the back burner by fostering technocratic policy-making, in fact by concentrating most economic resources within the public sphere, it enhances political clientelism, which privileges political elites who control the distributional arm of the State.

Evidence for our argument is drawn primarily from Brazil, the archetype of a regime alternately called "bureaucratic-authoritarian" (O'Donnell, 1973, 1978), "dependent developmental" (Cardoso, 1972, 1973; Evans, 1979), and "state capitalist" (Baer et al, 1976). While not interchangeable, these characterizations of the post-1964 military regime overlap considerably and offer common insights into State-economy dynamics. All three frameworks agree that the Brazilian State after 1964 played a pivotal political as well as economic role in fostering accumulation and rekindling industrialization by opening the economy to foreign capital, repressing the labor force, and empowering civilian and military technocrats to stabilize the economy (O'Donnell, 1973, 1978).<sup>6</sup> These technocrats, who were needed to manage state enterprises in the commanding heights of the economy and to set the national economic agenda, allegedly controlled all key macroeconomic decisions in a highly centralized State (Cardoso, 1973, 1975; Mendes, 1980; Skidmore, 1973). Several noted students of Brazil (Cardoso, 1973, 1975, 1979; Faucher, 1980; McDonough, 1981a, 1981b; Pereira, 1984) suggested that these technocrats supplanted territorially-based political elites in the State. In their view, the regime reordered interest representation along functional lines, thereby undermining the traditional,

clientelistic basis of Brazilian politics which had formerly been organized regionally and conducted through political parties.<sup>7</sup>

Focusing on state enterprises and macroeconomic policy has led observers of state capitalism to conduct essentially national-level studies. Such studies assume that in centralizing finance and decision-making power in national planning departments, state capitalism undermined traditional territorially-rooted political processes and the power of the regional oligarchies who dominated Brazil. Yet, to determine if this assumption is correct, a sub-national approach is essential. This paper thus focuses on the economy and politics in the state of Minas Gerais. Of all Brazilian states, Minas had the highest industrial growth rates (an approximate annual average of 16 percent) during Brazil's phenomenal industrialization of the 1970s; by the close of the decade it had become the country's third most industrialized state, and it was fast approaching the level of industrialization of Rio de Janeiro.<sup>8</sup> Unlike that of São Paulo and Rio de Janeiro, Minas' industrialization began in earnest only after the regime change in 1964. The state's rapid growth, concentrated in dynamic sectors, was orchestrated by a state technocracy and fueled by State and foreign investment. Minas Gerais in 1980 had more state enterprises (40) than any other Brazilian state (IBGE, 1980d: xxxvi). It represents the purest case of "state capitalist" development in Brazil.<sup>9</sup>

### **"State Capitalism"**

In 1940, Rudolf Hilferding (1971: 511-512) challenged the thesis emerging among European Marxists that the Soviet economic system under Stalin was "state capitalist". In Hilferding's view, the concept of state capitalism could "scarcely pass the test of serious economic analysis". Once the State became the owner of all means of production, he reasoned, the functioning of a capitalist economy was rendered impossible. "A capitalist economy is governed by the laws of the market ... A state economy eliminates precisely the autonomy of economic laws." Hilferding's objections notwithstanding, state capitalism as a concept has gained even wider acceptance today, especially among scholars puzzling over how to understand the vastly expanded role of the State in the economies of both developing and developed countries.

Despite, and perhaps because of, its wide usage, "state capitalism" remains an ill-defined concept (cf. Canak, 1984). O'Connor (1973) in a chapter entitled "An Anatomy of American State Capitalism", nowhere defines the term. Similarly, Baer et al (1976) do not attempt to delineate what state capitalism means. Implicitly, they treat it as a residual category, conforming neither to Anglo-Saxon [liberal] capitalism nor to centrally-planned socialism. The problem with this conception of state capitalism which equates it with a mixed economy is that patterns of State involvement in the economy as diverse as those characterizing Bismarckian Germany and Tsarist Russia, the post-war welfare States of advanced industrial societies, and contemporary Third World 'revolutions from above' can all be considered 'state capitalist'. Indeed, virtually all countries in the modern world display characteristics of "state capitalism", thus viewed: this usage of state capitalism might even better describe the economic systems of most contemporary countries than "liberal" capitalism and "socialism". To avoid the confusion which such vague understandings generate, and to establish the concept as a powerful analytical tool, "state capitalism" needs to be defined in a structured and specific way.

A minimum consensus holds that in state capitalism, the State is the motor of economic development: it sets basic prices; it contributes substantially to the domestic product through its capital and current expenditures; it is the leading financier, controlling savings and investment; and it establishes productive enterprises in the commanding heights of the economy. Of these functions, the most salient are the State's control of investment and its network of productive enterprises in key economic sectors. In principle, a minimum, quantifiable level of State involvement in these economic activities could help define state capitalism, as could an indication of which productive sectors should be under State control. These specifications alone, however, would not distinguish "state capitalism" from other forms of capitalist economic organization. While the State necessarily performs these functions in state capitalist societies, it performs similar roles in certain advanced industrial societies which are not "state capitalist".

In free-market or liberal capitalist economies, State intervention in the economy enhances private profit by socializing the cost of overhead and by absorbing losses in key service industries:



State elites, who have no independent economic interest, serve the interests of a more powerful bourgeoisie. In state capitalism, in contrast, the State's participation in the economy does not necessarily complement, and may conflict with, the private sector (Sorj, 1983; Freeman, 1982).<sup>10</sup> State enterprises attempt to maximize profit in order to accomplish State, not private, objectives; State elites are not accountable to the bourgeoisie (though this does not preclude their alliance with other groups or classes). We may therefore define state capitalism as an economic system broadly organized according to market principles (although the market is often contravened in setting prices and wages) in which politically dominant State elites use the State's control over investment and production to achieve State-defined economic goals. This conception of state capitalism is akin to Guimarães' (1977) notion of "state-dominated capitalism" (see note 5).

Thus far we have focused on the State's role as a producer. State spending, of course, is also directed toward social welfare programs. Most observers would exclude social expenditures from any notion of state capitalism, arguing that it is unrelated to the State's productive role and more characteristic of free-market economies (FitzGerald, 1979: 180). Indeed, social spending accounts for a higher proportion of domestic product in many Western European countries than in State-dominated economies in the less developed countries. Yet, while States in liberal capitalism perform a similar role and social expenditures per se do not distinguish state capitalism from other forms of economic organization, the range, nature, and effects of social spending, especially the relationship between the State and target groups, do differ between state capitalist and other capitalist economies. Thus, while levels of social spending should not form part of a definition of state capitalism, the pattern of State expenditures in non-productive sectors is relevant to a discussion of the political consequences of a pervasive State presence in the economy.

### **Brazilian State Capitalism**

Brazil since 1964 is an example par excellence of state capitalism. While direct State involvement in the economy in Brazil antedates contemporary "bureaucratic-authoritarianism" and "dependent development", the State's many roles in the economy have grown, eclipsing the

private sector, since the change of regime. General government expenditures as a percentage of GDP have risen from 21.1 percent in 1959 (Baer et al, 1976: 73) to about 25 percent for the past decade (IBGE, 1983: 948, 956).<sup>11</sup> In comparative terms, this rate has been higher over the period of the past two decades as a whole than that of the other major economies in Latin America. With respect to other fiscal measures, the government's tax revenues as a percentage of gross product (27 percent in 1973) (Baer et al, 1976: 73) are the highest in Latin America, as was the public sector's gross capital formation until it was surpassed by Mexico's after 1975.<sup>12</sup>

As a financier, the State is clearly dominant. In 1983, deposits in State commercial banks and the State savings institutions known as Caixas Econômicas represented 70 percent of national savings (24 percent in the official commercial banks and 46 percent in the Caixas). Also in 1983, the State sector dispersed over half of the loans made by commercial banks (data calculated from Visão, 1984: 385). State financial institutions led in investment loans as well: in 1974, more than 70 percent of investment loans originated from within the State (Baer et al, 1976: 76). In 1983, 71.6 percent of all loans conceded by Brazil's development and investment banks were made by the official federal and state government development banks (and one public investment bank) (calculated from Visão, 1984: 386). The actual percentage of investment originating from within the State, however, is even higher, for these figures do not include the investments of the National Housing Bank (BNH) targeted to urban development and housing.<sup>13</sup> In 1980, nearly half of housing loans originated in the BNH; some were authorized directly, the rest through other financial institutions. All private commercial housing bank loans were from credit lines made available by the National Housing Bank (IBGE, 1983: 902).

The growth in the State's fiscal function, and to a lesser extent its financial function, since the 1964 coup d'état may be understood as a change in degree. The expansion in the State's role as producer, no less impressive in quantitative terms, also marks the passage from the typical role of the State in capitalist society to a state capitalist model. As a producer, the State took its first giant steps during Vargas' Estado Novo (1937-1945), creating the National Steel Company (1941) and the Rio Doce Valley mining concession (1942). In his second term as president,

Vargas brought into being the national petroleum monopoly (1953). In this same period, the State ventured into the business of electrical power, which had been a bottleneck to industrialization (Evans, 1979: 87-93). Since the regime change, the State's holdings have grown steadily. One hundred and eight federal state enterprises were added to the State sector from 1967 to 1973 (Araujo, 1977: 238). This explosion in state enterprises continued, even after the "miracle" had been exhausted. In 1983, there were 683 public sector companies (195 federal, 372 state, and 116 municipal) (Visão, 1983: 431). The business magazine, *Visão* (1981: 411; 1983, 432-33), complained for several years that despite the Government's declared commitment to privatizing state firms, the growth in the number of public enterprises continued (only in 1984 did the number of state enterprises level off), and that this expansion left little room for private enterprise:

According to our figures, in terms of net assets, more than half the Brazilian economy belongs to the Government. On the monetary side, government financial institutions represent more than 50% of the assets of all banks and intermediary financial institutions in the country. If, in addition to the Government as entrepreneur, we consider the other forms of state intervention in economic activity, such as price controls, state monopolies and favors, interference in capital markets, excessive taxation, etc., we come to the somber -- but true -- conclusion that little space is left for private enterprise in the Brazilian economy (1983: 432).

These public enterprises dominated the commanding heights of the economy. Throughout the 1970s and early 1980s, they consistently topped *Visão's* "Who's Who" of the 200 largest non-financial corporations: in 1982, 79 state enterprises controlled three-quarters of the net assets and accounted for half of the sales in this elite category (Visão, 1983). The advancing dominance of state firms was visible throughout the economy. In 1974, public enterprises represented 39 percent of the total net assets in Brazil's largest 5113 nonfinancial firms (Baer et al, 1976, based on *Visão*). In 1983, their share of total net assets of the country's largest 8480 nonfinancial firms had increased to 50.5 percent, and over half (51.2 percent) of Brazil's financial institutions.<sup>14</sup> These enterprises have dominated the petroleum, transportation and storage, mining, metallurgical (especially steel), and public utilities sectors for at least a decade (Table 1). Only in the case of the petroleum industry has the State's participation

declined: exploration by foreign corporations was permitted after the oil shocks in order to alleviate Brazil's acute energy crisis. The influence of state firms, moreover, extends beyond these sectors. Barros and Graham (1978: 8) point out that through their role as buyer and supplier of inputs for other industries, the pricing policy of public enterprises affects the cost structure of industry as a whole. Faucher (1980: 17) makes the related point that since these firms are very large production units, they can have a multiplier effect on the entire economy.

Table 1

## Brazil: The State's Productive Sector, 1974-1983

| <u>Sector/Subsector</u>                                              | <u>State Firms - Percent of Net Assets</u> |                           |                         |                       |
|----------------------------------------------------------------------|--------------------------------------------|---------------------------|-------------------------|-----------------------|
|                                                                      | (1983) <sup>a</sup>                        | (1980) <sup>b</sup>       | (1975) <sup>c</sup>     | (1974) <sup>d</sup>   |
| Mining                                                               | 62.0                                       | 61.5                      | 61                      | 62                    |
| Metallurgy [Metal Products]<br>(iron and steel)                      | 60.5                                       | 37.8<br>(81.6)            | 40<br>(62.5)            | 34                    |
| Chemicals and Petroleum<br>(chemicals and petrochem.)<br>(petroleum) | 50.8                                       | 58.0<br>(25.0)<br>(82.7)  | 55<br>(22.4)<br>(85.0)  | 32 <sup>e</sup><br>98 |
| Transportation and Storage<br>(railroads)<br>(storage)               | 88.9                                       | 89.6<br>(100.0)<br>(75.1) | 89<br>(100.0)<br>(78.8) | 78                    |
| Public Utilities [services]                                          | 98.3                                       | 98.5                      | 90                      | 88                    |

<sup>a</sup>Visão, 1984.

<sup>b</sup>Visão, 1981.

<sup>c</sup>Martins, 1977, Anexo: 17-18.

<sup>d</sup>Baer et al, 1976; Faucher, 1980. Both use Visão, August 31, 1975.

<sup>e</sup>Martins does not make plain which subsectors this figure comprises, and thus we should not necessarily conclude that the State's share of this sector has declined.

Unlike in many advanced industrial societies where governments subsidize lame ducks to maintain vital services and service industries, in Brazil state enterprises in both the productive and financial spheres generated surplus, at least until the recession of the 1980s.<sup>15</sup> Prior to 1964, Brazil's state enterprises behaved pretty much as state enterprises do in 'liberal' capitalist

economies. Public sector pricing, especially in the railway services, electrical energy sector, and steel industry essentially subsidized the cost of industrial inputs to the private sector (Barros and Graham, 1978: 8; Faucher, 1980: 16). This practice resulted in hyper-inflation and drained the national treasury. Following the coup, a priority and accomplishment of the stabilization plan was to make these enterprises profitable. Trebat (1981: 49-51) attributes the profitability of Brazilian state enterprises, especially compared to their Mexican counterparts, to the fact that Brazilian firms were not saddled with many social objectives, and that they were reasonably unfettered in their price setting. After 1966, they were much more concerned with accumulating a surplus which could be used to finance investment spending than Mexican public corporations which generally subsidized the private sector by running losses on current operations.

Until the 1980s, the performance of state enterprises, moreover, compared favorably with private sector firms. According to a 1972 survey of 318 of the largest non-financial firms in the country (Doellinger and Cavalcanti, as reported in Baer et al, 1976: 79), the before tax profitability (before tax profits divided by equity, unweighted average) of state enterprises was higher (17.6) than that of both private Brazilian (16.4) and multinational (15.8) firms. The good performance of public enterprises was further demonstrated by the inability of private firms to compete with public sector firms for capital in the stock market, for, "according to any criteria of an expected rate of return, public enterprises [were] a more secure and remunerative portfolio investment for prospective stock-holders than private firms" (Barros and Graham, 1978: 14). This undoubtedly helps to explain the anti-statism campaigns launched by the São Paulo bourgeoisie in the mid-1970s, in which an array of grievances were voiced over the 'preferential treatment' received by state enterprises (Barros and Graham, 1978: 26). The situation changed after 1980, when a severe recession had a more damaging impact on public than private sector firms (Visão, 1983: 23).

Public control of savings and investment, together with the concentration of productive economic resources in the State, had several important political consequences. State capitalism eclipsed industrial classes and created new ones; it markedly expanded State resources,

enabling the State to provide new social services and hence broaden the possibilities for state patronage; and in engendering state clientelism, it cemented the position of the State power elite. These effects are readily visible in the politics of Minas Gerais, the Brazilian state which prospered under state capitalism in the 1970s.

### **State Capitalism and the Class Structure**

A major subject of inquiry in any study of how state capitalism has influenced politics is the effects of state capitalism on class formation, class position, and class dominance. Much social science theory bases its understanding of class and class structure upon the ownership of property and the means of production, as well as on the position of classes in the market. If there is public ownership and the state intervenes in the market, then, this should change our perception of class and our understanding of the resources which various classes command. Even when classes in state capitalist society are similar to those in liberal capitalist societies, if their resources differ, this would likely significantly affect politics.

The following discussion examines the relationship in state capitalist society between first, the state and the bourgeoisie and second, the state and the lower classes. The subordinate role of the bourgeoisie in the economy and its relationship to the State is important in that it is the basis of the conceptual distinction advanced above between state capitalism and liberal capitalism. The study of the formation of the popular sectors, and the nature of the ties between these and the State, further illuminates the patterns of political organization engendered by state capitalism.

The State and the Bourgeoisie. In state capitalism, State elites accord priority to, and are able to enforce, the State's own economic agenda. This does not in itself, however, preclude the possibility that the bourgeoisie benefits from State-induced economic growth; indeed, this could help explain why the bourgeoisie takes the initiative in requesting State tutelage (Boschi, 1978: 3). Studies of state capitalism in Brazil have formulated, but not resolved, the fundamental questions of (1) whether State ownership of productive enterprises and the expansion of the State's role in the economy strengthens or undermines the position of the bourgeoisie, and (2) in

the event that state capitalism does set the private sector on its feet, whether or not this is a temporary, transitional stage leading to a more liberal economy. Evans (1979) argued that the national bourgeoisie benefits from the extensive State presence in the economy; in his conception, local capitalists, the multinationals, and the State are interdependent partners in industrialization. Baer et al (1976: 71), writing at the tail end of the "miracle", hedged these questions in concluding that "it remains to be seen whether the growth of the state capitalist sector assumes a life of its own or declines in relative importance after strengthening the forces of private enterprise." If state capitalism cannot or does not strengthen "the forces of private enterprise", then it would empower State elites at the expense of the bourgeoisie in the short-term and, if permitted to continue, in the longer term it would fundamentally redefine the class structure in capitalist, industrial society.

These questions can be explored through an examination of industrialization in Minas Gerais. Between 1960 and 1977, Minas Gerais underwent a metamorphosis from an agrarian state to one in full industrialization. In 1960, the agrarian economy contributed one-half of the state's income (BDMG, 1968, I: 140) and employed three out of every five Mineiros (SEPLAN, 1978, 7, I: 171). From that date to 1977, annual industrial growth rates averaged 11 percent and the manufacturing sector increased its share of the Minas gross internal product 10 percentage points. By far the most striking gains were achieved during the 1970s, when the industry-wide average growth rate was 16.5 percent per annum, and non-traditional industries showed especially impressive growth: capital goods and consumer durables expanded by more than 27 percent per year, and chemicals, by 34 percent (SEPLAN, 1978: 5). Above all, Minas specialized in intermediate goods. In 1982, the state produced 40 percent of Brazil's steel (IBGE, 1984: 202).

Industrialization in Minas Gerais was State led. New state agencies such as the Institute for Industrial Development (INDI) and the Industrial Districts Company (CDI) were created in the late 1960s and early 1970s to foster industrial growth (Grossi, 1977; Suzzi, 1980). The state also offered substantial fiscal incentives, state financing, import credits, infrastructural construction,

and even state partnerships to new industries locating in Minas.<sup>16</sup> Not only did the Minas state government create a favorable climate for investment, but public capital also constituted the lion's share of new industrial investment -- 63 percent in the boom years from 1970 to 1977. The second most important actor in the industrialization of Minas Gerais was foreign capital; foreign producers, in choosing among potential industrial sites in Brazil, seized upon the fiscal incentives. Foreign capital's share of investment in this period was 20 percent. Undoubtedly as a result of this large injection of State and foreign capital, in 1976 two thirds of the net assets of the 185 principal industrial corporations of the state were concentrated in foreign and State hands (SEPLAN, 1978, 8: 23, 95, 97), representing the modern, dynamic industries. The residual contribution of local capital to Minas' industrialization was, not surprisingly, fairly small. Private national investors were responsible for only 17 percent of new industrial investment in the 1970s. For the most part, these industrial projects represented the relocation or expansion of operations of plants formerly located in São Paulo.<sup>17</sup> the truly Mineiro contribution is even smaller. We have estimated the local share could have been as little as five percent of all industrial investments in this period.<sup>18</sup>

The long-standing economic weakness of the local industrialists situated them poorly to capitalize on the opportunities offered by the state's industrialization drive.<sup>19</sup> Even with state fiscal incentives, state development bank financing, and foreign technology, private entrepreneurs in Minas were unable to marshal the capital required to launch modern enterprises. Of all capital goods and consumer durables industries established after 1970, only one, short-lived, micro-electronics firm, Transit, was the venture of local Minas entrepreneurs.<sup>20</sup> Nor could local industrialists purchase already operating establishments from the State on terms intended to facilitate the transfer of controlling stock to the private sector. The Brazilian government in 1981 announced its intention to sell public enterprises as part of a debureaucratization and destatization campaign. In Minas, representatives of private sector industry responded ambiguously by agreeing that the State should reverse the 'dangerous' trend toward statization, but protested the timing of the proposed sales -- arguing economic recession and high interest



rates would make it impossible for them to buy the firms. Instead, they feared, industries which in many cases were of national interest would fall into foreign hands (Estado de Minas, 9/2/81: 12).<sup>21</sup> The hesitancy of Minas entrepreneurs was understandable. Had current interest rates been lower, native Mineiros still could not have purchased state enterprises, for they would have been unable to outbid their own countrymen on the open market.<sup>22</sup>

Minas industrialists were also unable to form joint ventures with State and foreign capital. In dependent development, the ability to build alliances with multinationals and the State is deemed to be potentially more important than entrepreneurship (Evans, 1979: 281).<sup>23</sup> The state participated directly and indirectly in capital investments of major industrial projects. The best known, and perhaps largest, was that of FIAT. The Italian automobile giant was enticed to install a plant outside the state's capital, marking the first time in Brazil that an automobile factory had located outside of São Paulo. FIAT maintained majority control in an industrial project in which the state of Minas participated with 44 percent of the firm's capital. The project spawned many supporting industries, especially in the metals and plastics sector. These included joint ventures between foreign firms and the state government, fully foreign firms, and Paulista firms.<sup>24</sup> Conspicuously absent was the participation of Minas private capital. The conclusion is inescapable that Minas private entrepreneurs lacked the resources with which to enter into lucrative projects.

Thus, the pattern of State intervention in the economy did not strengthen the 'bourgeoisie' in Minas Gerais. This class, whose failure to spark industrialization is presumed to have necessitated state capitalism, remained weak economically, even after industrialization was well underway. Despite every advantage the state could offer--financing, the purchase of already sound enterprises, or joint ventures--local industrialists could not participate meaningfully in local industrialization.

Our findings are apparently at odds with accounts of "dependent development" which stress the opportunities created for local capital (Evans, 1979; Cardoso, 1972; Freeman, 1982). They are, however, consistent with available evidence. Two-thirds of Brazil's economic

groups,<sup>25</sup> the leading elements of the entrepreneurial class, were formed prior to the First World War, and the remainder between 1914 and 1945 (Evans, 1979: 105).<sup>26</sup> In other words, the origins of the São Paulo bourgeoisie, the partner of State and foreign capital in Brazilian industrialization, predated state capitalism. While it may be possible for an already established bourgeoisie to retain its economic strength under state capitalism, there is no reason to believe that state capitalist industrialization will strengthen economically or politically a bourgeoisie which was weak or non-existent prior to its onset. This suggests that, in this latter case, at least as long as state capitalism remains the dominant form of economic organization, the bourgeoisie will have neither the economic nor political wherewithal to live up to its stereotypical, Schumpeterian mission of "conquerer". One important implication of this likelihood is that there will be no alternative, privately-based economic elite to challenge, and check, the State elite.

The State and the Popular Sectors. State capitalist development in Minas Gerais in the 1960s and 1970s restructured the labor market and rearranged the lower end of the class scale in a manner different from that which would "normally" be anticipated during rapid industrialization. Economic development is expected to diminish the economic and political roles of the peasantry and enhance those of an urban, industrial working class, or proletariat. In Minas Gerais, State-sponsored agricultural modernization produced half this equation: it diminished the size of the peasantry, and substantially increased the urban population. Yet, the process of economic development remained incomplete. Private industry proved incapable of absorbing new, migrant labor, and entry into the ranks of the industrial proletariat was limited. Instead, many former, full-time agricultural workers who migrated to urban areas divided their time between urban employment and temporary, seasonal agricultural labor. They became a "rurban proletariat." Others, who became permanent urban dwellers, on the other hand, fared little better; they were for the most part confined to temporary, unskilled, and poorly remunerated jobs in the construction and service sectors. These two groups of semi-urban, non-industrial labor, together with the shrinking peasantry, the stunted proletariat, and the lower-middle class (typically State

employees), formed the "popular sectors", who were dependent more on the State than on landlords and capitalists.

State-supplied capital investment revolutionized traditional agriculture in Brazil in the 1960s and 1970s, and substantially reduced the agricultural labor force. The National Credit System, created in 1965, made capital available in abundance<sup>27</sup> to rural enterprises at interest rates well below the inflation rate.<sup>28</sup> Easy access to capital made possible the widespread introduction of machinery, fertilizers, and pesticides into Brazilian agriculture.<sup>29</sup> Mechanization made many workers redundant. Many agrarian jobs were also lost in a major production shift from traditional cash and subsistence crops -- coffee, corn, beans, and rice -- to livestock raising and dairy production, and crops for export and domestic industries (Sorj, 1980: 115; IBGE, 1977: 409; Spindel, 1983: 13). In Minas, two-thirds of productive land was devoted to livestock raising and dairy production in 1980 (IBGE, 1980a: 26-27); the conversion of cultivated land to pasture lowered the demand for rural labor since animal husbandry was far less labor intensive than crop tillage. Between 1960 and 1977, the number of agricultural laborers fell from three-fifths to two-fifths of the Minas work force (Table 2). The number of workers employed on a permanent basis, moreover, declined in favor of temporary workers.<sup>30</sup> While there were undeniably economic causes for this change,<sup>31</sup> the passage of the Rural Worker Statute (Estatuto do Trabalhador Rural) in 1963 extending the protection of labor legislation to the countryside was crucial. Estate owners responded to this legislation by expelling resident workers in order to avoid employer obligations, and rehiring those same workers on a temporary basis (Sorj, 1980: 127). An important trend in agriculture throughout Southeastern Brazil (IBGE, 1977), the process of conversion to temporary labor appears to be more advanced in Minas Gerais than in many other Brazilian states.<sup>32</sup>

These changes in traditional agriculture resulted in a rural exodus: 364 predominantly rural municipalities of the state's 722 had fewer residents in 1980 than in 1970 (Estado de Minas, 2/1/81: 7). This dramatic population shift is reflected in rapid rates of urbanization. From 1960 to 1980, the urban population rose from 40 to 67 percent of the total population (Table 3),<sup>33</sup> and

Table 2  
Employment by Economic Sector in Minas Gerais, 1960, 1970, 1977

| <u>Sector</u> | <u>1960</u> |         | <u>1970</u> |         | <u>1977</u> |         |
|---------------|-------------|---------|-------------|---------|-------------|---------|
|               | Number      | Percent | Number      | Percent | Number      | Percent |
| Agriculture   | 1,819,516   | 60.4    | 1,714,109   | 50.4    | 1,539,696   | 39.1    |
| Mining        | 31,551      | 1.0     | 43,088      | 1.3     | 47,555      | 1.2     |
| Manufacturing | 192,223     | 6.4     | 283,803     | 8.4     | 429,841     | 10.9    |
| Construction  | 110,100     | 3.7     | 197,078     | 5.8     | 307,112     | 7.8     |
| Services      | 857,454     | 28.5    | 1,157,850   | 34.1    | 1,614,914   | 41.0    |
| TOTAL         | 3,010,844   |         | 3,395,928   |         | 3,939,118   |         |

Source: SEPLAN, 1978, 7, I: 171.

forty-one cities hosted 90 percent of the state's population growth between 1970 and 1980 (SEPLAN, 1981: 13).

Although a migration away from agriculture was underway, only a small number of displaced workers were incorporated into industry. In Minas in the 1960s, traditional industries declined and many industrial plants introduced labor-saving modernizations, both of which led to the loss of many industrial jobs. Many firms in the non-durable consumer goods sector throughout Brazil went bankrupt in the mid to late 1960s due to the economic crisis and the policies introduced by the new military governors to combat the crisis, especially the restriction of credit and the reduction of wages (and therefore demand).<sup>34</sup> Minas factories were especially hard hit.<sup>35</sup> The traditional industries which survived, moreover, were fundamentally transformed.<sup>36</sup> Employment opportunity contracted in these typically labor-intensive industries,<sup>37</sup> the most salient of which in Minas were sugar, dairy, and textiles, even while plant

capacity was expanding. Productivity rose substantially, and technological sophistication reduced the demand for new labor.<sup>38</sup>

Table 3  
Minas Gerais: Population, 1940-1980

| Year | Urban     |      | Rural     |      | Total      |     |
|------|-----------|------|-----------|------|------------|-----|
|      | Number    | (%)  | Number    | (%)  | Number     | (%) |
| 1940 | 1,693,658 | 25.0 | 5,069,710 | 75.0 | 6,763,368  | 100 |
| 1950 | 2,322,915 | 29.9 | 5,459,273 | 70.2 | 7,782,188  | 100 |
| 1960 | 3,825,249 | 39.6 | 5,832,489 | 60.4 | 9,657,738  | 100 |
| 1970 | 6,060,300 | 52.8 | 5,427,115 | 47.3 | 11,487,415 | 100 |
| 1980 | 8,982,134 | 67.1 | 4,396,419 | 32.9 | 13,378,553 | 100 |

Source: IBGE, 1979: 74, 77; IBGE, 1980b, 3: 2-3.

The new industries developed under state capitalism, concentrated in the intermediate and capital goods sectors, were poor providers of mass industrial employment. They could not produce jobs at a pace that could compensate for those lost in traditional sectors, let alone generate industrial employment on a mass scale.<sup>39</sup> The ratio of investment to new employment in the intermediate goods sector was significantly higher than that in non-durable consumer goods industries, and higher still in chemicals and metallurgy, the sectors which accounted for at least half of all investment in Minas during the 1970s (SEPLAN, 1978, 8: 11). Approximately 150,000 new jobs were created between 1970 and 1977 as a result of the local economic miracle. Even with the surge in industrial job creation, representing more than a 50 percent increase in manufacturing employment, manufacturing from 1970 to 1977 increased its share of state employment from only 8.4 to 10.9 percent (Table 2).

The service sector absorbs most of the displaced workers in the Minas economy (in 1980, it employed 43.9 percent of all economically active persons). However, "service sector" is an eclectic category which explains little about the nature of employment in tertiary activities. At one extreme of the service sector is a small number of scientific and liberal professionals (doctors, technicians, journalists). At the other are domestic and personal service workers (maids and beauticians), who represent 25 percent of the sector. The poor remuneration of this latter group is revealed by the fact that in 1980, in all economic sectors, approximately 40 percent of all workers earned less than one "minimum salary", the minimum income level required for subsistence, while in personal services, that proportion was closer to 60 percent (IBGE, 1980b, 5: 57-60). Between the two extremes, the service sector encompasses a diverse range of jobs, including commerce (20 percent), transportation and communication (10 percent), food and repair services (5 percent each), financial sector employees (5 percent), and various public administration and public service jobs (25 percent) (IBGE, 1980b, 5: 29-34).

The bloated service sector and its generally poor levels of remuneration are symptomatic of the uneven absorption of the labor force into productive economic activity. Official accounts confirm that "the decline in the primary population ... was not accompanied by a growth in the active population in industry and services at a pace that would make possible the complete absorption of the labor force" (IBGE, 1977: 178). The formal rate of labor force participation fell from 33.5 percent of the total population in 1940 to 30.9 percent in 1950 to 29.5 percent in 1970.<sup>40</sup> It is thus perhaps not surprising that the figures for family income, a measure which provides a more realistic indicator of the living standards of household members by aggregating the inferior earnings of young women with the income of their fathers and husbands, are no less gloomy than individual income: 22.8 percent of all families in Minas earned less than one minimum salary, and 25.3 percent between one and two (IBGE, 1980b, 6: 82-83). Given that the average family size is five, it is apparent that at least 50 percent of the population is living below the legally-defined margin of subsistence.

While the labor market was evolving in such a way as to constrict secure and well-paid employment opportunities, the relations of production in traditional jobs were also changing in ways which have political significance. This is particularly evident in agriculture. Sharecropping, once the prevalent form of labor in the Minas countryside, is disappearing.<sup>41</sup> In its place, new relations of production have emerged based on contracted, wage labor. Although a variety of patterns of casual agricultural labor are discernible, the most important group of temporary workers are the "boias-frias", so-called for the cold lunches which these workers carry to work in the fields. Unlike minifundistas, who live on their own farms, and "itinerants", casual laborers under contract to a foreman who live on and move from one fazenda to another (thus circumventing the Rural Labor Statute), the boias-frias typically live on the outskirts of cities, and commute to the fields where they are employed on a contract basis as day laborers (Sorj, 1980: 125; Spindel, 1983: 1,6,2-22). Official accounts of the plight of the boias-frias emphasize their job insecurity; they are for all intents and purposes unemployed for 90 to 100 days between harvests. During this time they must eke out a living in the informal urban sector, usually as street vendors, but also in various menial jobs (IBGE, 1977: 409, 412-413).

Changing labor relations in the countryside coupled with an overall contraction in the rural labor force diminished the size of a peasant class with personalistic ties to landlords. Part-time temporary farm laborers-- minifundistas and even some sharecroppers--together with full-time itinerant workers formed a new rural proletariat. The boias-frias who constituted a distinct class, the "rurban" proletariat, were even more distanced politically from rural landowners. These changes released agricultural workers from the domination of private rural elites. Sorj (1980: 132) correctly identified the erosion of traditional domination, understood as "paternalistic and clientelistic structures of social control", as a consequence of the transformation of labor relations in Southeastern agriculture. However, he voiced a perhaps unjustifiable optimism for the new political possibilities which such changes may create. Reis (1985: 22-23) points out that in the cerrado of Minas Gerais,<sup>42</sup> changing rural labor relations and proletarianization have not led thus far to increased bargaining power for the rural labor force. Instead, "deprived of the old patron-

client arrangements providing for protection and security, the increasingly urban labor force turns to the state to secure its basic needs." It is plausible that this holds true for other groups as well, especially those urban-based workers of recent origin concentrated in poorly remunerated service sector employment.

Ties to the traditional private sector were severed while new ties to the modern private sector could not be forged. Into this void stepped the State. The State, enriched by state capitalism, took up part of the slack left by the failure of the market by directly and indirectly employing its citizens. It also ameliorated the condition of the economically inactive (pensioners, the disabled, those who have stopped looking for work), and that of the temporarily employed, as well as that of the urban and rural poor nominally employed in the private, modern sector of the economy whose remuneration was insufficient for subsistence. It did so largely by meting out housing subsidies, credit, and other public benefits. The result was the coalescence of an amorphous class dependent upon the State, a "State client" stratum.

### **State Capitalism, State Clientelism**

The metamorphosis in the State's role in the economy produced a marked expansion in State resources. In Minas Gerais, State expenditure per capita nearly tripled in real terms between 1960 and 1977 (FJP, III: 141, 145). Public sector spending in Minas (state, federal and municipal governments within the state, and a select few federal, para-public agencies and foundations) as a share of the gross product reached nearly 30 percent in 1977 (SEPLAN, 1978, 6: 255).

The State's expanded role into new branches of the economy and into the provision of new social services broadened the possibilities for state patronage. The State supported a large and growing number of clients, many directly through public employment.<sup>43</sup> One quarter of all service sector employment is formally state employment, representing a diverse range of state jobs including administrative personnel, doctors, teachers, and transportation workers. Five areas of public employment included in this rubric (government, public education, public health, sanitation, and communication) accounted for 10 percent of total employment in Minas Gerais in 1977, more than double the amount employed in these same professions in 1960 (SEPLAN,



1978, 6: 259). Moreover, nearly one-fifth of the state's industrial employment is in state enterprises.<sup>44</sup> By the late 1970s, the number of direct public employees exceeded that of industrial workers in the private sector (Table 3).

State spending also generated an impressive number of indirect jobs. One significant area of public expenditure generating employment opportunity was construction. The IBGE (1977: 184) attributed the substantial increase in construction employment between 1950 and 1970 in Southeastern Brazil to the national housing program. In Minas Gerais, where 457,310 persons were employed in construction in 1980 (an increase of 50 percent with respect to 1977), at least 73,000 new jobs in the sector were officially credited to state spending on housing in 1980 alone (SEPLAN, 1981: 97).<sup>45</sup> It is difficult to know just how much indirect employment can be attributed to Brazilian State spending. In calculating this measure for the United States, O'Connor (1973: 17) estimated that when production organized by industries under contract to the State (such as highway construction) was added to the State sector, the percentage of the civilian labor force employed by the State rose from about one-eighth to perhaps as much as one-third. Given comparable levels of direct State employment and the more pervasive presence of the Brazilian State in the productive sectors of the economy, it is reasonable to assume that the amount of indirect employment generated by State spending in Brazil was at least as much.

For those for whom the State could not provide directly, the state of Minas Gerais in the 1970s expanded traditional patronage programs and developed new ones. It shifted resources away from development projects toward subsidies for the marginal population: between 1972 and 1977, the most significant increase in state spending came in the area of "urban development".<sup>46</sup> State resources earmarked for urban development subsidized the urban population whose growing numbers reflect the shift of the population from the hinterlands and agriculture into urban agglomerations.

Of all urban development programs, perhaps the most important was housing construction. In 1980, the State in Brazil, through the National Housing Bank and federal and state Caixas Econômicas, furnished nearly three-fourths (73.8%) of the capital in the housing

mortgage market (IBGE, 1983: 902). Additionally, federal and state governments occasionally organized special housing programs to benefit the low-income population. In Minas Gerais, such a program was successfully launched on a somewhat modest scale in the first year of Francelino Pereira's government (1979), and later expanded into a major development project. From 1979 to 1982, the state government built 107,343 new residential units. In the 1983-1986 period, an additional 78,890 units were planned for 100 municípios (Santos, 1983: 345)

Aside from housing, funds for urban development were channeled through ambitious projects like the federal and state Intermediary Cities Programs, backed by the World Bank and the Inter-American Development Bank, respectively. Aiming to develop mid-sized "dike" cities to halt migratory flows into the metropolitan capital region by rechanneling them to these entrepôts, the programs delivered basic sanitation (sewer and water), infrastructure (including public transportation), health and education, labor training, credit, and income-improving opportunities such as subsidies for artisanry to 2 million low-income Mineiros (1 in 7 of the state's population) in 16 mid-sized cities of the state between 1981 and 1985. The Dike Cities Program was the most expensive and ambitious of all state development programs. It was not, however, unique. Table 4 indicates the broad scope of state programs, and the size of potential target groups.

While the state accelerated its program for urban dwellers, it did not neglect those who remained in agriculture. One critical way in which the State had traditionally supported small (as well as large) agrarian producers was to extend them credit:<sup>47</sup> 90 percent of all agrarian credit in Minas Gerais in 1980 was disbursed by public entities (IBGE, 1980a: 52). In the late 1970s and early 1980s, after years of relative neglect, agrarian producers, and especially small producers, were once again privileged in state budgetary priorities.<sup>48</sup> A state Program for the Promotion of Small Rural Producers, MG-II, for which a 264.2 million dollar investment was planned to benefit 30,000 landless and small producers and their families in 102 municípios, as well as 1000 small entrepreneurs in the target regions, had by the end of 1982 reached over 17,000 rural producers. A second program, PRODEMATA (Program for the Integrated Development of the

Table 4  
State Development Programs in Minas Gerais, 1981

| <u>Program</u>          | <u>Purpose</u>                    | <u>Beneficiaries</u>                                             |
|-------------------------|-----------------------------------|------------------------------------------------------------------|
| Cidades-Dique           | Reorient Migratory Flows          | 2 million low-income inhabitants of 16 mid-sized cities          |
| Crédito Rural           | Rural Credit                      | 30,000 small producers                                           |
| Prodemata               | Rural Development                 | 25,500 small rural producers & landless sharecroppers            |
| MG-II                   | Rural Development                 | 30-35,000 low-income farmers                                     |
| Planoroeste II          | Integrated Rural Development      | Low-income population & small rural producers                    |
| PDRI/ARG                | Rural Development                 | 7,000 small rural producers                                      |
| Polocentro              | Rural Development                 | Rural property owners in 44 <u>municípios</u> of the 'Triangulo' |
| Goeconômica de Brasília | Reduce Migratory Flow to Brasília | Low-income population in 13 Northwestern <u>municípios</u>       |
| Prodevale               | Rural Development                 | Needy population in the Jequitinhonha Valley                     |
| PDRI-Gorutuba           | Integrated Rural Development      | 5,000 rural producers in Northern <u>municípios</u>              |
| Projeto Sertanejo       | Rural Development                 | Small rural producers in 6 <u>municípios</u> in Minas Northeast  |
| Reflorestamento         | Increase Wood & Charcoal Supply   | Firms                                                            |
| Saneamento Básico       | Metropolitan Belo Water Supply    | Slum dwellers                                                    |
| Energia Elétrica        | Elec. for 1,043 Communities       | 1,800,000 inhabitants                                            |
| Recursos Hídricos       | Minimize Effects of Drought       | Rural population of 42 <u>municípios</u> of Minas Northeast      |

Source: SEPLAN, 1981: 33-71.

Mata Zone), intended to reach 128 municípios in the Mata zone and 25,500 families of sharecroppers and small farmers (Estado de Minas, 1/20/82: 11), brought credit and technical assistance to 25,000 families, 97 percent of its goal (Santos, 1983: 47). The reasonably good success of these programs, the most important of an array of programs for the state's rural areas, augured well for the government's ability to reach its targeted 70,000 program beneficiaries, representing 1 in 5 of all small agrarian producers in the state of Minas Gerais (Estado de Minas, 5/21/81: 14).

While essentially providing economic assistance, these state urban and rural development programs had far-reaching political effects. They reached a remarkable number of low-income citizens; by providing indirect employment, shelter, basic amenities, and other necessities, they integrated marginal workers into the public economy. Because these workers were now dependent on public resources, this heightened the political importance of the way in which State resources reached State clients. Where entry to state employment is subject to civil service examination, and where State transfers are allocated to individual citizens on an automatic basis, there is little political gain for program administrators. Where, however, important volumes of resources are allocated to communities on a discretionary basis, the potential for political gain is very high indeed. In Minas Gerais, the manner in which State resources were distributed to State dependents would be shaped by, and profoundly shape, patterns of political organization and representation, and power arrangements.

The command of State resources was historically central to the configuration of political power in Brazil. Traditional Brazilian politics was founded on a brand of political clientelism known as coronelismo. The fiscal dependence of impoverished municipalities on state and federal governments left local elites, and their subjects, little alternative but to support the existing order. Federal funds were appropriated by the more powerful regional oligarchies, who, in turn, bolstered the rule of loyal municipal elites with state aid. The coronel, or local political boss, who normally achieved his position by virtue of being an important landowner, gained State benefits for his fiscally-dependent municipality and the delegation of power for himself, in exchange for

delivering the votes of his 'herds' to the party or party faction of his political superiors (Leal, 1978). Recent scholarship (Cammack, 1982) has challenged the widely accepted view that coronelismo reached its apex during the Old Republic (1889-1930), arguing instead that it became an even more widespread phenomenon after 1945 with the extension of the franchise, and all pervasive after 1964.

After 1964, State resources tended to be concentrated at the highest levels of the State. In 1966, the new military governors ushered in a sweeping tax reform which markedly centralized tax collection.<sup>49</sup> Predictably, federal government tax revenues rose sharply in absolute terms, and the federal government's share of public sector tributary income increased from 63.9 percent in 1965 to 72.9 percent in 1975.<sup>50</sup> The federal government did return a portion of these tax revenues to the subnational governments through a revenue sharing program,<sup>51</sup> but required that fifty percent of both state and federal revenue sharing funds be spent according to guidelines pre-determined by federal authorities and legislation. Scholars claimed that the fiscal centralization of the post-64 Brazilian regime empowered the central government at the expense of the states (Baer et al, 1976: 74; Martins, 1977).<sup>52</sup> These claims were based on two elements of fiscal centralization: federally-imposed ceilings on state and municipal revenues, and federal government restrictions on the use of transferred funds. If indeed deprived of independent sources of revenue, state elites would have also been deprived of an important political resource, state patronage, and this resource, and the option to exercise it, would have been delivered to national level elites.

While this argument seems plausible, and appears to be supported by a superficial consideration of the centralization of tax collection, a closer examination of fiscal centralization reveals that it did not necessarily undermine the political resources of the regional oligarchies. First, it is doubtful that the restrictions placed on state government revenues by federal constitutional legislation curbed state spending. Minas Gerais, for example, overcame in part the restraints placed upon its tax base in the 1970s by borrowing abroad, regularly more than 10 percent, and, in some years, as much as one-fourth of state revenue (SEPLAN, 1978, 6, II: 355,

356).<sup>53</sup> Moreover, scholars probably attributed an exaggerated importance to the strings attached to federal transfers. While the existence of these strings implied that the national government had the authority to direct spending, substantial evidence from the municipal levels suggests that federal guidelines had little impact on local spending patterns.<sup>54</sup> Local spending on specified government services did not conform to predicted levels; in some cases it well exceeded government-prescribed minimums, suggesting such monies would have been dispensed regardless of State regulations, and in others it did not even meet legally stipulated levels, indicating that in these municipalities, local officials felt free to ignore state requirements (IBAM: 1975, 1976). In addition, there is still considerable diversity in local government spending across Brazilian regions, which would be inexplicable if fiscal centralization were as effective as believed.<sup>55</sup>

The centralization after 1964 conformed to the long-standing pattern of local financial dependence upon higher levels of government, whereby the most significant factor constraining local and state budgetary decisions was not the strings attached to federal transfers, but rather the amount of funds available from the higher, richer levels of government to the lower, financially dependent sub-national governments. The levels of support were dependent not on formal limits, but on the authorization of discretionary funds, secured through political connections. When local revenues are limited, and when it is of paramount importance to secure supplementary federal or state funding to provide public services, municipalities need to elect local leaders and representatives who are well-connected to state and national elites in order to secure those funds. In this case, economic dislocation caused by agrarian modernization and rapid urbanization made this need all the more urgent. As Tarrow (1978: 2) put it in another context, "the growing demand for services of local governments, and for the national subsidies to provide them, has increased the importance of the linkages between center and periphery of the political system and of the skills and resources of the politicians and administrators who serve as gatekeepers between each level."

State capitalism centralized the collection of State resources, and partially removed control over patronage from regional political elites, but fiscal centralization by no means succeeded in depoliticizing the distribution of public goods. While resources for state patronage operations originated in large part in the federal government, and the federal government appropriated broad policy-making prerogatives and set national development goals, federal authorities did not allocate discretionary State benefits. Instead, funds to implement these programs and goals were still entrusted to the state governments.

In state capitalism, policy implementation was left, as always, to the discretion of state political elites. State clients and their communities did not secure employment, homes, and loans for development aid directly from the State, but through the mediation of elected political representatives. Moreover, the State was not 'faceless' and impartial; the allocation of public resources was highly politicized. The political utility of state clientelism was enhanced by the volume of the resources concentrated in the State, and rendered even more politically profitable by the large and expanding state client stratum. Thus, state clientelism politically privileged whomever controlled the State's distribution network.

### **State Capitalism, State Power**

Most observers would agree in that in liberal capitalist societies, the State is one, but not the only or the most important, locus of power in society. The State is seen alternately as a useful ally or as the pawn, of some other, more powerful, societal group.<sup>56</sup> In state capitalism, in contrast, the State's productive and distributional resources advantage its elites vis-à-vis their weaker private sector counterparts. Decision-making, moreover, is highly centralized within state structures; citizens bring their interests to secretaries and undersecretaries of state over a much wider range of issues than in liberal capitalist society. The concentration and centralization of economic resources and decision-making power in the public sphere and the higher echelons of the State makes the occupants of State office important formal and informal power-holders in the political system.<sup>57</sup> Consistent with this general principle, in Brazil, most State positions are not merely honorific but coveted, and contested, sources of economic and political power. Who

holds State office can, therefore, reasonably be interpreted as an indication of (1) Who has benefitted from state capitalism, or, in other words, who is powerful; and (2) Who, given the power base which State office represents, is well situated to be powerful in the near future.

A first step toward discovering who is and who is likely to be powerful is to determine the positions in the State apparatus which confer 'power'. We may exclude legislative posts; consensus among Brazilian scholars holds that federal and state legislatures were stripped of all meaningful functions and jurisdictions by the military regime. If this is true, prolonged tenure in legislative posts, the typical focus of elite studies, would mean little about real power. Within the executive branch, many observers locate the most important sources of power as residing squarely in the ministries with influence over economic policy-making: Planning, Finance, Industry and Commerce, Transport, and State banks and industries. McDonough (1981a, 1981b) derisively views the authority of office holders outside these select ministries as limited to commanding only the 'underside' of the State. The Ministries of Planning and Finance do have the authority to set budget priorities and even the power to veto expenditures in other state departments, and state enterprise managers administer enormous budgets, in extreme cases exceeding the funds available to many state governments. While these posts are obviously powerful, we contend that neither are they omnipotent nor are other posts in the State apparatus powerless. The managers of state enterprises do control immense resources, but the lion's share of these resources are consumed by the great fixed capital requirements of these enterprises. Political elites such as state governors, in contrast, have far greater discretionary authority in the use of the resources of their offices. Also, while national elites were empowered to formulate macro-policy, especially economic policy, state-level elites continued to implement those policies. Discretionary, distributional decisions were taken in the state governments. The holders of even seemingly insignificant state cabinet posts, who implemented state policy and controlled the purse strings of state programs, distributed state resources in the form of public employment and other public subsidies. Thus, we included in our universe of the Minas state elite members of the state cabinet, including the appointed prefect of the state capital and the vice-governor. To



assess the effects of state capitalism on patterns of elite office holding, we compared the career paths of office holders in the pre- and post-coup state cabinets in Minas (Table 5). In order to include secretaries from both the administration of Magalhães Pinto (1961-1965) which favored UDN politicians, and that of Bias Fortes (1956-1960), Minas' last pre-coup PSD governor,<sup>58</sup> our research started with officeholders in 1956. Whatever the advantages of pushing the limits of our study further back in time, to have done so would have complicated monitoring the political fate of pre-coup oligarchs by bringing in an elite cohort for the most part too aged to survive into the 1970s. Two measures of elite office-holding are utilized. The first represents the actual number of cabinet secretaries during a particular administration according to career path, and the percentage they represent of their cohort. The second measure represents the percentage of the time cabinet offices were occupied by traditional political elites, technocrats, private sector representatives, and persons for whom biographical data were insufficient to determine their career path. Total time is represented by the sum of the number of months each cabinet post was in existence. The second measure has been included in order to eliminate any distortions which might be caused by weighing secretaries who served extremely brief terms in office (in many instances no more than one to two months) equally with secretaries who served nearly full terms.

In state capitalist Brazil, observers alleged State elites were technocrats (Cardoso, 1973, 1975, 1979; McDonough, 1981a, 1981b; Mendes, 1980; Pereira, 1984; Skidmore, 1973), and the same was claimed for Minas Gerais (Grossi, 1977; L. Andrade, 1980). Yet, according to our data, claims of technocratic ascendance have been greatly exaggerated. In Minas Gerais, shifts in power-holding from politicians to technocrats were less abrupt, longer in the making, quicker to revert to political control than on the federal level, and not as complete as has been commonly assumed. Our findings indicate that in the late 1950s and early 1960s, Minas politics were governed by partisan considerations, and remained the preserve of traditional political elites (Table 5).<sup>59</sup> Political elites occupied 89 percent of the cabinet posts for 96 percent of Bias Fortes' administration. A similar pattern is evident during the administration of Bias Fortes' successor, Magalhães Pinto. Magalhães appointed 40 of 58 cabinet secretaries from political

ranks, and nine were drawn from the public bureaucracy. Politicians occupied state cabinet offices for four-fifths of Magalhães term. In some cases, they were chosen to head up secretariats for no apparent reason other than the base of support they could offer the incumbent from their party's ranks. This is especially true of several minor party leaders, who joined the cabinet because the UDN was not a majority party. Technocrats entered state government at cabinet rank in significant numbers (approximately 30 percent of the secretaries of state) in the first governor's administration after the coup, Israel Pinheiro (1965-1971). During his successor, Rondon Pacheco's term (1971-1975), the technocratic presence in government peaked at approximately half the cabinet. Already toward the close of Aureliano Chaves' administration (1975-1978), the pendulum had begun to swing back in the direction of traditional politicians. By the end of the decade, Francelino Pereira appointed only three technocrats to his cabinet. Indeed, when the entire period is considered, it is striking how brief the period of technocratic ascendancy was.

When this picture of state office-holding is disaggregated and cabinet departments are examined individually, moreover, it becomes apparent that the technocratic penetration of government was less extensive than previously believed (Table 6). In Minas, in the late 1960s and early 1970s, technocrats were assigned to administer the departments of Planning, Finance, Industry and Commerce, and Agriculture. Politicians never ceded control over the cabinet departments of Interior and Justice and Administration, and they quickly recaptured such traditional patronage secretariats as Public Works and Education, and even Agriculture, a post which in the preceding administrations had been entrusted to agronomists. Perhaps the largest patronage job, that of the prefect of Belo Horizonte, was awarded to politicians at various times during the authoritarian period.

Politicians not only held onto and regained state cabinet posts, they even invaded the terrain of the scientific experts with some success. Former governors assumed control of some of the most important State enterprises. Upon leaving the office of governor, Rondon Pacheco, for instance, became president of USIMINAS, the national steel company located in Minas Gerais.

Table 5

The State Elite: Composition of the Cabinet, 1956-1982<sup>a</sup>

| Gubernatorial<br>Administration                       | Routes to Power |        |              |        |              |        |              |        | N= <sup>b</sup> |
|-------------------------------------------------------|-----------------|--------|--------------|--------|--------------|--------|--------------|--------|-----------------|
|                                                       | Trad. Polit.    |        | Tech-Bureau. |        | Priv. Sector |        | Insuff. Data |        |                 |
|                                                       | #/%             | % Time | #/%          | % Time | #/%          | % Time | #/%          | % Time |                 |
| Bias Fortes                                           | 16(89%)         | 96%    | 1(6%)        | 2%     | --           | --     | 1(6%)        | 1%     | 18              |
| Magalhães Pinto                                       | 40(69%)         | 80%    | 9(16%)       | 9%     | 3(5%)        | 4%     | 6(11%)       | 3%     | 58              |
| Israel Pinheiro                                       | 23(61%)         | 58%    | 11(29%)      | 29%    | 2(5%)        | 7%     | 2(5%)        | 2%     | 38              |
| Rondon Pacheco                                        | 8(40%)          | 47%    | 11(55%)      | 47%    | 1(5%)        | 5%     | --           | --     | 20              |
| Aureliano Chaves<br>(& Ozanam<br>Coelho) <sup>c</sup> | 12(55%)         | 49%    | 9(41%)       | 48%    | 1(1%)        | 1%     | 1(4%)        | 2%     | 22              |
| Francelino<br>Pereira                                 | 13(65%)         | 70%    | 3(15%)       | 17%    | 2(10%)       | 9%     | 2(10%)       | 4%     | 20              |
| Totals                                                | 98(62%)         |        | 41(26%)      |        | 8(5%)        |        | 12(8%)       |        | 159             |

<sup>a</sup>State cabinet posts include the Vice-Governor and all state secretaries for each administration, except military portfolios. The post of the prefect of Belo Horizonte is included during the terms of the post-coup governors, Israel Pinheiro, Rondon Pacheco, Aureliano Chaves, and Francelino Pereira. This post was omitted in the pre-coup period because, as an elected position, it was by definition one which was achieved by political means. After the coup, it became an appointed position.

<sup>b</sup>Column does not total because secretaries who occupied posts in more than one administration were counted only once. Each administration is considered as a separate unit in the rows, but the duplicates have been removed from the columns.

<sup>c</sup>Ozanam Coelho, the vice-governor during the administration of Aureliano Chaves, became governor in 1978 when Aureliano resigned his post to "run" for Vice-President.

The belief that presidencies of State enterprises were awarded solely on the basis of technical competence has little foundation in fact. Moreover, following public service many members of the traditional political elite found lucrative state bank directorships awaiting them. In liberal capitalism private elites use economic power to influence State policy in their favor to assure sustained economic prosperity in the private sector. In a reversal of the pattern prevailing in liberal capitalism,

in Minas Gerais, political power precedes, and is used as a stepping stone to, economic aggrandizement. Occupying state office offered the promise of financial gain in public posts. In all, more than one-quarter of the members of the traditional political elite throughout the three decades spanning our study served at some point as directors, presidents, or board members in the State banking network.

Table 6

Political Elite Control of State Office  
(percentage of Cabinet post time)

| Cabinet Office                                        | Administration |      |                    |      |      |                 |
|-------------------------------------------------------|----------------|------|--------------------|------|------|-----------------|
|                                                       | I              | II   | III                | IV   | V    | VI <sup>a</sup> |
| Interior & Justice                                    | 87%            | 100% | 100%               | 100% | 100% | 100%            |
| Finance                                               | 88%            | 70%  | 60%                | 0%   | 0%   | 0%              |
| Agriculture, Industry,<br>Comm., & Labor<br>(1956-63) | 100%           | 100% | --                 | --   | --   | --              |
| Agriculture (1963-82)                                 | --             | 41%* | 78%                | 0%   | 0%   | 73%*            |
| Education                                             | 100%           | 98%  | 86%                | 0%   | 17%  | 100%            |
| Public Works                                          | 100%           | 88%* | 29%                | 0%   | 100% | 73%             |
| Health                                                | 100%           | 66%  | 86%                | 0%   | 83%* | 58%             |
| Public Security (1956-70)                             | 100%           | 63%  | <sup>14</sup> /mil | mil  | mil  | mil             |
| Administration (1963-82)                              | --             | 82%  | 65%                | 100% | 100% | 100%            |
| Government                                            | --             | 64%* | 77%*               | 100% | 17%  | 100%            |
| Planning (1970-82)                                    | --             | --   | 0%                 | 0%   | 0%   | 0%              |
| Industry, Commerce, &<br>Tourism (1972-82)            | --             | --   | --                 | 0%   | 77%  | 0%+             |
| Econ. Development (1964-66)                           | --             | 63%  | 0%                 | --   | --   | --              |
| Science & Technology<br>(1977-8)                      | --             | --   | --                 | --   | 0%   | 73%*            |

Table 6 continued

|                                            |                 |                  |      |      |      |      |
|--------------------------------------------|-----------------|------------------|------|------|------|------|
| Labor (1963-82)                            | --              | 39% <sup>*</sup> | 11%  | 100% | 100% | 100% |
| Soc. Action Affairs(1964-66)               | --              | 100%             | 100% | --   | --   | --   |
| Rural Credit & Supply Affairs<br>(1964-66) | --              | 100%             | 76%  | --   | --   | --   |
| Prefect, Belo Horizonte                    | 0% <sup>+</sup> | 100%             | 39%  | 100% | 0%   | 100% |

<sup>\*</sup> minimum estimates - total includes office holders for whom data was insufficient to determine career path.

<sup>+</sup>office holding shared by technocrats and business elites

<sup>a</sup>For cabinet administrations, refer to Table 5.

Even more surprising than the successful defense of state posts by politicians was the prominence among the front ranks of the political elite in state office of direct descendents of the Minas "oligarchy". Cid Rebelo Horta (1956) identified the core of the Minas oligarchy as 27 "governing families" whose origins could be traced to the Brazilian independence movement, and whose power was rooted in local and regional bases.<sup>60</sup> At least 31 of the traditional political elites identified in the pre- and post-coup periods, or roughly one-quarter of the total, are known to have been descendents of these same families. Significantly, they are often found in either top posts, or in positions to broker who, if not they, shall rise in Minas politics, and in the State. The reach of the Minas oligarchy extended beyond its blood or marriage relations; 'new' political elites often owed their allegiance and positions to oligarchical patrons.

State capitalism advantaged traditional political elites because those elites were already entrenched in State positions well before the onset of rapid industrialization. Thus situated, they were well placed to use the resources of their newly enriched offices to build even more personal support in the state. The traditional political elite gained a new lease on life when State resources

were placed at its disposal. Had it been forced to compete for power amidst an expanding and diversifying economy with only private assets concentrated in shrinking economic sectors in a pure market system, it might have long since been rendered irrelevant.

Why could this elite not be overthrown by some other group(s) seeking to use those same posts for personal and political gain? The answer is that traditional political elites in Brazil could not be easily replaced, even by a regime which, in its rhetoric and at times by its actions, was committed to dispensing with the "politicians of the past", because they alone commanded the political resources required to organize political support for an authoritarian regime in a state capitalist economic system. In the past, local political bosses could guarantee popular votes because the local population was dependent upon them as landlords and because these bosses had a monopoly over violence in their spheres of influence. In order to secure popular support for an authoritarian regime in which popular sectors were dependent directly upon the State, however, a State elite was needed who could build political consensus through the public economy, converting the distribution of state resources to state dependents into political support.

State resources were allocated, especially for those in the state client sector, on a territorial, not a functional basis. As territorial representatives, traditional political elites thus could best operate State distribution channels. They presided over the single most important channel of distribution of State resources--the pro-government political party, ARENA--and they forged and made use of an extensive network of political alliances which operated within it. The party was both a vehicle for dispensing state patronage and a conduit for regime support. Political elites who transcended party and State acted as intermediaries between the State and its citizens; in exchange for public works for municipalities and employment for local residents, they secured the votes faithfully delivered by local party branches. At the most decentralized points of the Brazilian federal system, the municipalities of the interior, administration is thoroughly politicized.

The ability to deliver votes to the regime was as critically important in Brazil in the 1970s during state capitalist development as it was in the Old Republic during the period of outward

development and during the years of populist coalition government.<sup>61</sup> The network of political alliances among political representatives could not be imitated by professional economists, engineers, or administrators, nor were such groups capable of organizing their own networks; technocrats, therefore, could not be as politically cost-effective in administering State resources for maximum electoral gain. Political elites were rewarded with state office as a matter of course in the late 1970s and early 1980s; the higher the vote totals, the more prized the appointive office gained.<sup>62</sup> If Cammack (1982) and Reis (1985) are correct in their view that contemporary clientelism is the product of a political strategy on the part of dominant military elites to build regime support, then by marshalling votes for authoritarian governance, traditional political elites were the linchpins of the authoritarian political system.

### **Conclusions**

State capitalism in Minas Gerais preserved the traditional order and prolonged traditional political domination. This stability can be explained partially by the nature of the class structure engendered by state capitalist industrialization. State capitalism alters the constellation of political and social class forces which 'normally' arise during industrialization. The capital-poor bourgeoisie remains outside the dynamic sector of the economy; the proletariat is tiny and divided between the State and private sectors. While industrial classes remain latent, agrarian classes recede. The landlord and peasant classes shrink in numbers and in political significance concomitantly with the shift of national resources from agriculture into industry. In addition to these two familiar axes of domination--bourgeoisie-proletariat and landlord-peasant--state capitalism creates a third, State elite-State dependent axis. Interests on this axis are not, however, represented in the manner hypothesized by students of state capitalism (see note 7)--by distinctly organized functional groups. While corporate groups secure wage increases and job security for those who are formally employed and negotiate policies in the interest of their members, they cannot negotiate effectively for those who are 'unorganizable' in the state client sector. Rather, state dependents who are not represented functionally must turn to territorial representation, and seek through

clientelistic networks benefits from the distributive arm of the State. Clientelism is thus transformed from a private system in agrarian society to a State-based system under state capitalism; state capitalism "modernizes" clientelism.

Whoever can control the patronage machinery profits politically from state capitalism. Controlling the State, especially its distributional apparatus, brings political rewards and confers enormous power upon State elites. The potential of controlling State resources has been viewed by at least one political scientist (Scott, 1972: 97-98) as a more attractive source of patronage than privately-owned assets such as land, because State resources are far greater than those which an individual can amass directly.<sup>63</sup>

In Minas Gerais, the group best situated to exploit State office was composed of traditional political elites. They could operate State distribution channels and political parties. A power-sharing arrangement in the early years of the state capitalist regime finally gave way to one in which traditional political elites reemerged as dominant. Traditional political elites were able to capitalize on state capitalism in a way the technocracy could not because of their political resources; they legitimized the regime by securing electoral victories throughout the national territory, especially in small cities and rural areas, by control of the delivery of public goods.

Where the market governs the economy, the mechanisms of the market, perceived as impersonal and objective, shield the economy from political influences. State involvement in the economy, however, politicizes the economy; economic decisions are made in the political realm and are subject to political, not market forces. State capitalism does not dictate specific political developments, however. It only makes politics, political alliances, and political necessity, more important than economic variables. Thus, the need for political support of a particular state capitalist regime in Brazil, led by the military, privileged traditional political elites; state capitalism under a different political regime might have advantaged a different class of actors. In Minas Gerais, it froze political alignments and political power in their place.

Thus, politics itself becomes the crucial independent variable in determining the political organization and patterns of class dominance engendered by state capitalism. Class alliances and



dominant coalitions, be they elitist or populist or a combination of both, prevail not because of the strength of their economic resources, but because of their political resources. Because of this fact, political resources will be at least as instrumental in determining dominance in state capitalist societies as private economic resources are in liberal capitalist societies.

### Notes

1. There is a long tradition in the social sciences of highlighting the State's leading role in economic development in late industrializers. Gerschenkron (1962) illustrated this point through the cases of Germany, Austria, Italy, and Russia. Hirschman (1971) extended this concept to Latin America.

Baer et al (1976) make the argument that States in Latin America were forced into entering certain key sectors in which investment requirements were high and returns on those investments were long, especially those sectors encompassing industries deemed to be in the national interest. The alternatives to State intervention, both equally unacceptable, would have been to depend for industrialization in these sectors exclusively upon foreign capital and technology, or forego those industries altogether if foreign investors were uninterested. In Brazil, the State for these reasons established public enterprises in the energy and steel sectors (cf. Evans, 1979). Similarly, FitzGerald (1979) argues that the growth in the State sector in Peru after 1968 was a direct response to the failure of domestic capital to sustain industrialization or negotiate effectively with foreign enterprise.

The notion of 'inevitability' has been challenged by Bennett and Sharpe (1979). The authors detail throughout much of the twentieth century why the Mexican State adopted the interventionist orientation that it did, and how it amassed the power to implement its program. Yet, still, they do not venture beyond the fact of State intervention to address the consequences of this intervention.

2. The literature on the Peruvian experiment comes to mind. See especially FitzGerald (1976, 1979) and Sorj (1983).

3. This is implicit in Evans' (1979) work on dependent development in Brazil.

4. One notable exception to this rule has been a promising avenue of inquiry into whether or not there exists a "state bourgeoisie" (Baer et al, 1976: 85) and, if such a class exists, whether its interests can be distinguished from those of private capitalists. What the political outcome of conflicting interests between this "state bourgeoisie" and national and foreign capital might be, however, has scarcely been addressed, despite strong reasons to believe that such a divergence of interests might be politically consequential. In Brazil there is a growing belief that the withdrawal of the Brazilian bourgeoisie from the alleged authoritarian alliance of the military, technocracy, and foreign and national capital in the late 1970s contributed in large part to the liberalization of the political system. See Faucher (1981).

5. This thesis is advanced in Canak (1984: 3). It was earlier explored in a review of several European and Latin American countries by Kurth (1979). Guimarães (1977: 129) argues that "politically-oriented" and "state-directed" capitalism go hand in hand with authoritarian regimes. A politically oriented regime is one in which political groups (bureaucracies, parties, militaries) define political objectives for the State that imply an expansion of governmental activities which deliberately create new lucrative opportunities for private groups. In "state-directed capitalism", political groups mobilize the state apparatus, imposing direct controls over the economy, restructuring markets, and controlling resources for the realization of priority policies.

6. Brazil, like other Latin American countries, experienced a spurt to industrialization during the World Depression and World War II years and beyond, the phase of "import-substituting industrialization" (ISI). For more on this, see Hirschman (1971). In the early 1960s, it was perceived that ISI had been "exhausted", and that if these countries were to proceed beyond the manufacture of consumer non-durable goods, extraordinary measures would be required. Chief among them were inviting foreign capital to participate in industrialization on favorable terms, introducing foreign technology, and disciplining the labor force. In other words, this stage of industrialization entailed dismantling the populist coalitions and their policies.

7. According to Cardoso (1973: 148), "Not only the political party system but all forms of political action ... became dependent upon contacts and alliances with the military and technocratic groups that alone controlled the state apparatus." At the heart of Cardoso's argument is the notion that the dominance of the State elite transformed the nature of interest representation and decision-making. Private actors, including the bourgeoisie, had to wrest concessions from an increasingly omnipotent State through what he called "bureaucratic rings". These rings, the product of horizontal alliances between parts of a sector controlled by private enterprise and the corresponding segment of the State bureaucracy, undermined existing forms of political organization, such as federalism, superseded the old institutions of political life, such as political parties, and became a new system of representation.

This view resembles the argument put forward for advanced industrial societies by Beer (1973: 52-78). He claims state capitalism has privileged the distinct representation of organized functional interests, unlike in liberal democracies in which functional interests were largely channeled through parliamentary representatives (as cited in Tarrow, 1978: 5). In other words, as social and economic problems gravitate to the level of greatest centralization--the national State--territorial units (cities, provinces, and regions) find their representative function in decline. This trend is especially pronounced where technocrats are privileged decision-makers (Tarrow, 1978: 6-7).

8. As measured both by the value of industrial production and sectoral employment (IBGE, 1984: 193).

9. One observer characterized Minas' industrialization, in both its economic and political dimensions, as a "replica", or, in other words, a microcosm of the larger Brazilian model of industrialization (Grossi, 1977).

10. Sorj (1983: 73) identifies state capitalism as a limiting situation of State intervention in the economy "in which public sector accumulation implies a confrontation with, and the partial or total elimination of, the private sector." While a useful beginning, this definition is ultimately misleading. If the role of public sector enterprises is strengthened at the 'expense' of the private sector, but also at its request, is this "confrontational"? Also, can the State "eliminate" actors who are not present?

11. The true figure is higher because "entrepreneurial activity" is excluded from the data in both Baer's and our calculations, which effectively omits state enterprises from the totals. In 1975, the "core" state enterprises accounted for 20 percent of investment in Brazil (Treat, 1981: 51).

12.

Comparative Fiscal Structures

|           | Government Tax Income |      |      |      | Government Current Expenditure<br>(as percentage of GDP) |      |      |      | Public Sector Capital Formation |      |      |      |
|-----------|-----------------------|------|------|------|----------------------------------------------------------|------|------|------|---------------------------------|------|------|------|
|           | 1960                  | 1970 | 1975 | 1981 | 1960                                                     | 1970 | 1975 | 1981 | 1960                            | 1970 | 1975 | 1981 |
| Argentina | 14.2                  | 15.0 | 12.8 | 11.5 | 16.1                                                     | 17.3 | 28.7 | 11.2 | 5.3                             | 7.9  | 7.0  | 5.6  |
| BRAZIL    | 20.1                  | 27.0 | 30.7 | 27.8 | 18.6                                                     | 24.3 | 23.0 | 29.4 | 6.7                             | 9.0  | 9.5  | 5.5  |
| Chile     | 16.5                  | 21.8 | 22.7 | 26.7 | 22.5                                                     | 25.6 | 24.8 | 21.9 | 6.8                             | 9.0  | 5.0  | 1.6  |
| Colombia  | 10.4                  | 13.4 | 13.4 | 10.3 | 7.8                                                      | 10.6 | 11.0 | 7.7  | 3.4                             | 6.7  | 7.0  | 3.1  |
| Mexico    | 7.1                   | 7.9  | 10.5 | 26.1 | 5.1                                                      | 6.0  | 9.5  | 29.9 | 5.6                             | 7.5  | 10.5 | 10.9 |
| Peru      | 14.9                  | 18.9 | 17.6 | 17.9 | 12.3                                                     | 17.0 | 17.4 | 17.7 | 2.3                             | 4.5  | 8.5  | 5.1  |

Sources: For 1960, 1970, and 1975 data, FitzGerald, 1979: 214. His figures are based on ECLA and IMF statistics. For 1981, BID, 1984: 262, 231, 289, 273, 357, 391.

Note: These figures do not agree with those cited above in the text by Baer et al (1976) and my own figures, based on IBGE data, because under the category of government expenditure the IBGE data include federal, state, and municipal governments, but not public enterprises. The IDB used for Brazil and Mexico, the "federal public sector"; for Chile, Colombia, and Peru, the "central government", and for Argentina, the "national administration". (FitzGerald's data are not explained, but are called "general government".)

13. Complicating our ability to clarify this important measure is the fact that BNH financing is not included in Visão lists of the public and private banking system.

14. The Visão lists include only corporations, which has the effect of understating the role of private national capital.

15. In the late 1960s and early 1970s, Trebat (1981: 49) found rates of profitability (current surplus as a percent of net worth) in public enterprises in the mining sector to have averaged over 20 percent from 1966-1975, petrochemicals, 18.7 percent, electricity, 7.4 percent, and steel, which suffered losses in the years from 1966-1969, rebounded after 1970 to achieve rates of profitability of 4.3 percent from 1970 to 1975. In 1980, during an economic downturn, the rate of return of state enterprises in the primary (mining) sector was 11.3 percent, in manufacturing industry, 6.9 percent, in the financial sector, 13 percent, and in public utilities, 3.8 percent (Visão, 1981: 414-432). The sole exception to this rule of profitability is the railroads. Of all the enterprises created in the State sector, the nationalization of the railroads was the only one which could be considered an example of the State taking over a declining public service (Abranches, 1977: 9).

16. The centerpiece of the state's incentives package for investors was a 25.6 percent rebate on the federally levied but state collected value added sales tax, the ICM. Two hundred and seventy-eight firms took advantage of this particular incentive before the federal government, under pressure from Paulista constituents who were losing to their northern neighbors, outlawed such manipulation of the ICM in 1975. [ICM rebates still exist for firms which locate in the Minas SUDENE region.] Minas replaced this incentive with yet another attractive one, a Fund for the Support of Industrialization, which provides working capital loans free of interest and monetary correction to companies who invest in new manufacturing projects or in a 50 percent or greater expansion of their physical volume. [Monetary correction adjusts the value of the loan to account for inflation, which in Brazil varied from around 100 percent per annum in 1980 to 1982 to over 200 percent in 1984.] Moreover, all companies based in an industrial district

established by the state Industrial Districts Company are exempted from municipal real estate taxes for a period of ten years (INDI, 1978: 129-133).

17. One reason for their move was that industrial overcongestion in São Paulo had restricted opportunities for plant expansion. Another was the fiscal incentives offered by the state of Minas which induced investors who would otherwise have transferred operations elsewhere in the state of São Paulo to settle instead on the South of Minas. A survey of all 42 investments made by 40 firms in Minas Planning Region III (the South of Minas), incorporating both new plant installation and existing plant expansion and/or modernization contracted up to 1975 which benefitted from fiscal incentives (original data, Fundação João Pinheiro), shows a high proportion of Paulista capital in the industries of the South of Minas. Information on the ownership and headquarters of 26 of these firms was available in Visão (1981). The 14 firms for which data was missing would have been omitted if either their net assets did not meet the minimum to be included in Visão's list of "Who's Who", or if they were not incorporated. Of course, both would tend to underestimate the component of local capital. Five firms were foreign-based. Of the 21 national firms for which data was available, at least 11 were known to be headquartered in São Paulo.

18. No breakdown of private national capital of the complete investment record is available. A close approximation is the record of the industrial projects assisted by the Institute for Industrial Development (INDI) (approximately nine-tenths of all investments during the 1970s, distributed by controlling capital (INDI, 1980)). The measure of controlling capital, we should point out, tends to understate the role of State capital, which entered into joint ventures with foreign capital as a minority partner.

|                 | Number | Percentage of Investment | Number of New Jobs | Percentage of New Jobs |
|-----------------|--------|--------------------------|--------------------|------------------------|
| National        | 145    | 30.0                     | 39,836             | 33.0                   |
| <u>Mineiros</u> | 204    | 15.8                     | 32,464             | 26.9                   |
| Foreign         | 90     | 45.7                     | 45,465             | 37.7                   |
| State           | 5      | 8.5                      | 2,903              | 2.4                    |

Source: INDI (1980).

Unfortunately, the percentage distribution by capital ownership of INDI-assisted projects and those recorded in the Secretariat of Planning is not comparable because of the omission of the giant Açominas project from the INDI data. Açominas, the federal steel project located in Minas, accounted for more than 30 of 57 billion cruzeiros of state investment in the years from 1970 to 1977. Factoring this investment back into the figures is problematical, because of the different years and systems used in the two data sets to correct for inflation in these investments. INDI uses government bonds (ORTNs) to correct for inflation, while SEPLAN uses certain base years, often 1974 or 1975. While INDI does provide a figure for the Açominas investment (15.3 million cruzeiros), this is obviously a current figure, and no year is attached to make this investment total comprehensible in constant terms.

The five percent figure for Minas capital was arrived at by using the 2:1 ratio of national to Mineiro capital evident in the INDI data.

19. On the eve of the industrialization of the 1970s, private Minas capital was concentrated in the "traditional" industrial sector, a plethora of small-scale, family-run production units with outmoded managerial practices; low growth rates; low levels of technology, productivity, and efficiency; obsolete equipment; and less than optimal plant locations (BDMG, 1968; Diniz, 1978). The rudimentary character of Minas industrialists in relation with their counterparts in other Brazilian states was illustrated in an industrial survey of firm size, wages and salaries, and productivity in five states based on 1960

census returns (Lamounier, n.d.). Of the five states, Guanabara [the old federal district, encompassing the city of Rio de Janeiro], São Paulo, Minas, Rio Grande do Sul, and Bahia, Minas' composite score on 13 indicators was fourth. Moreover, in 1965, in their pioneering work on Brazilian economic groups, Queiroz and Martins found few groups with headquarters in Minas Gerais. Only two (of 54 national) groups surveyed with capital assets from one to four billion cruzeiros had headquarters in Minas (Martins, 1965: 85). Of those 55 groups whose capital assets exceeded four billion cruzeiros, five had their decision-making centers in Minas, though at least two of these were foreign (Queiroz, 1965: 65). The principal activity of the two groups verified as locally-owned lay outside of manufacturing industry: one group was predominantly involved in banking, and the other in the import-export business.

The small scale, depressed wages, and low capital and labor productivity of Minas industrial establishments led state technocrats to criticize local entrepreneurs for the failure of Minas to industrialize in the preceding decades. The Diagnóstico da Economia Mineira (BDMG, 1968), a six volume document, drafted by a group of technocrats, served, in the view of most observers, as the ideological justification for the replacement of traditional politicians with technocrats, and the expansion of the State in the economy during the subsequent administration of Rondon Pacheco. Grossi (1977) has called it the "Magna Carta" of the technocrats.

20. Transit Semicondutores opened in Montes Claros in the heart of the Minas SUDENE region in 1973, having received state fiscal incentives and BNDE financing. By 1978, the firm was already tottering, amidst accusations of being poorly located and ill-equipped, unable to attract and keep qualified technicians, in short ill-conceived from the beginning and kept afloat only because of access to government loans.

21. On this basis, the Minas business community opposed the proposed sale of Acesita and Usimec, the two most prominent state firms located in Minas available for private purchase. Coming out of the Commercial Association of Minas was a proposal to treat Acesita as a special case, and transfer its control from the Banco do Brasil, then the majority stockholder, to Siderbrás, (Siderúrgica Brasileira), another state sector enterprise. This proposal was endorsed by the State Secretary of Industry, José Romualdo Cançado Bahia. No immediate State action was taken on the proposal (Estado de Minas, 10/23/81: 11).

22. Earlier that year, in a sale which attracted little attention, the state of Minas, in a partial divestiture of its firm, Hidrominas, made available for private sector purchase the mineral water rights of various towns (Cambuquira, Araxá, Caxambú). The highest and winning offer was entered by Supergasbras, a Rio-based economic group (Estado de Minas, 2/22/81).

23. He cites certain São Paulo based groups, such as Matarazzo and Antunes, as examples of local groups who were able, through alliances with multinationals and the State, to build extremely powerful positions, using this integrative role to "gain benefits quite out of proportion to their contribution of capital or technology."

24. The list of firms associated with the FIAT project is contained in SEPLAN (1978, 8: 99), where the ownership of firms is listed by national origin. The regional origin of capital identified as Brazilian was determined by data provided by Visão (1981).

25. Economic group is defined as a set of companies connected by links of shared ownership or multiple interlocking directorates.

26. The foundation dates for the largest economic groups in Brazil are as follows:

|                                          | Pre<br>World War I | 1914-<br>1929 | 1930-<br>1945 | Post World<br>War II | Total    |
|------------------------------------------|--------------------|---------------|---------------|----------------------|----------|
| Largest Locally Owned<br>Economic Groups | 64%                | 28%           | 8%            | 0%                   | 100%(25) |
| Largest Foreign Owned<br>Economic Groups | 20%                | 37%           | 17%           | 27%                  | 101%(30) |

Source: Evans, 1979: 105.

27. In 1969, the government allocated 6.5 billion cruzeiros to finance agriculture and livestock raising; 10 years later, that sum was increased to 33 billion cruzeiros in constant terms (449 billion in current cruzeiros). One estimate places the increase in available rural credit from 1971 to 1977 at 1900 percent.

28. In 1970, interest rates on government agricultural loans were 11.3 percent, and the rate of inflation 19.3 percent; a decade later, average agricultural interest rates of 20 percent were far below official inflation rates of 110 percent.

29. From 1960 to 1970, the number of tractors in use rose from a ratio of one tractor for every 468 hectares under cultivation to one per every 217 hectares (Silva e Gasques, 1982, cited in Spindel, 1983: 11). Brazil also registered one of the highest rates of increase in the consumption of fertilizers in the world, from 221,000 tons in 1959 to 2,361,000 tons in 1976, and its consumption of pesticides rose from 16,193 tons in 1964 to 101,057 in 1974.

30. It is difficult to ascertain the precise number of temporary laborers in relation to permanent workers. One estimate for 1972 placed the temporary rural workforce in Minas Gerais at 72 percent (Spindel, 1983: 7). According to the 1980 state agrarian census, 54 percent of agricultural wage earners (428,121) were employed on a temporary basis (IBGE, 1980a: 30-32).

Together with crop conversion, a significant economic factor swelling the ranks of temporary laborers was the subdivision and proliferation of *minifundia* in the 1960s and 1970s. *Minifundistas*, owners of bare subsistence plots, hire themselves out as day laborers on larger farms to supplement their meager earnings (Sorj, 1980: 130). Farms of less than five hectares nearly tripled in number in Minas Gerais from 25,533 in 1950 to 70,620 in 1975, and doubled as a percentage of all farms (IBGE, 1975: 2).

31. This decline has been attributed in part to the decline of coffee and other traditional production (IBGE, 1977: 407-408). Another explanation offered for its decline was the relative abundance of labor, and the ease with which it could accordingly be contracted (IBGE, 1977: 411). Even with the fall in agrarian employment and rural population, supply still outstrips demand throughout the state. The ratio of agrarian employment (the demand for agricultural workers divided by the supply, measured in man hours) shows an unmistakable excess of rural labor, even as late as 1980, according to projections. Though increasing, from 43.6 percent in 1970 to 55.4 percent in 1980, this ratio demonstrates a continued abundant supply of rural labor. While there are exceptions, in the fourth trimester (the harvest) in Regions III, IV, and V in 1980, and III and IV in 1975, only in Region III in 1980 was the demand for agricultural labor greater on a yearly basis than the pool of available labor (SEPLAN, 1978, 7, I: 183, 185, 186-209).

32. By one estimate, temporary rural workers in Minas Gerais in 1972 represented 72 percent of the rural work force; only Goiás (75%) had proportionally more, and other states with significant numbers of temporary agricultural laborers, São Paulo

(58%), Paraná (49%) , and Pernambuco (47%), all had substantially less (Gomes Silva and Rodrigues, 1982, cited in Spindel, 1983: 7). The authors of this study from which Spindel drew these figures acknowledge they represent the maximum number of temporary rural laborers. Spindel (1983: 8), using data from the Instituto de Economia Agrícola of the Secretary of Agriculture of São Paulo, argues that this set of statistics is overestimated. In the case of Minas Gerais, we are inclined to agree with Spindel that the figures are inflated, since the 1.8 million figure cited for 1972 surpasses the total number of agricultural workers in both 1970 and 1975. This does not, however, necessarily refute the validity of the percentages.

33. In absolute terms, official figures tend to overstate the urban population. The definitions of urban and rural population in Brazil differ somewhat from internationally accepted norms. In Brazil, centers which are seats of municipal and district governments are automatically considered urban, regardless of the size of the resident population. Whereas in 1950 the IBGE counted as urban 30 percent of the population, in fact only 17 percent of the population resided in centers of 5,000 or more inhabitants. And in 1970, lowering the urban threshold to 3,600 still does not correct the discrepancies between official and actual figures: 42 percent of the Minas population by this definition could be considered urban, far below the 53 percent registered by the official census. In 1980 projections, by lowering the minimum population required for urban status still further to 3,000, 59 percent of the population were residing in legitimate urban centers (SEPLAN, 1978, 5: 17-21).

34. There is a long list of works on the Brazilian model of development pursued in the post-1964 period. Prominent economists writing in the vein presented above are Maria da Conceição Tavares, Paul Singer, Celso Furtado, and José Serra. In English, the interested reader may consult many essays in Stepan (1973).

35. The streamlining of Minas' traditional industries is most evident in the textiles and food processing sectors, which in 1960 had represented over half of the Minas industrial product. In the 1959-60 harvest year, 30 (of a total of 36) sugar mills were counted in operation; by 1975, only 15 remained in operation. Similarly, the number of milk processing enterprises were reduced by 25 percent from 1960 to 1970: the 1960 census registered 601 dairy producing firms; the 1970 figure was 450. Bankruptcies were repeated in the textile industry, where 15 of 98 firms failed between 1965 and 1970, and another 11 after that date (Diniz, 1978: 123, 126, 133, 128-30; SEPLAN, 1978, 8: 105-107).

36. Productivity rose 52 percent from 1970 to 1977 in the non-durable goods sector (T. Andrade, 1980: 25).

37. In the textile industry, the replacement of antiquated plant equipment contributed to productivity gains of 79 percent in the years from 1970 to 1977, a burst in productivity which was matched by only a three percent increase in employment (less than 1000 new jobs) (T. Andrade, 1980: 28). Employment in textile manufacturing declined from one-quarter of the total industrial work force in 1959 to less than 10 percent in 1980 (IBGE, 1980c: 2-3).

38. This argument is made by T. Andrade (1980: 22-28). The author presents calculations of percentage variations of sectoral contribution to the industrial product, productivity, and employment, disaggregated by industrial groups (non-durable consumer, intermediate, and capital and durable consumer goods) and by economic sector. His figures confirm that employment varies inversely with productivity, and that overall growth rates were based on the greater value of the industrial product of low labor absorbing sectors.



39. In Minas from 1960 to 1970, the 96 percent increase in industrial product was two times greater than that in industrial employment (T. Andrade, 1980: 22). Employment opportunities did expand faster during the seven year period of 1970 to 1977 than during the entire decade of the 1960s, but this only reflects the more rapid industrialization of the period: the gap between industrial growth and industrial job growth was larger than in the preceding decade.

40. These percentages improve slightly when the potential economically active population is limited to persons above 10 years of age, though the trend is in the same direction: 48.5 percent of the active population in 1940 to 44.9 percent in 1950 to 43 percent in 1970 (IBGE, 1977: 178). Some possible explanations for the decline in the economically active population offered by the IBGE relate to the age structure of the working population. When the entire work force is taken into account, for instance, as in the first set of figures, the total decline could have been abetted by the decline of the population working from 10 to 14 years of age. This would be due to the better enforcement of the legal prohibitions on working minors (less than 14 years of age) in urban areas (as the population urbanizes). In Minas, minors aged from 10 to 14 years in the labor force declined from 18.4 percent in 1950 to 4.8 percent in 1970. A second explanation, which would pertain to both sets of figures but especially to the second set which excludes minors, is that the increase in social security permits the population from 60 to 69 years of age to withdraw from the labor market. The proportion in this age group of workers declined from 4 percent in 1950 to 3.5 percent in 1970 in the Southeast region as a whole (IBGE, 1977: 179).

41. In 1960, there were 238,248 sharecroppers in Minas Gerais working on 54,427 farms. By 1980, this number had plummeted to 142,910 sharecroppers on 8,840 farms, a decline of 83.7 percent in the number of establishments based on sharecropping and a 40 percent drop in the number of persons employed under this system (IBGE, 1980a: 9, 33). There are, moreover, indications that the surviving sharecroppers may be joining the ranks of the temporary workers to supplement their income.

42. The cerrado refers to scrub lands in the interior of Minas Gerais which until recently were very poor. Recent federal programs have "recovered" much of the cerrado lands, rendering these properties more valuable than at any time in the recent past.

43. José Murilo de Carvalho (1966: 17) twenty years ago described this pattern of political patronage in the Minas municipality of Barbacena. He found that the promise of state jobs secured political support because of the lack of alternative employment opportunities, a void normally filled by industry.

44. The number of workers in the state enterprises was obtained by counting employees in those federal and state public enterprises headquartered in Minas Gerais, as reported in Visão (1981), plus a fraction of those employed in federal state enterprises headquartered in other states known to employ vast numbers of Mineiros, such as the federal railroad authority and the Rio Doce Mining Company.

45. Chubb (1982) also reports a high percentage of employment in construction in Palermo, Sicily, a city notorious for its patronage politics, due to State spending.

46. State expenditure on urban development rose from nothing in 1972 to 6.1 percent of the state budget in 1977 (FJP, III: 141, 145).

47. Forty-four percent of the Bank of Brazil loans in 1974 were allocated to agriculture, as opposed to only 15 percent of private commercial bank credit (Baer et al, 1976: 75).

48. State expenditure on agriculture fell from 5.1 percent of the total in 1959/60 to 3.4 percent in 1972, and then began to rise again. In 1977, it represented 4 percent of state expenditure (FJP, n.d., III: 145). Unfortunately, later figures are not available. We suspect, however, that they continued on an upward trend, given the well-financed array of agrarian programs launched during the administration of Governor Francelino Pereira (1979-1983).

49. The federal government reserved to itself ten taxes, including the all important Income Tax (Imposto de Renda, IR), while leaving to the states and municipalities only two taxes apiece. Under the new system, the states were awarded the value-added sales tax known as the ICM (Imposto sobre a Circulação de Mercadorias) and the ITBI, while the municipalities were permitted to collect a tax on social services (ISS), and a property tax (Imposto Predial e Territorial Urbano, IPTU). The federal government, however, reserved the right to set tax rates and grant exemptions on state and locally-collected levies.

50. Gross Tax Revenues of the Federal, State, and Local Governments, 1965-1975:

| <u>Year</u> | <u>Federal</u> | <u>State</u> | <u>Municipal</u> |
|-------------|----------------|--------------|------------------|
| 1965        | 63.9           | 31.2         | 4.9              |
| 1969        | 65.3           | 31.7         | 3.0              |
| 1972        | 69.5           | 27.6         | 2.6              |
| 1975        | 72.9           | 24.5         | 2.6              |

51. Net Tax Revenues after Transfers of the Federal, State, and Local Governments, 1970-1973:

| <u>Year</u> | <u>Federal</u> | <u>State</u> | <u>Municipal</u> |
|-------------|----------------|--------------|------------------|
| 1970        | 51.2           | 36.5         | 12.3             |
| 1971        | 50.8           | 37.1         | 12.1             |
| 1972        | 48.5           | 33.8         | 17.7             |
| 1973        | 49.5           | 33.2         | 17.3             |

Source: FJP, n.d., I: II-3.

Both the Municipal revenue sharing fund, the Fundo de Participação de Municípios (FPM) and the state fund, the Fundo de Participação de Estados (FPE), are allocated on an automatic basis and calculated according to population size. Fixed coefficients are determined for different categories of population in the case of both funds: additionally, transfers to states are inversely related to per capita income, thereby serving as a territorially redistributive fiscal instrument. Municipal governments are also the beneficiaries of state revenue sharing: a fixed 20 percent of the state-collected ICM is returned to the municipalities in which the tax revenues originated.

52. Martins (1977: 6) argues in explicit terms that this centralization of power in the federal government appeared to be a movement for the political control of territory, unlike its previous centralizing episode in the 1930s, when the government's intention was to unify the national market.

53. During this time, imaginative negotiations with foreign development banks produced matching federal grants, thereby augmenting further the state resource base. When borrowed money is factored into state revenues, it becomes apparent that state dependence on the federal government was less than imagined.

54. For advanced industrial societies, Tarrow (1978: 12) has similarly argued that the "empirical case that fiscal centralization has robbed subnational governments of their

vitality has yet to be made." His claim rests on three factors: (1) that though national spending has increased, subnational spending has increased still more; (2) while numerous categorical grants tie down the activities of many local governments, the general revenue sharing that is more common leaves them far more freedom; and (3) a continued high level of variation in spending across subunits is apparent within industrial nations, in many cases closely linked to local political factors.

In Brazil, while subnational spending has not increased at a faster rate than national spending in the past two decades, subnational spending has increased in real terms. Although state spending, at least in the early 1970s, suffered a decline relative to other levels of government, it rose in real terms, and municipal spending especially has increased. Thus Tarrow's first factor may be inconclusive for Brazil. The other two are examined below in the text.

55. In one of the more extreme cases, the Center-West spent nearly three times the amount on transportation and communication (30.3 percent) than the Northeast municipalities (10.4 percent) and their Southeastern counterparts (11.6 percent), while the Southeast, in turn, spent nearly double the amount on urban services (39.0 percent) than did the Center-West municipalities (20.7 percent).

56. This is the view of the State shared by elite and pluralist theory.

57. Chalmers (1977: 31) makes the same argument for Latin American States generally:

The control and manipulation of the state apparatus are therefore a major element in the political struggle. The effort to manipulate it in such a way as to promote the power and goals of one group over another is a major part of the political game. Being "in power" is very important because it gives the leader wide patronage and the authority to establish government programs to benefit existing supporters and attract new ones. He can rewrite electoral laws and modify decision-making institutions to favor government supporters more than in institutionalized systems. The preeminence of the role of the state makes these manipulations more important because their social impact is great.

Chalmers, however, attributes the political importance of controlling the State not to state capitalism, but to indigenous, political factors--to what he refers to as the "politicized" (as opposed to an institutionalized) State.

58. The UDN (União Democrática Nacional) and the PSD (Partido Social Democrático), the two most important political parties in the post-war party system prior to the 1964 coup, were bitter rivals. A very different set of elites, allegedly representing different social classes and urban/rural constituents, would be represented in cabinets headed by governors of these parties.

59. The governor, José Francisco Bias Fortes, was a member of one of Minas' most illustrious families; his father, Crispim Jacques Bias Fortes, had served as the first governor of Minas Gerais (1894-1898). Similarly, his vice-governor, Artur Bernardes Filho, was the son of a former governor of Minas (1918-1922) and President of Brazil (1922-1926), Artur da Silva Bernardes.

60. To appreciate the importance of these families in Minas politics, we note that 33 of 55 presidents of Minas when it was a province under the Empire and 80 percent of its republican governors were descended from these families.

61. See Sarles (1982) for an account of the role political parties played in maintaining political control for the regime.

62. This was the prevalent pattern in the administration of Francelino Pereira. In the Congressional elections of 1978, setting aside the ARENA candidates who received the first and third most votes, former governor Magalhães Pinto and his associate Helio Garcia (who both bolted from ARENA to become the national and state presidents, respectively, of the now defunct Popular Party), top vote getters ascended quickly to elite ranks. ARENA's second most voted federal deputy, Mauricio Campos, was named Prefect of Belo Horizonte; the sixth top vote getter, Carlos Eloy, the Secretary of Public Works; the seventh, Gerardo Renault, the Secretary of Agriculture, and the list goes on.

63. Scott did, however, question their durability. He interpreted the availability of public resources as a patronage base as contingent upon positions ultimately given or withdrawn by third parties. Implicit in this view is the assumption that a reasonably ordered transfer of power takes place, as it does in democratic polities. This is not necessarily the case in authoritarian regimes, however, in which public office can be retained for long periods of time. Authoritarianism diminishes the likelihood of State elites being voted out of office, thus making the control of public resources less tenuous.

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