COPY

2

AD-A220 693

STUDY PROJECT

BRAZIL -- THE CHALLENGE OF DEVELOPMENT

BY

LIEUTENANT COLONEL CLOVIS PURPER BANDEIRA

7 MARCH 1990

U.S. ARMY WAR COLLEGE, CARLISLE BARRACKS, PA 17013-5050

Unclassified

SECURITY CLASSIFICATION OF THIS PAGE (When Data Entered)

REPORT DOCUMENTATION PAGE		READ INSTRUCTIONS BEFORE COMPLETING FORM
1. REPORT NUMBER	2. GOVT ACCESSION NO.	3. RECIPIENT'S CATALOG NUMBER
4. TITLE (and Subtitle) Brazil - The Challenge of Development		5. TYPE OF REPORT & PERIOD COVERED Study Project
		6. PERFORMING ORG. REPORT NUMBER
7. AUTHOR(s) Clovis Purper Bandeira, LTC, IN		8. CONTRACT OR GRANT NUMBER(s)
9. PERFORMING ORGANIZATION NAME AND ADDRESS U.S. Army War College Carlisle Barracks, PA 17013		10. PROGRAM ELEMENT, PROJECT, TASK AREA & WORK UNIT NUMBERS
11. CONTROLLING OFFICE NAME AND ADDRESS Same		12. REPORT DATE 7 March 1990
		13. NUMBER OF PAGES 39
14. MONITORING AGENCY NAME & ADDRESS (if different from Controlling Office)		15. SECURITY CLASS. (of this report) Unclassified
		15a. DECLASSIFICATION DOWNGRADING SCHEDULE

16. DISTRIBUTION STATEMENT (of this Report)

Approved for public release; distribution is unlimited.

17. DISTRIBUTION STATEMENT (of the abstract entered in Block 20, if different from Report)

18. SUPPLEMENTARY NOTES

19. KEY WORDS (Continue on reverse side if necessary and identify by block number)

20. ABSTRACT (Continue on reverse side if necessary and identify by block number)

There is a strong relationship between development and democracy. The American government realizes this when it provides help for the newly democratized East European countries, which are trying to avoid social and political turmoil caused by economic difficulties. The same happens everywhere, especially in Brazil, a large and democratic country facing tremendous economic problems. This study seeks to examine the challenge of Brazilian development, analyzing some of the positive and negative developmental factors. As a

DD FORM 1 JAN 73 1473 EDITION OF 1 NOV 65 IS OBSOLETE

Unclassified

SECURITY CLASSIFICATION OF THIS PAGE (When Data Entered)

Unclassified

SECURITY CLASSIFICATION OF THIS PAGE(When Data Entered)

conclusion, the author makes some recommendations concerning the internal and external measures that can help the country to manage its crisis within a democratic framework.

SECURITY CLASSIFICATION OF THIS PAGE(When Data Entered)

USAWC MILITARY STUDIES PROGRAM PAPER

BRAZIL - THE CHALLENGE OF DEVELOPMENT

AN INDIVIDUAL STUDY PROJECT

by

Lieutenant Colonel Clovis Purper Bandeira, IN

Colonel Alden M. Cunningham
Project Adviser

U.S. Army War College
Carlisle Barracks, Pennsylvania 17013
07 March 1990

ABSTRACT

AUTHOR: Clovis Purper Bandeira, LTC, IN

TITLE: Brazil - The Challenge of Development

FORMAT: Individual Study Project

DATE: 07 March 1990 PAGES: 36 CLASSIFICATION: Unclassified

There is a strong relationship between development and democracy. The American government realizes this when it provides help for the newly democratized East European countries, which are trying to avoid social and political turmoil caused by economic difficulties. The same happens everywhere, especially in Brazil, a large and democratic country facing tremendous economic problems. This study seeks to examine the challenge of Brazilian development, analyzing some of the positive and negative developmental factors. As a conclusion, the author makes some recommendations concerning the internal and external measures that can help the country to manage its crisis within a democratic framework.

TABLE OF CONTENTS

BRAZIL - THE CHALLENGE OF DEVELOPMENT

CHAPTER I

INTRODUCTION

The decade of the 1980's has been a very difficult one for Brazil and most Third World countries. Pressed by great economic problems, growing popular demands, and crushed by huge internal and external debts, these nations are struggling to keep a minimum of development in order to avoid social disorder and political retrogression. Brazilian president José Sarney described the challenge in a very clear way during his statement at the opening of the XLIV Session of the United Nations General Assembly:

> "The greatest enemies of democracy on our continent have been the low standards of living and inflation, which corrode our economies.
>
> Lacking in resources and oppressed by a perverse international economic situation, the leaders of Latin America have no means available to meet the most legitimate and fundamental aspirations of their societies. Guerrilla movements are proliferating in several countries. Spontaneou. manifestations of revolt are springing up.

Violence is building and pent-up forces of rebellion can merge at any time and spread uncontrollably."1

It is not a matter of leftist orchestration or communist subversion, although any difficult situation can be exploited by a demagogic political force which promises better days and a better life. Coming back to president Sarney's words:

"We are no longer dealing with ideological motivations. What is at stake in Latin America is no longer the dichotomy between the capitalist and socialist systems. In Latin America the persistence of poverty and the worn-out models of development make ideologies outdated. This climate does not seem to be inspired by any doctrines, or fed by revolutionary designs. It is a rebellion growing out of the lack of prospects and the frustration of the deprived and disenchanted masses...The choice today is not between militarism and populism, but between recession and growth."2

There is a growing international understanding about this problem, but the practical steps toward a solution, that will include national and international measures, some of them politically tough and unpopular, are not likely to be taken easily by the complaining authorities who have the legal and moral duty of making such decisions.

General Woerner, the U.S. Southern Command commander from 1987 to 1989, stated:

"Latin American civilian and military leaders tell us that political democracy cannot long endure without the supporting economic and social development, and there are some very distressing signs: declining terms of trade, high unemployment, inflation, declining income levels, inadequate education and the virtual decapitalization of some countries due to the foreign debt burden and lack of investor confidence."3

The purpose of this study is to present the most important positive and negative points which, in a Brazilian's view, have to be addressed to increase Brazilian development, and to list some personal conclusions and recommendations about what should and could be done to face the challenge of development, the only real way toward democracy and social justice.

BACKGROUND

It is confusing for someone who has never had any contact with Brazilian society, to have a real idea about so complex and controversial a nation.

By almost any standard, Brazil is the giant of Latin America. In land area, it is larger than the continental United States, without Alaska.

In terms of population, it ranges from the nearly uninhabited forest of the Amazon to the city of greater São Paulo with some 12 million inhabitants.

As the only Portuguese-speaking country in Latin America, it is seen as a very specific reality by the many Spanish-speaking nations bordering it. Its projection is quite different in the United States, and its political and economic significance is viewed differently by the nations of Europe, Africa, the Middle East, and the Far East. In terms of today's patterns of world trade, Brazil is remarkably diverse:" On one hand, it is a partly unexplored and developing country; on the other, it is an industrial nation whose pattern of exports ranges from agricultural and mineral commodities through a wide range of manufactures, including armaments, automotive vehicles, aircraft, and engineering services. The end result is that in modern trade issue controversies Brazil shares a complex mix of rights, privileges, duties, and responsibilities."4

Domestic conditions are also unusual: for example, there is the state of São Paulo which produces computers, planes, automobiles; shows mastery of modern technologies; has farms as productive as the most efficient in the world. But, there are also states such as Acre, Maranhão, and Piaui where per capita incomes are below $600 a year.

In the Northeast, there is hunger, absolute misery, periodic droughts, and an unjust agrarian system. Thirty million people live in an area where violence is an everyday fact of life.

More to the North lies the Amazon region with its immense virgin forests and the largest river in the world. The region is sparsely populated: six million people scattered over five million square kilometers. About 100,000 indians inhabit this vast expanse, some still living in the Stone Age.

Western Brazil is an area of colonization of new economic frontiers. Along with developing farms, there is a rush for gold, for cassiterite, and for silver. In this jungle you will find some of the largest mineral reserves in the world: iron ore, gold, silver, nickel, niobium, manganese, and bauxite. Day after day, new waves of people arrive from everywhere seeking adventure, riches, and a better way of life.[5]

This strange mixture is Brazil. It takes up half of the continent of South America. It is the tenth-largest economy in the world. In terms of social indicators, however, it is among the poorest countries - a little above fiftieth place.

ENDNOTES

1. José Sarney, Statement by His Excellency José Sarney, President of the Federative Republic of Brazil, at the Opening of the General Debate - XLIV Session of the United Nations General Assembly, New York, September 25, 1989, p. 3.

2. Ibid.

3. As quoted by Alden M. Cunningham, Beyond Democracy in Latin America: a U.S. National Security Strategy for the 21st Century, pp. 1-2.

4. Frank J. Devine, "The Dynamics of Today's Brazil," in Brazil's Economic and Political Future, ed. by Julian M. Chacel, David V. Fleischer, and P. Falk, p. 86.

5. José Sarney, "Brazil: A President's Story," Ibid, p. 98.

CHAPTER II

POSITIVE DEVELOPMENTAL FACTORS

POLITICAL

With 82 million voters, Brazil is the third largest democracy in the world.

After a long period under military rule, the country was able to find its way back to the democratic path peacefully without insurgences or bloodshed. This occurred through political and legal negotiations that led to a general amnesty, a new constitution, and direct elections at municipal, state and national levels during the last five years.

Brazil had municipal elections in 1985 and 1986. In 1987 it convened a National Constituent Assembly which produced a new Constitution. Again in 1988 there were state elections. Finally, on December 17, 1989, President-elect Collor won a run-off election.

All these elections occurred with a high degree of popular participation, with free access to the media by all parties and candidates under the control of the Electoral Court.

The result was victory for a new political leadership and rejection of the old politicians. Three-fourths of the National Assembly and almost half of the Senate were replaced. All the old politicians that ran for the first phase of the last December presidential elections were soundly defeated and received very few votes.

The two candidates that ran for the final phase of the presidential election were politically unknown ten years ago. The newly elected president, Fernando Collor de Mello, is 40 years old.

Under the new Constitution and new leadership, the Brazilian people are paving the way for the necessary social and economic changes.

ECONOMIC

The following factors demonstrate Brazil's economic potential:

Brazil's size and its abundant resources have endowed it with great potential.

It shares borders with ten other nations; only the Soviet Union has more neighbors.1

Brazil is the sixth most populous country in the world. Almost three-fourths of its population lives in cities.2

The great majority is very young. More than half of the people are under 20 years.3

Its gross domestic product - some US$280 billion in 1987 - exceeds those of all other South and Central America countries combined.

Brazil's mineral resources are legion. Mineral riches - iron ore, uranium, bauxite, manganese, copper, silver, gold - are still being discovered. Of the resources needed for modern industry, only petroleum has been missing in significant amounts.

It ranks first in hydroelectric potential; its total electric generating capacity is tenth in the world and has doubled every eight years.

Its utilized, underutilized, and unutilized lands are vast. Brazil has one of the world's few remaining habitable frontiers.

It exports more agricultural commodities than any country except the United States: coffee, soybeans, sugar, cocoa, tobacco, and orange juice are the chief exports. Steel, automobiles, aircraft, engines, computers, ships, weapons, are some of its main industrial exports.[4]

Brazilian engineers and contractors have been undertaking major construction projects elsewhere in Latin America, in the Middle East, and in Africa.[5]

In its efforts to achieve better economic conditions, it has struggled for a favorable trade balance. In the last six years only Japan and West Germany had better results.[6]

Industrial development created a skillful corps of workers and managers. Many family-owned business obtained capital and grew thanks to this. Some Brazilian companies are beginning to expand abroad, through joint-ventures or offices in other countries.[7]

SOCIAL

The Brazilian people, a fusion of three major races, have forged an impressive national unity and unique cultural identity. Immigrants are easily accepted by the people, and there are large numbers of descendants from the 6 million immigrants that entered the country through 1970 mainly Portuguese (31.5%), Italians (28.6%), Spanish (12.9%), Germans (5.3%) and Japanese (4.4%).8

The indian problem, which received a violent solution in many other American countries, including the United States, was approached differently in Brazil. Some national organizations, sponsored by government and civilian and religious groups, have helped deal with the problem in a more peaceful way by trying to attract the indians to civilization. Several groups, on the other hand, think that the only way to save the indians tribes is to let them live their primitive life, avoiding any kind of contact with the civilized world.

The government has passed laws providing the indian tribes with huge reservations. Approximately 10% of the national territory is reserved for the total indigenous population of less than 200,000 people. This area is bigger than France and the United Kingdom together.

Education, a major social issue, has boomed in recent years: adult literacy jumped from 60% in 1960 to 80% in 1986. During the same period, the number of Brazilian youths in secondary schools multiplied almost tenfold, to over 3.2 million. University enrollment is now over 1.4 million.9

With a total population of around 140 million people, Brazil ranks sixth in the world. The demographical density, an average 16.4 inhabitants per square kilometer, varies greatly from place to place.10

This big young population is a rich human resource for a large country. On the other hand, economic productivity is low which creates great social pressures for schools, housing, new jobs and opportunities to advance in the society.

MILITARY

After leaving political power, the Brazilian military focused on their constitutional mission. An increasing dedication to professional matters can be felt among the services. This has been true even during hard times related to budgetary constraints.11

While deeply anticommunist, the Brazilian military is open to any legal change of power. In spite of 20 years exercising on political power, the Armed Forces are respected in most of the country. Only in the big cities are there some negative views toward the military. While in the poor places, in the interior of the country, the military has been for many years, even for centuries, the only visible sign of federal presence. In those far places, inside the jungle, in the semiarid Northeast, along the almost desert borders in the North and West, the military are respected, trusted, and loved by the simple people and the indians.

The Brazilian military exercised great restraint during 21 years of military government. The military forces budget share was as low or lower than what had been the historic norm. 12

During the transition to democratic rule, the military forces were strong supporters of civilian government. As an well-known American journalist points out:

> "The Brazilian military leadership can be expected to provide the same support to the next democratic administration that it gave Sarney. Recent military pronouncements have conveyed the message that the armed forces are guardians of order and will resist any revolutionary violence against Brazil's democratic system, but there is no hint that the military has the desire to reimpose an authoritarian system." 13

ENDNOTES

1. Brazil shares common borders with all South American Countries except Chile and Ecuador. It has a land boundary of 14,961 km.

2. Until 1945, the rural population was bigger. The urbanization process grows at a rate of 2.5% a year (Brazilian Statistic Yearbook - 1987-1988, p.59.)

3. In 1985 (million people): 0/4 years 16.9; 5/9 years 16.5;10/14 years 14.8; 15/19 years 14.0. (Ibid., p. 80.)

4. Trade partners: exports - 28% U.S., 26% E.C., 12% Latin America, 7% Japan, 27% other; imports - 23% U.S., 23% E.C., 17% Middle East, 13% Latin America, 6% Japan, 18% other. (The World Factbook 1989, pp. 39-40).

5. Abraham Lowenthal, Partners in Conflict: the United States and Latin America, pp. 105-106.

6. Juan de Onis, "Brazil on the Tightrope Toward Democracy," Foreign Affairs, Fall 1989, p. 127.

7. Christopher Wells, "Brazilian Multinationals," The Columbia Journal of World Business, Vol. XXIII, No. 4, pp.13-23.

8. "Imigração e Emigração", Enciclopédia Delta Universal, 1980, Vol. 8, pp.4155-4156.

9. Lowenthal, p. 107.

10. Population density per region (inhabitants/ sq. km): North 1.7; Northeast 22.6; Southeast 56.3; South 33.9; Center-West 4.0. (Brazilian Statistic Yearbook - 1987, p. 94.)

11. Stanley E. Hilton, "The Brazilian Military: Changing Strategic Perceptions and the Question of Mission," Armed Forces and Society, Spring 1987, Vol. 13, No. 3, pp.338, 340-341.

12. In 1988, Brazil's defense expenditure was US$ 809 million, lower than Cuba, Argentina and Venezuela, in Latin America. If seen in its relative value, this number is, by far, the lowest in the region: only 6 dollars per capita, 7% of government expenditure, and 0.3% of GNP. (International Institute for Strategic Studies, The Military Balance 1989-1990, Fall 1989, p. 211.)

13. Juan de Onis, p. 136.

CHAPTER III

NEGATIVE DEVELOPMENTAL FACTORS

POLITICAL

Since the Brazilian republic was established in 1891 as a presidential system, Brazil's national political party structure has been inherently weak and unstable. Initially, alliances of political magnates in key states used to choose the presidents, while they retained considerable autonomy. Political parties, as such, had small followings and little power. 1

Many voices complained against the various parties during the empire and at the beginning of the republic. People also criticized them during the period of the 1946 Constitution, and they were restricted after 1964.

Various reasons can explain the low capability and fragile credibility of Brazilian parties. Among them we can cite the nonexistence of deep popular roots, low civic association, an excess of personalism and centralism in decisions, the prevalence of certain group interests, populism based on authoritarianism, paternalism, client-patron relations, and astute manipulation of popular good faith. 2

Because of their terrible social example, parties are easily pointed out as one of the principal causes for the crises that have hindered the country's political process and institutional stability.

The weakness of Brazil's party system was apparent in the leading contenders for the presidential election in November/December '89. They were personalities whose charismatic appeal to voters eclipsed their small, improvised parties. The new president himself, Fernando Collor de Mello, was backed by the tiny National Renovation Party which did not exist one year ago.

Another negative developmental factor is the increasing international pressure for environmental safeguards. President Sarney, in his speech to the United Nations in 1989, stated clearly Brazilians ideas, which are the same as most of the underdeveloped countries:

> " The environmental question in its planetary aspects - climate change, depletion of the ozone layer -cannot and must not be discussed from a narrow perspective, as if it were a problem between North and South in which the less developed countries, by their irresponsible behavior, are affecting the ecological balance of the world.
>
> The truth is quite different. The industrialized countries bear the greatest responsibility for the pollution of the environment. The developing countries cannot accept as a basis for a new mode of international relations a concept of environmentally sustainable development which assigns to them only the task of ensuring the ecological balance of the planet. If this concept is to be valid, it

will be essential to extend it to the industrialized countries so as to make it possible to determine whether the production and consumption patterns they follow can be sustained from the environmental point of view...

Brazil is more fully aware than any other country of its exuberant, rich and extraordinary natural world, its forests, its fauna and flora. We will not give up our right to preserve this rich heritage. We preserved it in the past, when the large colonizing companies formed in the rich countries invaded the wild areas of Africa, Asia and America, brutally despoiling them. Brazil rejected them. It forbade them to enter. During the 1960s the Hudson Institute conceived an idea of a vast lake which would flood the Amazon. Brazil rejected the idea. If the world now is able to turn its attention towards the Amazon, it is only because Brazilians were able to preserve it until the present day and will continue to preserve it for the future. We are prepared, as we have always been, for cooperation. But we will never be prepared to accept restrictions upon our sovereignty."3

A third and important issue to be considered as a possible negative developmental factor are some aspects of the new Brazilian Constitution. Brazil's Constitution restricted foreign investments in mining and construction; foreign companies can only retain minority holdings. The Constitution also prohibits the government from granting new petroleum exploration contracts to foreign companies.

Official agencies have a great power to discriminate against foreign computer manufacturers.4, 5

ECONOMIC

The economic element of power presents the most difficult challenge to Brazil's development, as it does for all Latin America.

> "Latin America shows signs of negative growth. It is not that we have grown less than other continents - it is simply that we have moved backwards.
>
> Suffice it to say that in 1988 the region's gross domestic product was the same level as in 1978. The net transfer of resources abroad in 1988 amounted to 29 billion dollars. Brazil alone, in the past five years, transferred approximately 56 billion dollars abroad. This is a Marshall Plan in reverse."6

During the last administration, Brazil has lived almost constantly on the brink of hyperinflation. Inflation rates are higher than 50% a month. Monthly interest rates have gone as high as 80%. Four finance ministers in four years applied different stabilization formulas, but none brought lasting results because government spending was not curtailed. Wage earners, pensioners and borrowers, including small farmers and homeowners, have been the main victims of this monetary disorder.7

Equally disturbing has been a serious slump in Brazil's economic growth as investment levels fell. In 1988 gross national product remained flat. In 1989 it contracted. Despite this latter fact, 1989 has been a good year for agriculture. Also population grew more than 2% during each of these years.

With so many problems, one can ask how is it possible that the economy does not collapse and society does not rebel. The answer, which is also part of the problem, includes an almost complete indexation of most prices and salaries and the now unknown impact of the informal economy.

By means of generalized indexation, all prices and salaries go up at the same rate as last month's inflation rate. At the same time that it keeps the real value of prices and salaries in link with the devalued currency, this measure makes inflation itself grow, like a snow ball, since each month's inflation begins the same size as the last month rate.

The informal economy - a hidden boom in Brazil - consisting of streetsellers who offer food, clothes, glasses, flowers, toys, and services ranging from blood pressure checks to small repairs and astrology, are the most visible facet of a mushrooming informal economy which has outstripped Argentina's GDP, according to economists.

> "Economists using official statistics have been at a loss to explain how Brazil has avoided deep recession or even social uprising as GDP falls for the second year running, real per capita incomes decline and job-creating investments are postponed. Despite negative growth, unemployment is lower than in the boom year of 1980, and electricity consumption has been growing steadily at around

10% yearly. To modernize its statistics, the government is to probe the underground economy in its 1990 census survey...

Finance minister Mailson da Nóbrega estimates the informal economy is responsible for 40% of Brazil's US$352 billion GDP - representing a turnover of more than US$100 billion".8

But this success has it dark side: it has been built on unfair competition by those who use public services without paying taxes.

Some scholars estimate that almost half of the labor force works with no social security or tax payments. Doctors, lawyers and dentists have traditionally operated a discreet two-tier fee by offering a considerable discount to services without receipts. Farmers are said to be making billions of dollars by smuggling their soy and coffee across the border into Paraguay, in this way avoiding export taxes. Former agriculture minister Alysson Paulinelli said that "half of Brazilian farms production is not registered in the GDP".9

One study carried out by the administration estimated lost taxes revenues at around US$20 billion a year - a sum that would be sufficient to balance public finances.

One of the most important reasons for the growth of the informal economy is the crippling regulatory burden, that forces smaller companies to scramble through dozens of government offices in search of meaningless permits, while larger companies pay fulltime lobbyists. There is also widespread rejection of the way government uses public funds.[10]

Other economic problems must be solved to improve Brazilian development: the state has too large a presence in the national economy. They deal with strategic areas as petroleum, electric power, primary steel, mining, railroads, ports, telecommunications, and many other industrial and service areas. According to Antoninho Marmo Trevisan, a respected management consultant, these unprofitable enterprises consume rather than generate government revenues, creating a state capitalist scheme. By the end of 1987, the empire of 228 state-owned companies had an accumulated debt of US$70 billion for net assets of 50 billion, and generated only one-third of their investment needs from net revenues.[11]

Government expenditures which have been higher than the revenues, make the administration borrow domestically to keep the economy working, since the international financial market is closed to Brazil since 1985. The cost for the unbalanced budget is rising inflation.[12]

Foreign investors, despite the profits they had during many years, are very cautious about new investments. In 1986, for example,capital withdrawals by foreign investors exceeded new investments by US$110 million and remittances of profits and dividends abroad rose to a record $1.2 billion.[13]

SOCIAL

Strongly affected by the economic and political difficulties facing the country, Brazilian society has shown a reverse in the improvement it experienced between 1955 and 1980.

Almost all social indicators are at the same level or lower than ten years ago. The minimum wage, in real terms, is the same as it was in 1976. Some 30 million people live in absolute poverty. Infant mortality and malnutrition during this period will have terrible repercussions during all of this generation's lifetime.

Public dissatisfaction with this condition is changing Brazil's habitual national optimism into a sense of frustration:

> "Faith in the nation's future has been so shaken that talented people and capital have been leaving at unprecedented rates. These days, "chaos" and "anarchy" are commonplace terms employed by Brazilians when discussing national prospects. "Incompetence", "irresponsibility", and "corruption" are frequent descriptions of the political leadership's conduct."14

The same dissatisfaction could be felt during the last national elections for presidency when the left-wing candidate, with radical-socialist-retrograde ideas that have lost credibility abroad, almost won power after the second run-off elections. He was defeated by a difference of 4 million votes in an electorate of more than 80 million voters.

This discontent also led to an unprecedented number of strikes: during the Sarney administration, the country had to contend with more than 10,000 strikes.15

Inside this same difficult social framework, there is increasing pressure for new jobs, while younger generations enter the job market in a recessionary environment. This condition of the workers weakens the power of the labor unions, which take radical positions during wage negotiations to seize advantages they have already obtained. In effect they change a discussion that was supposed to be technical and political into a highly ideological context, many times more difficult to resolve.

MILITARY

As part of national society, the military segment is hardly affected by socioeconomic restraints.

However, there is the shadowy threat of a social convulsion, the danger of an insurgency or a mass movement controlled by left-wing politicians recently defeated in the elections.

There is also the threat of the reasonably successful communist-led insurgencies and guerrilla groups in some neighboring countries. For example, there is the M-19 and ELN in Colombia, the Tupac Amaru Revolutionary Movement and the Shining Path in Peru, the new-born Simon Bolivar Guerrilla Commando in Bolivia. In 1988, all Brazil's neighbors suffered some kind of terrorist action, except Uruguay and French Guyana.16

These foreign guerrilla and terrorist groups, supported or allied to the druglords and other organized drug-related criminal or political associations, fought in their countries by the police and the Army, can become a real security problem for Brazil. These groups may in an attempt to escape from local military pressure seek to expand their area of influence into the Amazon jungle region. A small and well-armed group, operating inside the 4 million square kilometers of Brazilian jungle, can be a great and difficult enemy to defeat.

As far as domestic political challenges are concerned, the military is expected to act within its legal missions, under the constitutional authority of the president. As far as the external threat is concerned, measures have been taken during the last five years to try to increase military presence and capabilities along the almost depopulated Amazon borders, which is not easy under the currently constrained military budgets.

Special attention has been given to the training and development of cadres, whose importance is very great in an Army in which manpower is mostly obtained by the draft.

ENDNOTES

1. Juan de Onis, "Brazil on the Tightrope Toward Democracy," Foreign Affairs, Fall 1989, p. 134.

2. Marco Antonio Maciel, "Political Parties in the New Brazil," Brazil's Economic and Political Future, ed. Julian M. Chacel, David B. Fleischer, and P. Falk, p. 133.

3. José Sarney, Statement by His Excellency Jose Sarney, President of the Federative Republic of Brazil, at the Opening of the General Debate - XLIV Session of the United Nations General Assembly - New York, September 25, 1989, p. 5.

4. Julia Michaels, "Brazil Needs Capital, But Sends Mixed Message to Foreigners," The Christian Science Monitor, 05 May 88, p. 12.

5. The market is adapting itself to the law. Joint-ventures between foreign and national companies are attenuating the market reserve on computers: IBM is manufacturing its AS/400 "supermini" computer and Digital will soon produce its Microvax. ("O Mercado Mata a Lei," Veja, 20 Dec 89, pp. 141-142.)

6. José Sarney, p. 2.

7. Juan de Onis, p. 128.

8. Richard House, "Hidden Boom in Brazil," South, No. 108, Oct 89, p. 40.

9. Ibid.

10. Ibid., p. 41.

11. Juan de Onis, p. 139.

12. In 1989, the official inflation rate has been 1,764.86%.

13. Juan de Onis, p. 140.

14. Ibid., p. 128.

15. José Sarney, p. 2.

16. U.S. Department of State, Patterns of Global Terrorism: 1988, pp. 18-22, and Appendix C.

CHAPTER IV

RECOMMENDATIONS AND CONCLUSION

"A burning question, however, haunts the conscience of our peoples: Will the democratic values which we have built be capable of dealing with the problems of suffering, misery, poverty, inequality, exploitation and violence that are part of our everyday life?

Are the democracies of the wealthy countries joining us in solidarity with our cause, or are they only concerned with their own well-being, relegating us to a marginal existence?

I am convinced that democracy is the road to follow. It was the banner that led our peoples to sweep away authoritarian regimes, strongmen, tyrants and dictators.

But it did not do so merely to replace them with hunger, disease, backwardness, foreign debt, recession and unemployment?...

Once again I ask: If the democracy we have established throughout our continent fails to meet the legitimate aspirations of our societies, how can we prevent its values from being challenged? It will serve no purpose to invoke the imperfect realization of such values."1

This is the real challenge for Brazil: to grow or to face social disruption and increasing threats to the democratic regime it has succeeded in establishing in an orderly way.

To deal with this great challenge, a strong will is necessary. Brazil needs international help to exploit the positive points and to fight the negative ones reference development.

Brazilians are convinced that in a country divided by extreme forms of privilege and as unequally developed as Brazil is, commitment cannot be fulfilled without a democratic ideology of development.

> "What we need, in the end, is true development if we are to overcome the problems of poverty, inequality, and social marginalization. However, responsibility for development cannot be restricted to the state. The task of producing and generating riches, of promoting economic development, belongs to society and should be given to society. The task of socially dividing the results of development, and fulfilling the fundamental needs of humankind to ensure it citizenship, political participation, and common benefits, belongs to the democratic and liberal state. It is the nation's duty to construct development; we must look to the nation to construct the nation."2

One of the problems to be solved is to avoid the easy solution of waiting until the state or the administration answers all the questions or takes all the initiatives to solve the problems. If you need help, you must be the first to help yourself. Fatalism from the people and paternalism from the state are mutually reinforcing tendencies which lead to stagnation.

Our political parties must gather ideas, not around leaders. If marginalized social forces do not find a channel for expression through official political institutions like parties, they will inevitably end up using unofficial ones. People are realizing that democracy is not only going to the polls to vote, but also and mainly participating in the national decision-making process. 3

The patrimonial style that pervades Brazilian politics and government also pervades Brazilian economic and social relations. The result has been a striking incongruence between, on the one hand, the opulence of the factories, businesses, and services that represent a dynamic economy, and, on the other hand, a huge, terribly impoverished popular sector. 4

Brazil's great challenge is not only to grow, but to distribute the wealth in a more equitable way. This will help foster greater justice and stability, stimulating confidence in the country's future, and leading to a return of domestic and foreign capital investors.5

In this gigantic task of social assistance, the whole society to include labor unions, schools, churches, service clubs, social and sport associations, and all community volunteer organizations, by means of a great private sector effort, can help stop the growth of the state avoiding the creation of a new governmental public service sector to do the job.

According to economic analysts, the new Brazilian government which takes office in March 1990 will have to take the following measures:

- Clean up the budget deficit which reached the amount of US$ 90 billion, and which has been financed through currency emissions and high interest rates in the financial market thus generating more inflation.

- End subsides. This is an important cause of the government's deficit.

- Make the Central Bank independent of the Treasury. A strong central bank would be an effective tool to fight inflation, although this independent central bank is not popular among the politicians.

- End indexation. Price increases beget wage increases beget more inflation... creating what economists call "inertial inflation". The way to stop indexation is to pass a wage and price freeze, not a very popular measure due to its failure in recent economic plans.

- Rework the tax system. This will avoid or at least diminish tax evasion and make the income taxes more just, shifting some of the tax burden from wage-earners to capitalists and liberal professionals.

- Renegotiate the external debt. This is a heavy economic burden that cannot be honored in its present form. No growth is possible when one third of domestic savings is exported to foreign countries every year. It is expected that the new government will start negotiations with the IMF and private banks shortly after taking office.

Ernesto Lozardo, an economic advisor to president Collor during the electoral campaign, says:"If something is not done about inflation, the public will call for a new president." Also Mário Henrique Simonsen, a respected former minister of finance, believes Brazilians will give the new president six months to make progress on inflation. Without significant improvement, Simonsen foresees political turbulence.6

To complement the continued growth of exports, some scholars point out the need to emphasize the domestic market. It could be improved as follows:

- Reinitiate growth by getting capital back to Brazil. This will be possible by means of an agreement with the IMF, first condition to meet the Brady Plan or any other similar economic adjustment program.

- Reform the monetary institutions.

- Reinvigorate federalism by providing more revenues for local and state governments.

- Consolidate the various budgets.

- Cut back the scope of public sector investment activity.

- Stimulate private sector activity, especially in industry.

- Increase domestic savings.

- Reform agricultural policy.

- Reduce corruption.

- Lower inflation. 7

The great challenge that Brazil faces now is the challenge of development. One cannot ignore any more the deep link that exists between economic growth and all the political and social issues that have been addressed above. Only through growth will it be possible for Brazil to develop a fair and stable society inside a democratic environment. This will not be a simple or easy job, but it is the task Brazilians will have to accomplish if they hope to reach the status of a fully developed country. They are sure they can count on their own strength, which made possible for them to go as far as they have gone in this long journey, but they also believe that they deserve strong and friendly help from the more developed nations.

Many voices are being raised stating the importance of Brazil's success for Third World Nations, as Juan de Onis echoes:

> "More than in any other Latin American country, the success or failure of the democratic experience in Brazil has global importance. This continent-sized land, embracing the ecologically sensitive Amazon basin, contains huge resources in minerals, forests, energy and agriculture. Its industrial complex is the only one in Latin America sufficient to make it a major global trader. But realizing this potential requires political stability and rational management.
>
> With a projected internal market of 180 million people in the year 2000, Brazil can be the cornerstone for an era of regional achievement in South America - or a millstone that can sink not only Brazil but much of the region into economic stagnation and political violence. In either case, the world cannot afford indifference. Latin America is not on another planet. Historically, culturally and economically, it is part of the West."8

ENDNOTES

1. José Sarney, Statement of His Excellency Jose Sarney, President of the Federative Republic of Brazil, at the Opening of the General Debate - XLIV Session of the United Nations General Assembly - New York, September 25, 1989, pp. 2-3.

2. Marco Antonio Maciel, "Political Parties in the New Brazil," Brazil's Economic and Political Future, ed. Julian M. Chacel, David B. Fleischer, and P. Falk, p. 135

3. Some groups are organizing to follow up the politicians actions in the legislative and in the executive branches. An interesting experience is described in Julia Michaels, "In Brazil, a Government 'By the People' Takes Root," The Christian Science Monitor, 23 Dec 88, p. 1.

4. Guillermo O'Donnell, "Challenges to Democratization in Brazil," World Policy Journal, Vol. V, No. 2, Spring'88, p. 293.

5. Alden M. Cunningham, Beyond Democracy in Latin America: a U.S. National Strategy for the 21st Century, p. 18.

6. Ron Scherer, "Tough Choices To Follow Vote," The Christian Science Monitor, 19 Dec 89, p. 12.

7. Riordan Roett, "Brazil: Economic Crisis and Policy Options," Brazil's Economic and Political Future, ed. Julian M. Chacel, David B. Fleischer, and P. Falk, p. 117.

8. Juan de Onis, "Brazil on the Tightrope Toward Democracy," Foreign Affairs, Fall 1989, p. 129.

BIBLIOGRAPHY

1. Brazilian Statistic Yearbook 1987-1988. Rio de Janeiro: IBGE, 1988. pp. 59, 80, 94.

2. Chacel, Julian M.; Fleischer, David V.; and Falk, P., ed. Brazil's Economic and Political Future. Colorado: Westview Press, 1988. pp. 86-87: "The Dynamics of Today's Brazil," by Frank J. Devine.

3. Ibid., p. 98: "Brazil: A President's Story," by José Sarney.

4. Ibid., p. 117: "Brazil: Economic Crisis and Policy Options," by Riordan Roett.

5. Ibid., p. 133: "Political Parties in the New Brazil," by Marco Antonio Maciel.

6. Cunningham, Alden M. Beyond Democracy in Latin America: a U.S. National Security Strategy for the 21st. Century. Carlisle Barracks: U.S. Army War College, 1989.

7. Enciclopédia Delta Universal. Brazilian ed. Rio de Janeiro: Delta, 1980. Vol. 8, pp. 4155-4156: "Imigracao e Emigracao."

8. Hilton, Stanley E. "The Brazilian Military: Changing Strategic Perception and the Question of Mission." Armed Forces and Society, Spring 1987, Vol. 13, No. 3, pp. 338-341.

9. House, Richard: "Hidden Boom in Brazil." South, No. 108, Oct 89, p. 40-41.

10. International Institute for Strategic Studies. Military Balance 1989-1990. London: Brassey's, 1989, p. 21.

11. Lowenthal, Abraham F. Partners in Conflict: the United States and Latin America. Baltimore: John Hopkins University Press, 1987.

12. Michaels, Julia. "Brazil Needs Capital, But Sends Mixed Message to Foreigners." Christian Science Monitor, 05 May 88, p. 12.

13. Ibid. "In Brazil, a Government 'By The People' Takes Root." Christian Science Monitor, 23 Dec 88, p. 1.

14. O'Donnel, Guillermo. "Challenges to Democratization in Brazil." World Policy Journal, Vol. V, No. 2, Spring 1988, p. 293.

15. "O Mercado Mata a Lei." Veja (São Paulo), 20 Dec 89, pp. 141-142.

16. Onis, Juan de. "Brazil on the Tightrope Toward Democracy." Foreign Affairs, Fall 1989, p. 127-145.

17. Sarney, José. Statement by His Excellency José Sarney, President of the Federative Republic of Brazil, at the Opening of the General Debate - XLIV Session of the United Nations General Assembly. New York: Brazilian Mission to the United Nations, 25 Sep 89.

18. Scherer, Ron. "Tough Choices to Follow Vote." Christian Science Monitor, 19 Dec 89, p. 12.

19. U.S. Department of State. Patterns of Global Terrorism: 1988. Washington: Government Printing Office, 1989.

20. Wells, Christopher. "Brazilian Multinationals." Columbia Journal of World Business, Vol. XXIII, No. 4, pp. 13-23.

21. World Fact Book 1989. Washington: Central Intelligence Agency, 1989, pp. 39-40.