ASSOCIAÇÃO PORTUGUESA DE
HISTÓRIA ECONÓMICA
E SOCIAL

CEHC IUL
CENTRO DE ESTUDOS
DE HISTÓRIA CONTEMPORÂNEA
Instituto Universitário de Lisboa

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Title: *Brazilian Misfortune in the 1980s: The Painful Experience of an Economy Governed from Abroad*

Abstract: In the aftermath of the Mexico's default on external debt in 1982, Brazilian economy ended 30 years of almost uninterrupted economic fortune and came to undertake a long lasting economic downturn. Neoliberal economists have blamed the prolonged poor economic performance and high financial instability of the 1980s on the government failures.

This paper argues, on the contrary, that many of the troubles the Brazilian economy experienced in the 1980s were derived from the adjustment of the economy to the settlement of the external debt crisis along the austerity measures established by the IMF and the foreign creditors. It takes the stock and flows sector financial balance approach to show that the Brazilian government had to sacrifice its own financial wealth, financial stability and hence the sustained long-term growth of the economy to comply with the net transfer to pay the debt servicing to foreign creditors.

The second section argues that, despite using the rhetoric that market forces are better than planning, the governments of developed countries had in fact decided to intervene in the settlement of the external debt through the IMF in order to avoid a general collapse of the foreign banks. Even neoliberal economists favoured political intervention in the market to rescue the international financial system from bankruptcy.

Their guiding principle to settle the external debt crisis was to impose a regime of net transfer from debtors to creditors. The third section discusses the actual conditions of the Brazilian external debt negotiations. It shows that the negotiations entailed a heavy burden of net transfers abroad from Brazil, historically comparable only to the reparations paid by Germany after the First World War.

The fourth section discusses the domestic financial instability arising from the adoption of the adjustment policies. Financial instability provided the inhospitable environment for sustained economic recovery as it disrupted previous conventions and introduced great uncertainty into the economy. This financial instability did not result in a private sector general crisis because the government turned its policies to support the private sector financial restructuring. Therefore, contrary to the neoliberal view, it is argued that the ever-increasing public deficits and debts were a direct reflex of the rules of the adjustment. For sure, the government deficits and debt were not made in name of the social prosperity, but they were instrumental in maintaining the net transfers abroad and in guaranteeing minimum profitability for financial and non-financial conglomerates. It concludes by proposing that the adjustment policies had a straightforward meaning: the prioritisation of the interests of international and domestic rentiers with regard to government policies and resources, at the expense of economic and social development. Such Brazilian construction of misfortune in the 1980s may serve as a lesson for troubled European countries of today.

Keywords: Brazilian Economy in the 1980's; External Debt Crisis; IMF adjustment; Financial Instability