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BRAZILIAN DEVELOPMENTALISM**

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THE GENESIS OF AND PRECURSORS TO BRAZILIAN DEVELOPMENTALISM¹

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Abstract

This article discusses the origins of developmentalism in Brazil, focusing on two aspects: the theoretical and the historical. In terms of the theoretical aspect, it will present the following precursory lines of thought: (a) the nationalists; (b) the defenders of industry; (c) the real bills advocates; and (d) the positivists. After analyzing the contribution of each of these groups and how they came together and adapted for the formation of a new ideology, the article will define the first developmentalist experience in the history of the country, which took place while Brazil was still under the Old Republic, when Vargas became governor of the state of Rio Grande do Sul in 1928.

Key words: Brazilian economy; developmentalism; Getúlio Vargas; Brazilian industries; nationalism, positivism, the real bills doctrine.

Generally, the term “developmentalism” conjures up theories from the ECLAC. In Brazil more specifically, the term is associated with the country’s governments in and after 1950, including the Vargas and Juscelino Kubitschek administrations. In this broad analysis, it is clear that even the military dictatorship, which resulted from a coup d’etat in 1964, continued implementing Developmentalist policies.

In the absence of a more precise definition, developmentalism is often confused with other similar phenomena and used with more typical historical events, such as the defense of industrialization, as well as economic interventionism. Economic interventionism includes many ideas, from expansionary, planning activities, pro-growth economic policies to the government’s creation of companies and development banks, institutions which are usually framed by a rhetoric with nationalistic and ideological appeal.

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The goal of this article is to contribute to the systematic recuperation the origins of developmentalism in Brazil. The article begins by distinguishing between two plans that, from a methodological perspective, the analysis needs to include in order to meet the goals of the article.

The first plan, one of ideas, investigates which ideological precursors were associated with what was conventionally called “developmentalism” during the second half of the twentieth century. Though there are controversies over the word’s meaning and reach, it can first be understood abstractly as a set of “core” ideas that are expressed in a concrete way, such as the defense of (a) industrialization, (b) pro-growth economic interventionism, and (c) nationalism. However, “nationalism” here must be understood in general terms, to include everything from simple conservative and patriotic rhetoric³ to radical proposals of a unilateral break from foreign capital. If one traces the beginnings of all of these ideas in Brazil, theories of developmentalism will be detected, however fragmented, from the time of the imperial regime. Some ideas, such as nationalism, can be traced back to colonial times.

Though the second plan is not completely distinct from the first, it focuses more directly on economic policy and on the measures that were proposed and/or implemented by the different administrations. With this information, it is important to wonder: When can a government be considered “developmentalist”? What is the first historical instance of developmentalism in Brazil? When is there effectively a turning point at which ideas and/or practices, previously partial and fragmented, are surpassed, and these ideas reach another phase, one in which the historical phenomenon of developmentalism can be detected more easily? And, what is most difficult to specify methodologically: Keeping in mind that developmentalism is a phenomenon typical of twentieth century Brazil, particularly after Vargas came into power in 1930, what would be this turning point, if the defense of industrialization, pro-growth economic interventionist politics, and nationalist ideas are much older concepts than developmentalism is?

Going forward in this paper, it is important to keep in mind that simple authoritative declarations in defense of related political and economic measures that are reminiscent of this developmentalist core cannot, on their own, mean that a government can be considered developmentalist. Nor is it necessary to appeal to the old dichotomy between discourse and praxis, or even to the complex and always controversial relationship between discourse and man’s day-to-day experiences, to defend this point of view. This point of view has an empirical base: the three elements that make up the core of developmentalism are not always associated with each other historically; on the contrary, it took time for these elements to come together to form

³ The original term “ufanismo” means extreme nationalism, or jingoism, and is widely used in Brazilian Portuguese. The word comes from the idea of “por que me ufano do meu país”, or “why am I proud of my country” [translator’s note].

common idea. Along this vein, *gratia argumentandi*, the defense of industrialization is not always associated with either the explicit or the broad politics of state intervention. Additionally, as will be explained in the article, economic interventionism has not always been pro-industry, nor did it always have as its central objective the growth (or the development) of the economy.

For developmentalism to be discussed, the three core elements must first be combined into a common set of structured and interconnected ideas. But developmentalism is not only that. Developmentalism, as it took shape in Brazil and in most Latin American countries, went beyond a simple ideal, and emerged as a guide for action that came to suggest or justify *conscious* government actions. Therefore, the hypothesis that the term *developmentalism cannot be used in cases that lack a conscious and deliberate policy* emerges. Developmentalism cannot be reduced, as a historical phenomenon, to simple measures of expanding aggregate demand, to demonstrations of nationalism, or to corporate claims that defend industry. On top of unifying the three elements, the biggest leap occurs when this combination of ideas, like all good ideologies, comes to *justify itself*; that is, when there is an explicit defense of the fact that the government's *main task* is the quest for economic development. In other words, development becomes the government's main responsibility, its central objective, and its reason for existing.

Therefore, these arguments more precisely form the first hypothesis that this article will work with: there are four ideas that came before developmentalism, all of which come together to form it. In addition to the three aforementioned ideas – nationalism, the defense of industrialization, and pro-growth economic interventionism – there is a fourth idea: positivism. When positivism was combined with the other three ideas, the construction of a new historical phenomenon occurred: developmentalism. According to this logic, development is not just more jargon, but a *link that unifies and gives meaning to all actions taken by the government*, one that legitimizes its spread among the different fields within its realm, aside from economics: other fields include education, healthcare, social legislation, culture, public policies, etc. It becomes *an end in itself*, because it advocates for its own *prerogative to have the ability to achieve greater accomplishments*, such as social well-being, or substantial symbolic values, such as national sovereignty. In this way, developmentalism takes on a *utopian* configuration, a superior phase to be reached, with the ultimate goal of more happiness among the population. Without it, the country will continue to be behind in development, with an incredibly imbalanced distribution of income. It will also continue to play a peripheral or subordinate role on the world economic stage, and will maintain degrading social indicators. But changes to this situation cannot come spontaneously; they must be *constructed*. They require action, determination, will, and in their

more advanced stages, *planning*. Only through the State as an institution, which reifies bureaucracy and politics, can these changes be achieved. As with every good ideology, a dream project is constructed, one that makes the ideology feasible and attainable, which thus initiates a plan of action.

This article offers a broad review of the trajectory of these ideas. It also offers a second hypothesis, one that explains when the turning point mentioned previously can be detected. This turning point would have happened while the country was still considered the Old Republic, with the installation of Vargas as governor of Rio Grande do Sul in 1928.

That said, for clarification purposes, the following groups can be listed as precursors to developmentalism: (a) the nationalists; (b) the defenders of industry; (c) the real bills advocates⁴; and (d) the positivists. Though someone may be associated with more than one of these groups, defining things is a methodological instrument that is useful for this very task: to be able to demonstrate that the *relationship between these ideas is not necessary*. It took a significant amount of time for these ideas to become interconnected. In the mid-twentieth century, there was a whole host of new ideas, one that allowed for the clearer formation of that which came to be known as developmentalism. After approaching each idea separately, the fifth section of this article will bring up these ideas again, and will then link them to the second hypothesis. As a conclusion, it will focus on the developmentalist history of Vargas's governorship in the state of Rio Grande do Sul at the end of the Old Republic.

1 The Nationalists

The oldest of these four ideas is undoubtedly nationalism, which can be traced back to colonial times in Brazil. The first manifestations of nationalism generally came in the form of criticism of *pactos coloniais*⁵, or in the form of criticism of specific aspects of colonial life, though these critics did not yet argue for separation from Portugal. These criticisms were deemed or *revoltas nativistas*, "colonist insurgencies" in the traditional literature of Brazil's political history, and were heralded as the first acts of rebellion against Portugal. They began at the end of the seventeenth century with the Acclamation of Amador Bueno (in the state of São Paulo) and the revolt by Beckman (in the state of Maranhão). They continued into the first decades of the eighteenth century with the Emboabas movement (in the state of Minas Gerais), the Mascates movement (in the state of Pernambuco), and the riot led by Maneta (in the state of Bahia). Though they did not directly declare a clear goal of the country's independence, these

⁴ "Real bills" was translated from the Portuguese "*papelista*". The term "*papelismo*" derives from the word "*papel*", which means "paper". This term is commonly seen in Brazilian literature [Translator's note].

⁵ The Brazil-Portugal version of the Navigation Acts that England imposed on the US colonies [Translator's note].

movements expressed citizens' discontent with specific aspects of the colonial situation, such as the commercial monopoly and the fact that political and administrative activities were centered in Portugal. Therefore, this discontent can be seen as the beginning stage of nationalism, while pointing to the conflict of interests between Brazilians and the Portuguese, whether it was because of the high social positions of the leaders or because of the free population of the middle strata, or "the people".

Beginning in the eighteenth century and particularly with the revolt led by Felipe dos Santos in Vila Rica in 1720, nationalism gradually came to take shape and to be associated with the defense of Brazilian independence. The conspiracies against the government in Minas Gerais (1789), Bahia (1798), and Pernambuco (1817) stand out as a part of this movement. As a participant in these events, Cipriano Barata stands out in the first decades of the nineteenth century as "a man of all revolutions". He was more radical than many other nationalists, and he associated this sentiment to that of liberalism by criticizing absolutism and the monarchy centralized in Rio de Janeiro, even after Brazil gained its independence. The 1820s were likely period of the nineteenth century during which nationalism was most marked and exacerbated. It polarized politics between the "Portuguese" Party and the "Brazilian" Party, and there was a division between the "moderate" nationalists and the "exalted" nationalists. Caio Prado, Jr. (1969, p. 50) called attention to the "extreme xenophobia of the constituents" during a time in which nationalism meant taking the first steps in building a new nation. It was also a time during which there were many wars in several provinces that were faithful to Lisbon, such as Bahia, Cisplatina, and Grão-Pará.

It is important to note that, during this time, *nationalism and liberalism did not oppose each other*, as they would come to do; at first, they worked together. Aside from the slavery issue, which divided the elite, there was support for this social class even among the most radical revolutionaries. Nationalism meant not only breaking ties with Portugal, but expressing rejection of the laws, regulations, concessions of monopoly and other mercantile institutions from an economic perspective. It also meant the affirmation of national sovereignty in the political sphere. This sovereignty depended on the establishment of a supremacy of parliament, one that represented Brazilians and would hold power above the emperor, who was an absolutist and who had inherited the Portuguese throne. This movement culminated in the abdication of Dom Pedro I and, for the first time, in the ascension of Brazilians into power through the Regencies.

This association between nationalism and liberalism became clearer when the outcome of this political scene was brought into question; however, as one can see, it also encompasses a topic that is economic in nature.

Traditionally, the literature on the economic history of Brazil mentions the Alves Branco tariff of 1844 as one of the first manifestations of nationalism in the country. It is doubtful that this tariff had any protectionist effects, since the 30% tax rate on most products was considered low, even by the minister himself. However, there is no doubt that the discussion that involved the politics of tariffs eventually turned into a strong example of nationalism, with Alvez Branco pointing out that the Assembly sought “not only to bring down the state deficit, but also to protect the national capital already in place in the country through the manufacturing industry and to encourage others to seek the same destiny” (Luz, 1975, p. 24).

Regardless of the effects of the tariff, declarations from Alves Branco and Deputy and Minister of Finance Joaquim José Rodrigues Torres caused these two men to stand out during the beginning of the Second Empire as representatives of a certain, non-radical nationalism, though they were *already associated with the defense of industry*. Alves Branco’s following declaration made his opinion clear: industry must be defended, though it does not oppose, but rather complements, other primary activities. Each activity promotes the other and, as a result, decreases the vulnerability of depending on foreign markets. Alves Branco said:

The national manufacturing industry of any country is the main, the most secure, and the most abundant market for the national agricultural market; the domestic agricultural market of any country is the main, the most secure, and the most abundant market for its national industry. Foreign markets must only be considered auxiliaries for one and the other but never as the principle markets (Luz, 1975, p. 50)

Surprising in this declaration by Alves Branco was the fact that, a century in advance, he predicted one of the hallmarks of Brazilian developmentalism in the twentieth century: the understanding that there is no strong opposition between national and industrial interests and foreign capital. The center of the economy should lie in the domestic market, or the “main market”, but without breaking ties with other countries, ones which can be considered auxiliary markets both for industry and for domestic agriculture. Branco also established that *though not all nationalists favored an industrial movement, the defense of industry held one of its best arguments within the idea of nationalism*, with unquestionable emotional and ideological appeal. From that period forward, almost all defenders of industry, from the most moderate to the most radical, used nationalism as an important point in their speeches and discourse.

The next section will address the origins of the most well-known defenders of industry, those who undoubtedly formed one of the most important precursory sections of developmentalism. But before that, it is important to mention, however briefly, the existence of another group that helps explain the lack of a consensus over the correct relationship between nationalism and industry: *the agrarian nationalists*. Among the agrarian nationalists, those who

most stood out were Americo Werneck, Eduardo Frieiro, and Alberto Torres, particularly during the period that lasted from the end of the nineteenth century until the beginning of the twentieth century.

The hallmark of agrarian nationalism was their support of the primary sector as a strength of the Brazilian economy. They associated this strength with a certain jingoism that glorified the privileged natural bounty of the country. Based on the idea of comparative advantages, the agrarian nationalists supported a specialization in the primary sector because of all of the abundant natural resources, and emphasized that capital and labor were scarce. Americo Werneck was a resident of Minas Gerais and author of several works on the economy that were largely published in the last decade of the nineteenth century. Like Alves Branco, he did not see opposition between agriculture and industry, but he understood that the government needed to give more attention to the former. He condemned the growth that occurred during the *Encilhamento* economic bubble, calling it artificial. He blamed protectionism for the country's inflation. Werneck was not strictly liberal in his ideas: he defended government intervention in support of primary production, and he advocated for lower taxation on agricultural products. In some writings, he extended this argument to the agroindustry.

Eduardo Frieiro and Alberto Torres, however, were more radical. Frieiro had a very original idea, one that was so unique that it came to be called, with a certain creative license, "physiocratic nationalism". He condemned industry and urban life, and focused on the idyllic qualities of rural life. He criticized the busy social lives in the cities, as well as protectionism and inflation, both of which he associated with industrial society. He considered industrialization to be a European phenomenon that should not have been copied. Nícia Vilela Luz gave the name *sertanismo* (which can be roughly translated as "backwoodsism") to this "exaltation and idealization of the backwoods". This idealization repudiated foreign capital supporting the return to the past and showing nonconformity to the industrial growth of the time (Luz, 1975, p. 92).

Alberto Torres wrote many works and was the author who had the most impact, not only for being a prolific and articulate writer, but also for his militant spirit, for always focusing on presenting projects and new proposals to the country. This was the case of his work "*O problema nacional brasileiro, introdução a um programa de organização nacional*" (The National Brazilian Problem: An introduction to a program of national organization), written in 1914. It was a work of strong nationalism, one that accused foreign capital of weakening the country and draining it of its wealth. Influenced by socio-biological and evolutionary works of the time, Torres praised racial order, and he argued for support for Brazil's native peoples and local tribes, going as far as condemning immigration. Despite his anti-industrialism, Alberto Torres was one of the most

important ideologists to influence a generation of nationalists in the 1920s and 1930s, even during the Vargas Era in the *Estado Novo* period (1937-1945).

While the nationalists divided themselves among the Left and the Right, forming parties that were consistent with international polarity between Communism and Fascism, several artistic movements occurred. All were marked by various versions of nationalism. The movements included modernism, *Antropofagia* movement, *Pau-Brasil* poetry, and the *Anta* movement. Torres always stayed more to the Right politically, even though he was against Fascism as well: any solution for Brazil could not come from the outside. As a jingoist, Torres valued the untouched rainforest, the country's natural wealth, and the superiority of life in the countryside. He supported the idea that "man should return to working with production – in the industries of the land," arguing that "Brazil's obvious destiny is to be an agrarian country: all actions that the country takes to avoid this destiny is a crime against nature and a crime against human interests" (Torres, 1938, p. 214).

Those who were against agrarian nationalism opted for another idea: they were the defenders of industrialization. They were less jingoistic, less xenophobic, and more pragmatic.

2 Defenders of Industry

Along with the previously mentioned precursors, one can regard the period between the last decade of the imperial regime of Brazil and the first decades of the Old Republic as being known for its abundance of ideas in defense of industry. These defenders of industry often claimed responsibility for inspiring both a "republican spirit" and modernization in an ideological sense, and they associated the imperial regime with stagnation, rural life, economic and technological delays, and slavery. Both the significant growth of the secondary sector of the economy in the first years of the Old Republic and the *Encilhamento* crisis fueled the debate. The debate divided opinions on the future of the country and created an environment that was conducive to criticism of expansionary politics, which were considered responsible for inflation and for the collapse of the financial health of the government.

During this time, the concepts of *natural and artificial industry* were established. The former was understood as activities that made the most of local raw materials, which were seen as an "extension" of the primary sector of the economy. These activities did not require protectionism, for they were intensive in factors that were abundant in the country: land and labor. Artificial industry encompassed almost all sectors, with the exception of the agroindustry: chemistry, metallurgy, and capital goods (which would be viable only through strong protectionism). The artificiality of these industries was denounced. Many reasons were cited,

including the high volume of capital that they demanded (which was incompatible with the reality of the country), the limitations of the domestic market when trying to reach minimum efficient scales (which resulted in high average costs of production that were much higher than those of similar imported products), the scarcity of a labor force that was qualified to operate sophisticated technology, and finally, the costs it would bring to domestic consumers (who would be forced to pay higher prices for lower-quality products). From there, blaming the artificial industries (or the secondary/industrial sector of the economy as a whole) for inflation was not far off. This belief was considered fact from the *Encilhamento* crisis until the mid-twentieth century, and it was even part of the two most common arguments used by the National Democratic Union (UDN) political party to criticize economic policy under the Vargas administrations.

One of the pioneers in the defense of industry was Antônio Felício dos Santos, who came from a family of business owners from the state of Minas Gerais. He was responsible for the manifesto released by the Industrial Association of Rio de Janeiro on May 11, 1882. This manifesto attacked liberalism as a doctrine, blaming it for condemning Brazil to primary production and for the country's economic stagnation; only through industry, it argued, would the country gain independence. From the end of the imperial regime to the first decades of the Old Republic, many other defenders of industry came forward, including Amaro Cavalcanti, Aristides de Queirós, Alcindo Guanabara, Serzedelo Correa, and Felisbello Freire, just to mention the most well-known of the supporters. The goal of this text is not to analyze each of their opinions in detail, but to describe some of the traits they shared. However, the text will recognize the specificity and the richness of each of their ideas, and will also emphasize the weight of different arguments within their general dialogues, which were altered author by author and even by the original authors as time went on.

That said, one common idea in their discourses supporting industry was the country's independence, an idea which they conveyed in a nationalistic tone. Some of these supporters, such as Serzedelo Correa, a general from the state of Paraná, and Minister of Finance under Floriano Peixoto, mentioned that Brazil needed to break free from its colonial status, a common characteristic of exclusively agrarian countries. Like most of the other defenders of industry, Correa did not go as far as to criticize agriculture: he defended the complementary relationship between it and industrial activities; he did not propose the substitution of one over the other, nor did he accept the distinction between natural and artificial industries, for he understood that all were necessary and complementary of each other. The biggest villain, the object of the harshest criticisms, was trade. Antônio Felício dos Santos considered it to be a parasite, as did Amaro Cavalcanti, the most prolific author among those mentioned. He published countless works on

economy, most of which were in defense of industry. Calvacanti perceived a relationship between specialization in the primary sector of the economy and a balance-of-payments crisis even before ECLAC formulated its theory on the deterioration of the terms of trade. As Luz describes, Dourival Teixeira Vieira had already detected this argument in Amaro Cavalcanti's discourse:

(...) the purchasing power of wealth is small, and large quantities of products must be purchased in order to obtain the objects necessary for one's consumption. With these objects, a very curious phenomenon occurs: purchasing power is reduced when economic movement increases, because the products considered indispensable to one's well-being – these manufactured products coming from other industrialized regions – rather than becoming cheaper, become progressively more expensive and costly, and this enhancement thus becomes more of an image than a reality (Vieira, 1948, p. 67-68).

It is clear that all of these authors and politicians that defended industry cited a certain amount of nationalism, although this nationalism was not exclusively in favor of industry (as this text has mentioned, there is also agrarian nationalism). Still, the inflammatory nature of the rhetoric rarely corresponded to concrete actions. Criticisms of the colonial status of the country did not necessarily signify disdain for foreign capital, nor did it prevent people from recognizing its importance in Brazil's own industrialization process. Most defenders of industry criticized government inaction and advocated for more economic interventionism, including tariffs. However, they considered it inadvisable to take any radical measures that could damage relations with other large world economies which, aside from offering potential consumer markets, were suppliers of both capital goods and financing, all of which were realistically considered indispensable to Brazil's industrialization process.

The manifesto produced by the Industrial Association of Rio de Janeiro clearly denounced the "physiocratic bliss" of the members of government, though it also mentioned the United States as a paradigm where "the material progress of the nation depended much more on the system that protected the country than on completely free institutions". So more than a complete break from foreign capital, these authors argued for seeking a way to make the best of it:

The balance between national production and foreign imports is, however, largely dependent on the customs regime. It is not protectionism at all costs that we support; any practice based on absolute and unyielding rules is absurd (Carone, 1977, p. 22-23).

This pragmatic view can be easily found in any analysis of discourses from defenders of industrialization, as it is explicitly intrinsic to the image which they had of themselves. This is evident when the authors claim themselves to be consistent with the practices they preached, with "real life". They denounced supporters of the free market and of the theory of comparative

advantage, calling them “theoreticians” who were too focused on ideas that were not linked to experience. By treating their opponents as an exotic and radical group, they helped to construct a moderate image of themselves. They were hoping to gain followers among those who supported Brazil’s agroindustry while not appearing to be against industry: radicals and sectarians were the adversaries, which was an antiquated political practice in the *modus faciendi* of politics.

The manifesto from the Industrial Association of Rio de Janeiro became relevant once again (it was important for the new ideas it pioneered, as well as for establishing a new line of thought that would be maintained in the long term). In it, the authors wrote that pro-industrial economic interventionism was justified not as an abstract conclusion, but by historical experience, affirming that “all civilized governments begin in this way, by favoring the development of the industrial sector” (Carone, 1977, p. 23). The free trade opinion had been considered a “seductive mirage of theory”, and irony was used:

It is much simpler to adopt a policy of indifference in order to avoid disturbing the free expression of natural forces, establishing general and absolute laws *a priori* under the naive pretense of governing, and without solving the problem of relativity. These laws ultimately establish a Wagnerian view of the future with an unchanging base, with the hypothesis of equality among all men of all aptitudes. This absolute economic policy also has the advantage of being in force in both England and Brazil, as well as in France and China! This great mistake is a direct result of the academic education that influenced the leaders of the country, pure theoreticians without any positive knowledge, more learned men than men of science (Carone 1977, p. 21).

This same line of thought was expressed in Amaro Cavalcanti’s speech in the senate on July 23, 1892. From the beginning, he attempted to paint the opposition as radical: “As much as they say or plan to the contrary, the *orthodox economists* are those who, in this case, are closer to the *most exaggerated individualists* (...)”. This argument was reinforced by referring to classic economists, such as Adam Smith and Stuart Mill. He showed that they were not sectarians, but that they accepted government intervention:

For this reason, economists do not occupy themselves with *alleged natural and necessary* laws. They leave them in the books, and instead occupy themselves with laws of the state or with occasional measures taken by governments.

Cavalcanti also said that “the most distinguished of orthodox economists, such as Adam Smith and Stuart Mill, are the first to confess that auxiliary or supplementary action on the part of the state is most certainly justified”. He argued that state intervention was in the very nature of economics when he declared, “And indeed, those who speak of political economy speak of, in the very same terms, something that the state intervenes in; that is, the economy of the state, *lato sensu*” (CARONE, 1977:35, emphasized in the original).

To reject these orthodox theories, rather than to call upon other theories, one must refer to experience and to the facts: “It is imperative that we reconsider the history of the earliest peoples”. In this way, one can avoid “establishing conclusions (...) with real, positive facts, rather than with mere abstract theories”, for “we can learn from the experiences of others”. It should be noted that there was no xenophobic tone to these speeches: on the contrary, these theorists argued for taking advantage of other countries’ historical experiences with industrialization, and to use this history as a lesson. This discourse was unlike more radical discourses, ones that supported the idea that each nation follow its own path. This last argument was most common among Marxist authors of the twentieth century.

3 The Real Bills Advocates

Another line of thought that is one of the seeds of developmentalist thinking is that of the real bills advocates. The importance of this group is often neglected, because the nationalists and defenders of industry are cited much more frequently. Still, their importance cannot be underestimated. The real bills advocates defied the basic philosophy of classic economic policy: that of sound finances, embodied by a balanced budget. While the economic interventionists discussed when and under what conditions the state could or could not intervene in the economy, and while they depended on axiological or doctrinal arguments that were consistent with the legal education of graduates and learned men of the time period, the real bills advocates broke these ideas down into something simpler: in the operation of economic policy, they considered less the ultimate ends of state intervention and gave more weight to the way in which state intervention was executed. To have an idea of the innovative character of the real bills advocates in their historical context, it is important to remember that the polarization of the debate of the time in law schools was divided between the legal naturalists, who defended natural law and liberal ideals from the Age of Enlightenment, and the positivists. The defense of a balanced budget was one of the few ideas on which there *was an agreement* between the two sides. It was largely ignored during the debate, because it did not constitute a topic of controversy between them. The real bills advocates played the important historical role of bringing up a point that in the twentieth century would be a hallmark of developmentalism: acknowledging credit, public deficit, and loans as indispensable to strengthening the economy. Though these options were often defended as countercyclical policies, *à la* Keynes, the argument gradually grew in scope, and it was argued that these options were necessary for any growth in the economy, an idea that would become almost an end in itself in developmentalism. In any case, it would come to be the major premise for achieving development.

The debate between the real bills advocates and bullionists dates back to the imperial regime. The central issue was the convertibility of Brazilian currency, which referred to the monetary and exchange policies of the time, as well as to the relationship between the two. While the bullionists' strong points for defending the gold standard and convertibility were mainstream economics and the politics of the hegemonic country (Great Britain), the real bills advocates (following in the footsteps of defenders of industry) lacked a theory of the same magnitude, and therefore referred to practical reason. This is due in part to the difficulty in maintaining the gold standard and convertibility of the country's currency. As Prado (2003, p. 97) affirms: "The continued attempt at establishing a convertible currency, sustained by a firm gold reserve, and in a peripheral and only slightly monetized society was not only impossible to obtain, but it significantly reduced productive investment opportunities". Critics of convertibility were common among producer circles, between farm owners (including slaveholders) and the urban sector (such as trade and industry); however, in the absence of more conclusive empirical studies to outline which social segments defended which idea, it is necessary to suppose that the rentiers, those who were most concerned with inflation, most likely sided with the bullionists.

Among the bullionists, it is important to cite Francisco Belizario, Torres Homem, and Joaquim Murтинho, finance minister under Manuel Ferraz de Campos Sales. Among the real bills advocates, those who stood out were Souza Franco (finance minister in the 1850s), the Baron of Mauá, the viscounts of Cruzeiro and Ouro Preto, João Alfredo and Counselor Lafaiete. None of them, however, came to deny the importance of convertibility, though they advocated either for the law to be temporarily lax (as it had been during crises and harvests in order to make it possible to increase the circulation of money and to stimulate business) or for a more flexible anchor to gold, such as a percentage of the gold ballast that could be altered within certain limits. These advocates formed a more moderate group of real bills advocates, unlike the other group, which Rui Barbosa was a part of. The other group was considered more radical, for they considered any convertibility laws to be harmful and therefore denied them.

In summary: for the bullionists, the priorities of economic policy were stabilization and the exchange rate policy, and in doing so, defining the exchange rate, which was the main issue. Proponents of the gold standard established a relationship between monetary policy and a balance of payments: precious metals would naturally make their way into the country if the economy were healthy, and issuing money non-pegged to gold would cause inflation. They argued that monetary policy should come second to exchange rate policies. In general, the bullionist line of thought was supported by the great masters of classical economics, such as Smith, Ricardo, and Say. The interest rate was understood as a real phenomenon, and according to Ricardo, it

depended on rates of profit. Introducing more money would not change activity levels, as Francisco Belizario Franco confirmed. Franco (1983, p. 104) stated that it was a mistake to try to “prevent crises” by lowering interest rates by introducing more money into the system, because it consisted of “confusing money with capital” in the hope that the increase in the former stock would make capital “cheaper, more abundant, and within everyone’s reach”. Because bullionists considered monetary policies to be inefficient, the only remaining option was to increase the real competition of the export sector, to guarantee sound laws of finance, and to maintain a realistic exchange rate if they wanted the economy to prosper.

On the other hand, the greatest concern of real bills advocates, from the most moderate to the most radical, was a country’s level of economic activity. Their most common question – which level of money supply is most conducive to an adequate level of business activity? – was considered outright heresy by bullionists. Mauá, one of the real bills advocates’ main proponents, defended what the literature referred to as “the elasticity requisite”: the money supply must be flexible or elastic to the point of not negatively interfering in economic production. Less theoretical and more pragmatic, these ideas were found to be in line with common sense: the government should simply help the economy, and not negatively affect it. According to Franco (1983, p. 56), these ideas were “more considered an expression of the ‘interests of trade’ than a position to be validated by the authority of a doctrine,” especially after the 1880s.

For the real bills advocates, the government needed to place most of its focus regarding economic policy on interest rates, not on the exchange rate. Though there was yet to be a solid theory that encompassed these arguments, the arguments themselves were no doubt provocative. In some ways, they came close to future ideas of Keynesian economics. The arguments were no less elaborated than those of the bullionists. The interest rate would reflect the active state of the economy. It was a monetary phenomenon that was determined by the supply and demand of money. There was no relationship between variations in gold stocks and monetary policy (anti-bullionism), and it was argued that the velocity of circulation in a country like Brazil was low because it was an agricultural country with a significant amount of territory and the propensity for building up reserves. *Growth became a central variable of the economy*, because the exchange rate policy was to be subordinated to monetary policy, which, in turn, was guided by production. Thus, convertibility was seen as an artificial measure, one that negatively affected the level of and trust in business; high exchange rates were not to be found through artificial convertibility, but rather, through the nation’s prosperity. It follows that the difficulties in the balance of payments were not to be handled using restrictive measures, but through more

growth. Later, this argument became one of the central theses of developmentalism and of heterodox economics.

The flexible position seen from the real bills advocates was assumed by Rui Barbosa in the first years of the Old Republic. The attempt to solve crises through monetization was implemented at other times during the imperial regime. Its final use was in the monetary reform plan of 1888. However, Rui took this measure further by allowing private banks to issue money. He clearly believed that monetary stock needed to meet the needs of production. This concept raises a previously mentioned question: How does a country know how much money supply is desirable for maintaining economic growth? Given that inflation was a secondary problem, the answer at the time was to keep track of levels of investment in the country, for these levels depended on interest rates and were the best way to detect economic activity (FRANCO, 1983:56).

The real bills doctrine played a very important role in the origins of developmentalism. To begin with, it broke down the basic principles of mainstream economic theory by questioning almost unanimously supported dogmas, such as convertibility and the passive role of monetary policy. Secondly, and perhaps most importantly, it was the beginning of a view of economic policy that became *responsible for growth*: it was the idea that the state could and should act as a countercyclical agent. While the real bills doctrine *broke through this first barrier, developmentalism went even further: developmentalists believed that their task was long-term growth that would be capable of generating large-scale structural changes and undoing poor social statistics: in short, the task was development.*

Though the real bills advocates had not yet proposed measures that would reach the scale of twentieth century developmentalism, such as the creation of state-run banks and enterprises, they focused for the first time on production as an essential variable in the economy, the reason for economic policy's existence, and something that was guided by monetary, exchange, and credit policies. Redefining the role of the state and increasing the state's powers was fundamental in the emergence of developmentalism.

However, it is important to remember that, despite the relevance of their contribution, the real bills advocates are not to be confused with either the nationalists or the defenders of industry. In the context in which their ideas came about and were implemented, the word "production" often meant agricultural production, and monetary expansion and contraction cycles coincided with the need for a money supply that adapted to harvests and off-seasons. It is true that Rui Barbosa recognized the importance of industry, though he did not produce any nationalistic or xenophobic rhetoric. However, most real bills advocates associated their ideas

with the defense of an agrarian nation and the export of natural resources, and not with nationalism or industrialization. Even so, he often came closer to an agrarian vision for the country, a vision under which economic policy would recognize Brazil's dominance in this area and would be guided by this strength. They understood that the gold standard and convertibility hurt the farm industry, and that elasticity in monetary policy needed to vary according to both the level of commerce activity and to the inherent irregularity of primary sector activities, which were therefore always dependent on production.

Thus, there seems to be mistake in most of the literature, such as in works by Cardoso (1975, p. 35), who associated the real bills doctrine with industry and bullionism with the defense of primary sector interests, as if all real bills advocates were sympathetic to industry the way Rui Barbosa was, or as if all nationalists and all of those in favor of industrialization were against mainstream economics. It is important to clarify that one cannot simplify the formation of the lines of thought that came together in the formation of developmentalism, nor can one establish an *a priori* dichotomy between nationalism, the real bills doctrine, and industry versus liberalism, bullionism, and agriculture. These arguments can be clarified by citing historical figures such as Serzedelo Correa, a nationalist and proponent of industrialization, but one who was also a fan of austerity when it came to economic policy. He was quoted as saying:

Yes, we have an adverse balance of payments, because we do not have a balanced budget, because we have lived under the difficult regime of fiat money, undervalued currency, because we do not have domestic trade, because we do not have domestic industry, because our very own salaries go abroad, and because we do not have domestic shipping commerce. As a result, we do not have an economy. No profit stays in the country; all of it is sent abroad. For this reason, I do not tire of declaring that our situation is one of a colony (Brazilian House of Representatives proceedings, Oct. 4, 1885, p. 131).

According to Serzedelo's vision, as well as that of many industrial leaders, orthodoxy in the case of economic policy contributed to the strengthening of the country, gaining the country international respect, which, in turn, brought the country credibility. Under a system of instability and successive deficits, how could anyone expect productive activity to flourish? Backes (2004, p. 185) precisely explains "the modernizing content of mainstream proposals" at that time. Of this, it is understood that financial health may contribute to the country's growth, and particularly the growth of industry:

Not even the Republicans' financial austerity can match the agrarianism, nor is there a necessary link between industrialism and the real bills doctrine. The two known leaders of the industrialists, Alcindo Guanabara and Serzedelo Correa, are passionate defenders of a balanced budget, of financial health, and of a valued currency. At the beginning of the republic, we are seeing the beginnings of a wave of industrialization

that is not based on issuing money; on the contrary, it will provide support to the orthodox policies of Campos Sales.

In the analysis of this historical period, it becomes clear that the defense of sound financial laws was not exclusive to liberals, nor was it exclusively associated with the interests of the coffee industry or the representatives of the primary sector of the economy. Even though they were going against the grain, the real bills advocates were innovative in proposing a certain amount of government presence in defense of production. They argued in support of a more flexible economic policy that would respond better to fluctuations in ideals. State interventionism was inherently important to the history of developmentalism, but there was still one fundamental element missing from its configuration: an intervention meant to construct a more desirable future.

Positivism would come to fill that gap.

4 The Positivists

Positivism was the main doctrine to oppose liberalism in Brazil in the period lasting from the last two decades of the imperial regime through the first four decades of the Old Republic. The positivist groups in Brazil were directly inspired by Auguste Comte, and drew upon works from other authors such as St. Simon, Stuart Mill, and Spencer. They professed their ideas both in law schools and in the armed forces. They often formed relatively cohesive factions and an ideological identity in federal and state parliaments, which gave them strength during debates with liberals. Initially, the strongest name in Brazilian positivism was Benjamin Constant, who was responsible for spreading positivist ideas in the Army, and later as minister of war under Deodoro da Fonseca.

It is important to point out that, even in a context like the Old Republic, in which state parties were dominant, the positivists, who were spread throughout Brazil, were able to maintain a certain ideological identity. They often voted similarly, and in practice, they constituted a unified political group (Backes, 2004, p. 213). In states like Rio Grande do Sul, São Paulo, and Rio de Janeiro, there were many positivists; so many that, in the state of Rio Grande do Sul, and under the leadership of Júlio de Castilhos, positivism became an official ideology that was adopted by the Rio Grande do Sul Republican Party (PRR – hereby referred to as “the Republicans”) and by their Republican State Constitution.

The Republican State Constitution established Comte’s “scientific dictatorship” was established in the state of Rio Grande do Sul. Supremacy was given to the executive branch; the right to make laws was taken away from the legislative branch – the House of Representatives –

and was given to the governor. Convening for only two months out of the year, the role of the House was to audit public accounts and to guarantee the morality of the administration. They held power over the budget, but in theory they were more a technical organ of the government than a political one. Other notable positivists were: Lauro Sodré, governor of Pará and presidential candidate against Campos Sales; Moniz Freire, governor of Espírito Santo (1892-1896 and 1900-1904), a state in which the constitution also showed some influence from Comte; deputies including Antonio Olinto and Rodolpho Paixão in the state of Minas Gerais, as well as state governor João Pinheiro (1906-1910), who was one of the forerunners in defense of economic planning; and Leopoldo Bulhões from the state of Goiás, who was finance minister under Rodrigues Alves.

Marked by internal divisions and debates (as any doctrine is), positivism broke up into three branches: the religious (the “Religion of Humanity,” which Comte promoted at the end of his life and which inspired the construction of Positivist temples), the scientific (which promoted the advantages of the inductive method, a critique of metaphysics, and the superiority of scientific knowledge over religious or philosophical knowledge, and which led to the creation of a positivist social science: Social Physics); and the political (which offered advice for good financial and political administration and which had greatest influence out of the three branches in Brazil and Latin America, particularly in the foundations of developmentalism). This work will not reconstruct the entire ideology, but it will point out that which most contributed to the formation of developmentalism.

To begin with, positivism accepted state intervention in the economy. Though this intervention did not go as far as to become a rule, or a virtue in itself, it could occur as long as there was a “social problem” whose relevance demanded the presence of public power. The most typical example of this kind of “social problem” was the nationalization of the railways in Rio Grande do Sul under the Borges de Medeiros administration. It was completed with the understanding that, because foreign companies were allowed to charge exorbitant prices, they would not make the investments that were necessary for maintenance and improvement. Therefore, being unaware of the natural laws of liberalism, which they regarded as metaphysics, the positivists associated rights such as private property rights to a determined level on the social evolutionary scale: they defended these rights as something superior to a primitive and Communist tribal state, but they always qualified this defense with the limitation that society itself could determine them specifically, as a function of the common good. In this way, positivists are reminiscent of other lines of thought that led to developmentalism, such as nationalism and pro-industrialization: they advocated the qualities of pragmatism, freedom from prejudice, and a

priori truths, such as the belief that a free market is always the best solution. Empiricists from the field of epistemology questioned universal deductive rules: they believed that each case needed to be analyzed independently, completely separate from economic theory, since theory supposed a certain degree of generalization. Comte actually doubted the scientific aspect of Political Economy. He understood it as something that was still in the metaphysical stage, something too tightly bound to abstract, non-empirical categories such as value, natural price, natural (physiocratic) order, not to mention exotic concepts such as “productive” and “sterile” classes, “equilibrium price”, and the “invisible hand”. The hasty eagerness to generalize and simplify revealed the pre-positivist character of Economics.

Secondly, positivism came to make a fundamental contribution to the belief that the responsibility of the state is *to lead society toward progress*. As the fruits of the Illuminati, positivism distinguished itself from the theological concepts of history, which suggested an idea of a pre-ordained destiny that was subject to divine will, or even to the market’s invisible hand. It was up to men to *construct history*; man’s role was active, and was the subject, not only the object, of evolution. Because of this belief, education and moral evolution played important roles. It was up to the state to focus on these areas, as well as to set an example, abolishing the idea of birthrights, *separating the public sphere from the private sphere*, and also creating a separation of church and state, since the state must be secular. Believing there was a specific trajectory to follow, positivists often referred to a utopia that they sought, one of moral and scientific progress. In this way, positivism is one of the most pivotal manifestations of Modernity to follow the French Revolution, as was Socialism. It is not a coincidence that St. Simon (Getúlio Vargas’s favorite author) was one of Comte’s professors and was also considered by Engles to be one of the “utopian socialists” who preceded Marxism for his declaring budding ideas of liberalism to be responsible for the increase in poverty following the Industrial Revolution and the breakdown of feudal societies, and also for proposing the replacement of market designs with conscious, planned decisions.

Nothing was further from these concepts than the *laissez-faire* attitude of economic liberalism, for it urged its followers toward a praxis, making them responsible for building the future. Thus, positivist discourse presented the contradiction (one that was often cited by the Religion of Humanity, a critic of political positivism) of condemning ideology and politics, which positivists believed needed to be substituted by science and administration. However, they defended a variety of values that were much more explicit and appealing to the militant spirit of liberalism itself, for it created a way to substitute the impersonal nature of the market by the conscious action of the state and the government. From this debate came the “well-informed” or

“scientific” dictatorship. It is important to mention that developmentalism, both in Brazil and in most other Latin American countries, did not only coincide with authoritarian and dictatorial regimes, but within these regimes, developmentalism found an environment that was conducive to it, as was the case during the *Estado Novo* period of the Vargas Era.

Positivists cannot be confused with either nationalists or defenders of industrialization, even though they were all in favor of economic diversification, which, in itself, generally pulled away from an exclusively agrarian world view and which came closer to defending “natural industry”. However, positivists *blatantly disagreed with the real bills advocates*.

Though they defended economic interventionism for pragmatic reasons, this defense was limited in practice by the precept of “sound finance”. Although it distinguished itself from *laissez-faire* arguments, positivism frequently cited ethical criteria, such as rules for “good administration”. They believed that governments should not spend more than they earned, which would set an example for society. Also, governments should not make commitments with loans, except in exceptional cases. They should also be extremely cautious in offering credit, for they may give privilege to specific groups or particular people, which would break the laws of impartiality and state neutrality. Two excerpts from Borges de Medeiros’s addresses to the House of Representatives of Rio Grande do Sul exemplified the positivists’ belief in these moralizing principles, which they considered to be one of the greatest conquests of the Republic. In his first year of government in 1898, he affirmed:

However, the most striking testament to the political and administrative success of the Republic is, without a doubt, the current unshakeable prosperity of its finances. The inauguration of this new, regenerative era coincides with the definitive installation of the current political regime, because the base of it is the suppression of the fatal budget system of the imperial regime, which was characterized by chronic deficits (Political Address [*Mensagem*], 7th Regular Session, 1899, p. 15).

Three decades later, in the address of 1927, he made a summary of his own efforts and failures during his successive administrations and as governor of the state:

After a long and difficult experience, *in which no ‘deficit’ was recorded*, it is lawful to end with the relative perfection of the budget, whose elements are susceptible to continued development. However, it is doubtless that there *was and will be* a parsimonious spirit and a systematic economy when public funds are invested, in order to better guarantee a balanced budget and the safest method of managing it. (Political address [*Mensagem*], 36th Regular Session, 1928, p. 57; italics added by author.)

The expression “there was and will be” shows that the speech was about a principle that would not be abandoned, one that was the very hallmark of the several Republican administrations that maintained positivism as official doctrine.

The defense of a balanced budget was a significant common argument between positivists and liberals, and it united them against the real bills advocates when they defended orthodox laws for economic policy. In fact, there was a link between austerity and the “republican spirit” emphasized in the speeches from both positivists and “historical republicans”, those who began to participate early on in the promotion of the new regime while it was still the imperial regime. This link became a new line of thought in other state Republican parties. These new ideologies sought to associate the imperial regime with easy earnings, with privileges for those who were “friends of the king”, with the mixture of state interests with the personal interests of the monarch, and with the use of public money for private ends. Republican modernity needed to proclaim impartiality and austerity; when it came to economic policy, sound finances, convertibility, fiscal balance, and a balance of payments were the basic principles of a respected economy. It is important to note that most historical Republicans opposed Rui Barbosa’s money printing policies, an opinion that is verified in the Federal Congress debates of the time period, which showed that the disagreement was not only one isolated episode, but “an ongoing compromise that favored economic austerity and that manifested itself at various moments” (Backes: 176 and ss).

Thus, though the separation between the public and private spheres represented a great innovation (it was a revolution that almost became a standard for Brazilian public service), it was an idea that came to be adopted by supporters of Comte, and one which was very similar to those of the Republican cause (Targa, 2003). This ideal questioned the long-term criteria used in the general laws that dominated the country, such as transparency (“live in the light” was a positivist maxim, one that was also used against secret voting), and the use of morality when leading the country. In the field of economics, this austerity was represented in the defense of a balanced budget. This ideal certainly limited the extent of economic interventionism in practice, for it forced public spending to conform to revenue capacity. Because of this, the debate over which taxes should be in place and over which sectors should take on the largest portion of the tax burden was so important at that time. Unlike other forms of economic interventionism, such as social-democratic interventionism, Keynesian economics, and developmentalist interventionism, this newly debated form was a type of conservative interventionism, since it contained limits that were clearly defined by the same ideological body that justified it (Fonseca, 1983, p. 100).

In labor issues, this same “two-faced” nature of positivism must be mentioned. This behavior also differentiated from further ideas of developmentalism. The position that was defended by most positivism supporters, including the Southern PPR party, was aligned with the doctrinal principle that was most often defended by Comte: “the integration of the proletariat

into modern society”. In Europe, this idea meant recognizing the harmful consequences that the Industrial Revolution had on the working class.

It was understood that, because it ignored this social issue, liberalism led the way for the growth of Communism. Many authors, including Boeda (date unavailable) and Targa (1998, p. 63-85), point to the actions of Borges de Medeiros in the strikes of 1917. Boeda associated his actions with the origins of the labor movement in the state of Rio Grande do Sul when he met with workers in the palace. He considered their demands for salary adjustments to be fair, and he increased salaries of public employees in order to set an example for the private sector.

Though this special treatment of the workers on strike contrasted with the violent repression seen in other parts of the country, it does not mean that the governor of Rio Grande do Sul behaved this way during other strikes, nor did it mean that the Republican party always legislated in favor of workers rights or aimed for universal rights. Setting an example for the private sector illustrates this exact point: positivists believed that the state was not to intervene directly in social issues (as it did in Brazil after the 1930), but was to act using indirect tools (such as persuasion) to inspire business owners to act in a way that would lead to harmony between capital and labor rather than feeding conflicts. This preference was in line with the ideas of Comte and St. Simon. With a base of principles such as these, the PRR party in Congress (with Vargas as one of its members at the end of the Old Republic) resisted measures to regulate labor. The party always defended the argument that *protecting* workers would be a result of education and enlightenment, the preferred way when compared to imposing a state rule. Ângela de Castro Gomes (1979, p. 77) summarized the position of the Rio Grande do Sul parliament with these words:

[Rio Grande do Sul Parliament members] were against labor legislation as part of their doctrine, but they agreed with it in practice, such as when the legislation referred to workplace accidents or the protection of women and minors. However, they did not believe in establishing an eight-hour workday or vacation days.

Despite its links to orthodox principles of economic policy, positivism was crucial to the formation of developmentalism, for it pragmatically added to the state’s agenda. It accepted the state’s intervention if ever there was a “social need”. This term was broad enough to include developmentalism itself and to welcome its main proposals. As was mentioned previously, the ideal focused on the future to be reached (hence the name “*progressive*”), which positivists understood as an evolving process and called upon governments to take part in its construction. Thus, more than with specific ideas, such as nationalism and the defense of industry, positivism contributed something more sophisticated and defined, which was a change in the very position

of the government. It assumed a globalized vision of history, one that gave it meaning. Without this *Weltanschauung*, would developmentalism have come to exist?

5 The Birth of Developmentalism

In conclusion, the article shall return to the hypothesis that was formed when Getúlio Vargas assumed governorship of Rio Grande do Sul in 1928, when developmentalism was first expressed in its most complete form. In that hypothesis, the four lines of thought that made up developmentalism were found not only in the proposals, but as measures that the government began to take. The similarity in the lines of thought helped to configure the start of a new relationship between the state, the economy, and the society by suggesting that the state should be at the forefront of both the economy and the society as a way to stimulate development. The word “development” gradually came to substitute the word “progress” in positivist ideas, but it was from the idea of “progress” that developmentalism inherited the notion of a progressive course, an evolution, the destination of history, the belief that the government should be at the forefront of building a new nation.

To do so, the government should spare no efforts and should make use of all means and instruments available to reach their main objective. Given the fact that the objective was an output increase, which can become the focus of economic policy and state action, this type of positivism could overlap with the real bills doctrine. However, it is not a mere combination (“ideas are not metals to be fused together,” as the traditional proverb goes). This combination resulted in a new phenomenon: upon abandoning the principles of a balanced budget, and the principle of austerity in credit and loans while defending the progressive increase of state presence in the organization of producers and workers, the set of ideas could no longer be called positivism. The moralist laws of “growing with caution” and the gradual evolution of progress were replaced or adapted in order to coincide with the main goal: development. This goal became an end in itself: the old dogmas in support of the demands imposed by the “complexity of social life” were forgotten. New ideas were needed, because a new era had begun. Developmentalism built an image of modernity and contemporary life, a model which was ahead of its time:

It is necessary to sustain production, to stimulate industry, to develop the circulation of wealth, to spread education, to control both rural and urban public sanitation, to make it easier to utilize farmland, to build up the agroindustry, to improve livestock farming, to blaze the trail for Rio Grande do Sul’s course toward its ends of becoming a more civilized society (Rio Grande do Sul, 1928, p. 8).

The use of the word “course” was not accidental: it helped reveal that development would not occur spontaneously. It revealed that development would result from organized

decisions that had been implemented with determination and discipline, and that it required sacrifices (such as those that would occur by “blazing the trail”). Development was justified by Illuminati principles (“a civilized society”), and it demanded leadership from strong governments – and perhaps even from a dictatorship. A new relationship needed to be established between the state and the businesses community so that, through a pact, both sides would cooperate to expand production and to strengthen themselves against negative events in the market.

As was the case for positivism, the real bills doctrine would no longer be the same (which is why it soon faded out of economic discourse). When the real bills doctrine was associated with the positivist tradition, as well as with nationalism, it went beyond simply advocating for a money supply to promote farming businesses and stimulating the production that resulted from business cycles. In fact, the real bills doctrine became one of the central tenets of developmentalism, though it incorporated a more comprehensive, large-scale proposal: economic interventionism.

The notion of a heterodox economic policy, distinct from classic laws, was justified by development (the most significant objective). It was considered a short-term solution that would make the long-term project viable. Because a line of thought does not exist in the abstract, and because it only makes sense if it is capable of being affirmed in practice in contrast to another theory (as Hegel’s thesis/antithesis duality states), a break away from the real bills doctrine became possible when the gold standard was abandoned after World War I and the Economic Crisis of 1929. How could one be a real bills advocate if bullionists did not exist? When applied to economic policy, orthodoxy relied on other arguments to find support for points such as neutrality of money, passive monetary policies, and the laws of a balanced budget and of a balance of payments. The groups opposed to the orthodoxy would change. From that point on, they would fight with the developmentalists, as the debates between Roberto Simonsen and Gudin in the 1940s showed. This disagreement was also evident in the controversy between monetarists and structuralists over inflation in the following decades.

Thus, even before 1930, Vargas expressed himself by associating himself with many lines of thought that would later lead to developmentalism:

It is a poor concept that is imposed as an aphorism. All economic development must have the goal of creating abundant wealth through labor and educating man through cultural means on how to make the most of his wealth. However, if metallic money is used to measure value, it, according to economists’ current concept based on its scarcity and on its physical limitations, will no longer satisfy the demands of economic progress.

Because it imposes its own limits, an immaterial product was developed in order to increase economic flexibility. That product was credit. Credit is possible in a state of trust and economic security.

According to a modern financier, trade created this money-free operation using the simple promise of payment, which, in turn, was converted into wealth, stimulating labor and taking on new values” (*Correio do Povo* Newspaper, Mar. 12, 1927, p. 2).

Out of all possible interpretations of this quotation above, every one suggests that it contains a critique of the once praised gold standard. It is evident in the reference to “metallic money;” i.e., gold backed money, which represented a barrier to be overcome in order to implement policies that would support an expansion in production. However, this quotation also reveals the government’s commitment not only to stability, but to development, which would come to hold a definitive place in the government’s agenda. Above all, development meant “creating abundant wealth”, an idea that was also distinct from demagogue and distributist rhetoric of the time. That rhetoric was associated with the labor movement, and it was present in Vargas’s statements during his dictatorship and in the 1950s. However, the most unexpected argument in the speech was the explicit awareness of the role of credit. This argument broke from the “simple reproduction” of the national economy, which was attached to savings; credit represented a break from the barriers imposed by the past, a growth based on the promise of payment, and a removal of the limits to growth.

Going beyond discourse, the importance of credit and of the role of the state in encouraging production was manifested in the creation of The Bank of the State of Rio Grande do Sul (Barrisul) on June 22, 1928 under Decree number 4,079. This bank assumed the role of stimulating productive activities in order to create “a more broadly organized state bank”. Its ultimate goal was to “defend our production, acting as a propeller of wealth and progress” (*Correio do Povo* Newspaper, Apr. 26, 1928, p. 9).

According to the government’s proposal, the bank would manage a mortgage portfolio and an economic portfolio. It would be under the mortgage portfolio that, among other responsibilities, the bank would offer loans to producers with terms of up to 30 years, using their properties as collateral. The bank would also offer short-term financing of three items: working capital, inventory costs, and sales of output. It would be under the economic portfolio, however, that the bank would offer loans using warrants and promissory notes for farmers, ranchers, and cities, as well as for the state itself. It is important to note that industry was still not the center of the proposal; it was mentioned, and it was not excluded from the bank’s actions, but – perhaps because the primary sector of the economy was dominant in the country, it deserved more attention, both in discourse and in the volume of transactions completed at the bank.

Finally, it is relevant that, although the creation of Barrisul was able to serve as symbol of new government actions in the economy, it could not be associated with any kind of radical

nationalist ideologies. On the contrary, the integration of its initial capital included the renegotiation of foreign loans: one granted by the Compagnie Française Du Port de Rio Grande do Sul, of 67,933,000 francs (US\$ 2.7 million), and two that were granted by Labenburg, Thalmann & Cia Ltda, of US\$ 7.88 million in 1921 and US\$ 20.5 million in 1926. Pragmatic nationalism was reaffirmed in the precursors to the defense of industry, which generally welcomed foreign capital that came to collaborate with Brazil during the implementation of the project.

Therefore, this regional history begins to articulate the four lines of thought that make up developmentalism, not only in discourse, but also in the implementation of its most important ideas. This fact would be just one more interesting piece of historical information, and its report nothing more than academic fodder, if it weren't for the fact that the main actor, Getúlio Vargas, played the most important role in Brazilian politics from that point forward, as well as the fact that developmentalism became the driving force one of the biggest economic, political, and social transformations in Brazil for at least the next five decades.

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