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*Article*

# The Weight of History: Brazil's Economic Paradox from Estado Novo to Neoliberalism (1930-2000)

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**Abstract:** This study examines Brazil's complex economic journey from 1930 to 2000, exploring the interplay between historical legacies, policy choices, and global economic forces in shaping the nation's development trajectory. It argues that Brazil's economic history during this period is characterized by a series of paradoxes: rapid industrialization alongside persistent inequality, economic miracles followed by devastating crises, and modernization efforts constrained by colonial-era structures. The analysis begins with the Estado Novo of Getúlio Vargas, tracing the evolution of Brazil's economy through state-led industrialization, the "Economic Miracle" of the military regime, the debt crisis and hyperinflation of the 1980s, and the neoliberal reforms of the 1990s. Special attention is given to the enduring impact of slavery and colonial land distribution on Brazil's social and economic structures. The study highlights how these historical factors have contributed to ongoing challenges such as regional disparities, income inequality, and the "Brazil Cost." By examining these issues, the paper provides insights into the complexities of economic development in postcolonial societies and the challenges of overcoming historical constraints in the pursuit of equitable and sustainable growth.

**Keywords:** Brazil; Economic history; Import substitution industrialization; Economic miracle; Hyperinflation; Neoliberal reforms; Slavery legacy; Colonial endowments; Regional disparities; Income inequality; Estado Novo; Military regime; Plano Real; Brazil Cost; Postcolonial development

## 1. Introduction

The Paradox of Brazil's Economic Development: Boom, Bust, and Structural Challenges (1930-2000)

Brazil, the largest country in South America and the fifth largest in the world, has long been regarded as a nation of immense economic potential. Blessed with abundant natural resources, a large and young population, and a diverse industrial base, Brazil has often been touted as the "country of the future" (Reid, 2014). However, its economic journey throughout the 20th century, particularly from 1930 to 2000, tells a complex tale of rapid growth, devastating crises, and persistent structural challenges that have repeatedly hindered its progress towards becoming a developed economy.

The narrative of Brazil's economic development is one of paradoxes and contradictions. On one hand, the country has experienced periods of remarkable growth, such as the "Economic Miracle" of 1968-1973, when GDP growth averaged an impressive 11% per year (Baer, 2014). On the other hand, it has endured prolonged periods of stagnation and instability, epitomized by the "Lost Decade" of the 1980s, characterized by debt crises and hyperinflation (Kingstone, 2018). This pattern of boom-and-bust cycles reflects deeper structural issues that have plagued the Brazilian economy for decades.

At the core of Brazil's economic history lies the tension between state-led development strategies and market-oriented reforms. The period from 1930 to 2000 witnessed a pendulum swing between these two approaches. The era of President Getúlio Vargas (1930-1945 and 1951-1954) marked the beginning of a state-centric model of industrialization, with the implementation of import substitution policies and the creation of state-owned enterprises (Bethell, 2008). This approach continued, with variations, through the military dictatorship (1964-1985) and into the early years of redemocratization.

However, the debt crisis of the 1980s and the hyperinflationary period that followed forced a reevaluation of this model. The 1990s saw a shift towards neoliberal policies, embodied in the Plano Real of 1994, which sought to stabilize the economy and open it to global markets (Franco, 2000). Yet, even as these reforms brought inflation under control and modernized parts of the economy, they also exposed and, in some cases, exacerbated long-standing structural weaknesses.

Throughout this period, Brazil grappled with a set of persistent challenges that have come to be known collectively as the "Brazil Cost" (Custo Brasil). These include inadequate infrastructure, a complex and burdensome tax system, excessive bureaucracy, and significant income inequality (Melo, 2016). Additionally, issues such as low productivity growth, limited investment in education and research, and the perpetuation of regional disparities have continued to hamper Brazil's economic development (de Mello, 2017).

The country's struggle with corruption and institutional weaknesses has further complicated its economic trajectory. High-profile scandals, such as the Mensalão case in the early 2000s and the later Lava Jato (Car Wash) investigation, have highlighted the deep-rooted nature of these problems and their impact on economic efficiency and growth (Power & Taylor, 2011).

This article aims to explore the paradoxical nature of Brazil's economic development from 1930 to 2000, examining the interplay between policy choices, external factors, and internal structural challenges. By analyzing key periods such as the Vargas Era, the "Economic Miracle," the "Lost Decade," and the implementation of the Real Plan, we seek to understand the recurring patterns that have characterized Brazil's economic history.

Moreover, this study will investigate the underlying factors that have contributed to Brazil's inability to sustain long-term, stable economic growth despite its vast potential. By doing so, we hope to shed light on the complex dynamics that have shaped Brazil's economic landscape and continue to influence its development trajectory in the 21st century.

As we delve into this analysis, it becomes clear that Brazil's economic history is not merely a sequence of policy successes and failures, but a reflection of deeper societal, institutional, and structural challenges (Montgomery, 2024). Understanding this history is crucial not only for comprehending Brazil's current economic position but also for assessing its future prospects in an increasingly globalized world economy.

## 2. Research Objectives

The primary aim of this study is to analyze the complex and often paradoxical nature of Brazil's economic development from 1930 to 2000. To achieve this overarching goal, the following specific objectives have been formulated:

1. To examine the key periods of Brazil's economic history from 1930 to 2000, including:
  - (a) The Vargas Era and state-led industrialization (1930-1945)
  - (b) The "Economic Miracle" period (1968-1980)
  - (c) The "Lost Decade" and hyperinflation (1980-1994)
  - (d) The Real Plan and economic liberalization (1994-2000)
2. To analyze the shift between state-led development strategies and market-oriented reforms throughout this period, assessing their impacts on economic growth, industrialization, and social development.
3. To identify and evaluate the recurring structural challenges that have impeded Brazil's sustained economic growth, including:
  - (a) Infrastructure deficiencies
  - (b) Educational and human capital limitations
  - (c) Income inequality and regional disparities
  - (d) Institutional weaknesses and corruption
4. To investigate the role of external factors, such as global economic conditions, foreign debt, and international trade policies, in shaping Brazil's economic trajectory.

5. To assess the effectiveness of major economic policies and reforms implemented during this period, including import substitution industrialization, the Plano Real, and privatization efforts.

6. To explore the socio-political context of economic decision-making in Brazil, considering the influences of different political regimes (democratic and authoritarian) on economic policy formulation and implementation.

7. To examine the evolution of Brazil's position in the global economy throughout this period, focusing on changes in its comparative advantages, trade relationships, and integration into global markets.

8. To analyze the "Brazil Cost" (Custo Brasil) phenomenon, its components, and its impact on the country's economic competitiveness and growth potential.

9. To evaluate the long-term consequences of economic policies and structural issues from this period on Brazil's subsequent economic development in the 21st century.

10. To draw lessons from Brazil's economic history that may be relevant for other developing economies, particularly in Latin America, facing similar challenges of industrialization and economic modernization.

By addressing these objectives, this study aims to provide a comprehensive understanding of the complex factors that have shaped Brazil's economic development, offering insights into both the achievements and persistent challenges that have characterized the country's journey towards becoming a major global economy.

### 3. Discussion

#### 3.1. Brazil's Economic Paradox: A Legacy of Colonialism, Slavery, and Modernization

The tapestry of Brazil's economic history is woven with threads of gold and iron, sugar and coffee, progress and inequality. To understand the nation's tumultuous journey from 1930 to 2000, one must first cast their gaze back to the shores of 1500, when Pedro Álvares Cabral's fleet first glimpsed the verdant coastline of what would become Brazil (Schwartz, 1985). This moment of discovery set in motion a chain of events that would shape not only the economic structure of the nascent colony but also the social fabric of the nation for centuries to come (Montgomery 2024a).

The Portuguese crown, eager to exploit the newfound lands, established a system of hereditary captaincies (endowments), vast tracts of land granted to noblemen and wealthy merchants (Montgomery, 2024b). This initial distribution of property rights, known as sesmarias, laid the foundation for a deeply unequal land ownership structure that persists to this day (Fausto, 1999). The concentration of land in the hands of a few powerful families would come to define Brazil's agrarian economy and social hierarchy, creating endowments of wealth and power that have proven remarkably resilient through waves of economic and political change (Hoffmann, 2001).

As the colony's economy burgeoned, first with brazilwood, then sugar, and later gold and coffee, it did so on the backs of enslaved Africans. The institution of slavery, officially abolished only in 1888, left an indelible mark on Brazilian society (Klein & Luna, 2010). The brutal exploitation of millions of Africans and their descendants not only fueled Brazil's economic growth but also entrenched a system of racial and social stratification that would outlive the legal institution of slavery itself (Fernandes, 2008).

The legacy of slavery casts a long shadow over Brazil's economic development, manifesting in persistent racial inequalities in income, education, and opportunity (Telles, 2004). As the country industrialized in the 20th century, these historical disparities shaped the contours of urban migration and labor market participation. The favelas that grew on the hillsides of Rio de Janeiro and São Paulo stand as stark reminders of the uneven distribution of the fruits of economic progress (Perlman, 2010).

It is against this historical backdrop that we must view the economic policies and transformations of the 20th century. When Getúlio Vargas rose to power in 1930, ushering in an era of state-led industrialization, he did so in a country still grappling with the aftermath of slavery and the entrenched power structures of the old agrarian elite (Levine, 1998). Vargas's nationalist project,



while aimed at modernizing Brazil's economy, did little to address the fundamental inequalities rooted in the country's colonial and slave-holding past (Wolfe, 2010).

*The Import Substitution Industrialization (ISI) policies of the Vargas era and beyond accelerated Brazil's transformation from an agrarian to an industrial economy* (Baer, 2014). However, this process of industrialization, concentrated in the Southeast, particularly São Paulo, served to exacerbate regional disparities that had their origins in the colonial period. The Northeast, once the center of the sugar economy and a major destination for enslaved Africans, found itself increasingly marginalized in the new industrial order (Love, 1980).

The "Economic Miracle" of 1968-1973, occurring under the aegis of the military dictatorship, showcased both the potential and the limitations of Brazil's development model. The rapid economic growth of this period, averaging an impressive 11% annually, seemed to promise the long-awaited emergence of Brazil as a major economic power (Skidmore, 1988). Yet, beneath the surface of macroeconomic success lay deepening social fissures. The gains of this growth were disproportionately captured by the already wealthy, many of whom could trace their fortunes back to the colonial endowments and the accumulation of capital during the slave era (Fishlow, 1990).

As Brazil careened into the debt crisis and hyperinflation of the 1980s, the fragility of its economic model was laid bare. The "Lost Decade" exposed not only the vulnerabilities inherent in the country's dependence on foreign capital but also the inadequacies of its social safety net (Kingstone, 2018). The burden of economic adjustment fell heaviest on the poor and working classes, many of whom were descendants of enslaved Africans and indigenous peoples dispossessed during the colonial period (Amann & Baer, 2002).

The neoliberal reforms of the 1990s, epitomized by the Plano Real, succeeded in taming the hyperinflation that had ravaged the economy (Franco, 2000). However, the stability came at a cost. The privatization of state-owned enterprises and the opening of the economy to global competition, while increasing efficiency in some sectors, also led to job losses and increased economic insecurity for many Brazilians (Amann & Baer, 2009). The social dislocations caused by these reforms were particularly acute for marginalized communities, highlighting once again how contemporary economic policies interacted with historical inequalities (Reis, 2000).

Throughout these economic transformations, the persistent challenges of the "Brazil Cost" (*Custo Brasil*) remained. The inadequate infrastructure, Byzantine bureaucracy, and complex tax system that plagued Brazilian businesses had their roots in the patrimonial state structures inherited from the colonial period (Faoro, 1975). The concentration of political and economic power in the hands of a small elite, a legacy of the *sesmarias* system and slavery, continued to hinder the development of more inclusive and efficient institutions (Acemoglu & Robinson, 2012).

As Brazil entered the 21st century, it did so as a nation of paradoxes. It boasted a sophisticated industrial base and a dynamic financial sector, yet struggled with persistent poverty and inequality (Reid, 2014). Its democracy, restored after two decades of military rule, grappled with the legacy of authoritarianism and the enduring influence of oligarchic power structures. The country's economic potential remained vast, but so too did the challenges rooted in its historical development (Bethell, 2008).

The journey of Brazil's economic development from 1930 to 2000 cannot be understood in isolation from its deeper historical context. The endowments of the colonial period, the profound impact of slavery, and the persistent inequalities they engendered have shaped every aspect of Brazil's economic trajectory. As the nation continues to strive for sustainable and inclusive growth, it must reckon with this complex legacy. The future of Brazil's economy lies not only in navigating the currents of global markets and technological change but also in addressing the historical injustices and structural inequalities that have long constrained its immense potential (Bresser-Pereira, 2009).

In the end, Brazil's economic history is a testament to both the weight of the past and the possibility of change. It is a narrative of a *nation perpetually on the cusp of greatness*, grappling with the ghosts of its history as it reaches for a more prosperous and equitable future.

As we reflect on Brazil's economic history from 1930 to 2000, we are confronted with a tapestry of paradoxes that defy simple characterization. The nation's economic history is a testament to both

remarkable resilience and persistent challenges, showcasing periods of extraordinary growth juxtaposed with devastating crises. This complex narrative, deeply rooted in Brazil's colonial past and the legacy of slavery, offers valuable lessons for understanding not only Brazil's current economic position but also the broader challenges of development in postcolonial societies.

The enduring influence of colonial structures and the institution of slavery on Brazil's economic development cannot be overstated. The initial distribution of land through the sesmarias system and the concentration of wealth generated by slave labor created patterns of inequality that have proven remarkably persistent (Hoffmann, 2001). These historical endowments have shaped everything from regional disparities to the structure of the labor market, illustrating how the weight of history can constrain even the most ambitious modernization efforts.

Brazil's experiments with different economic models – from state-led industrialization to neoliberal reforms – have yielded mixed results. The Import Substitution Industrialization of the Vargas era and beyond succeeded in transforming Brazil into a major industrial power but also reinforced regional imbalances and failed to address fundamental social inequities (Baer, 2014). *The "Economic Miracle" of the late 1960s and early 1970s demonstrated Brazil's potential for rapid growth but also exposed the vulnerabilities inherent in a development model that prioritized aggregate growth over distributional concerns* (Fishlow, 1990).

The debt crisis and hyperinflation of the 1980s, followed by the stabilization and liberalization policies of the 1990s, further highlight the challenges of achieving sustainable and inclusive economic development. While the Plano Real succeeded in taming inflation, the social costs of adjustment and the persistence of structural inefficiencies – the so-called "Brazil Cost" – underscore the complexities of economic reform in a society marked by deep-seated inequalities (Franco, 2000; Kingstone, 2018).

#### 4. Conclusions

Looking towards the future, Brazil's economic prospects remain as complex and multifaceted as its history. The country enters the 21st century with significant advantages: a large and diversified economy, abundant natural resources, and a young, increasingly educated population. However, it also faces formidable challenges, many of which have their roots in the historical processes we have examined. Persistent inequality, regional disparities, and the need for institutional reforms continue to constrain Brazil's economic potential (Reid, 2014), before the population age distribution transition happens, as the young population decreases and, on the contrary, over the years, turns itself a burden. That may have been accelerated by pandemics and strong, fast migration, still unaccounted by IBGE, Brazil's National Center of Statistics.

The key lesson from Brazil's economic history is perhaps the need for a nuanced, historically informed approach to development. Policies that fail to account for the deep-seated structural inequalities and institutional weaknesses rooted in Brazil's past are likely to fall short of their objectives. At the same time, Brazil's history also offers examples of remarkable adaptability and innovation in the face of challenges, *suggesting that the country has the capacity to overcome its historical constraints*.

As Brazil navigates the complexities of the global economy in the 21st century, its success will depend on its ability to address the legacies of its past while embracing the opportunities of the future. This will require not only sound economic management but also a commitment to addressing the historical injustices and structural inequalities that have long hindered the country's development. Initiatives aimed at improving education, reducing racial and regional disparities, and strengthening democratic institutions will be crucial in this regard (Bresser-Pereira, 2009).

Ultimately, Brazil's economic history from 1930 to 2000 serves as a powerful reminder of the complex interaction between historical legacies, policy choices, and global economic forces in shaping a nation's development trajectory. It challenges simplistic notions of economic progress and underscores the importance of considering the historical and social context in which economic policies are implemented. As Brazil continues to grapple with its paradoxes and potentials, its experiences offer valuable insights not only for its own future but for other developing nations facing

similar challenges in reconciling their historical legacies with their aspirations for equitable and sustainable growth.

Overall, Brazil's journey is far from over. Its economic history, with all its complexities and contradictions, continues to unfold. The nation's ability to learn from its past, address its structural challenges, and harness its considerable potential will determine whether it can finally bridge the gap between its perpetual promise and the realization of that potential. As it does so, Brazil will undoubtedly continue to offer rich insights into the enduring questions of economic development, social justice, and the weight of history in shaping a nation's future.

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