

## CREDIBILITY AND POPULISM: A BAYESIAN APPROACH TO THE GOULART ADMINISTRATIONS IN BRAZIL

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**Resumo:** O governo Goulart (1961-1964), em suas fases parlamentarista e presidencialista, é considerado um exemplo típico do populismo no Brasil. A literatura sobre o período costuma definir a política econômica como hesitante, irracional ou ambígua. Neste trabalho, utiliza-se um modelo de credibilidade para explicar a condução da política econômica nas duas fases do governo. A credibilidade é definida como a probabilidade subjetiva com que os agentes avaliam o compromisso do governo para com as medidas de estabilidade por ele anunciadas, formalizadas por uma regra monetária. A estimativa da credibilidade aponta para um padrão comum na condução da política econômica. Nas duas fases o governo inicia com medidas ortodoxas de combate à inflação que fazem com que a credibilidade aumente. À medida em que o tempo passa, como resultado dos custos associados a essa política, a austeridade é abandonada, a credibilidade diminui e as tentativas de estabilização falham. Então, pode-se dizer que: a) há uma lógica e uma coerência nas políticas econômicas implementadas; b) a ortodoxia está presente tanto no discurso quanto na aplicação efetiva das políticas, o que impede de ver o fenômeno populista apenas como uma opção pelo crescimento, desconsiderando totalmente a estabilidade; c) apesar de estar presente, esta opção para combater a inflação não foi mantida ao longo de qualquer dos períodos analisados, d) a transição entre a opção pela estabilidade e a opção pelo crescimento não foi abrupta; e) a retórica pró-desenvolvimento esteve presente nas duas fases da conjuntura analisada, mas apenas no final de cada uma a opção pelo crescimento foi definida como prioridade, colocando a estabilidade em segundo plano; e f) finalmente, o discurso pró- desenvolvimento adotou um tom bastante crítico, associando-se às promessas nacionalistas, geralmente responsabilizando o capital estrangeiro e as organizações internacionais pelo aprofundamento da crise.

Palavras-chave: populismo, credibilidade, João Goulart

**Abstract:** The Goulart Administrations (1961-1964), which include a parliamentary and a presidential period, are considered typical examples of populism in Brazil. The literature usually defines their economic policies as “hesitating”, “irrational” or “ambiguous”. We use a model of credibility to argue that there is a pattern in the way economic policies were conducted. The credibility of the economic policies is defined to be the subjective probability that the government is following a monetary rule. The Administrations began with measures to fight inflation. As time passes, though, as a result of the costs associated with the policies, they abandoned the austerity, their credibility decreased and the attempts toward stabilization failed. Then, we may imply that: a) there is a logic and a coherence in the economic policies implemented which cannot therefore be considered irrational or erratic; b) orthodoxy is present both in the speech and in the actual implementation of the policies, especially in the first phase of each of the conjunctures, what prevents us to see the populist phenomenon only as an option for growth, totally disregarding stability; c) despite being present, this option for inflation fight was not maintained along either of the analysed periods; d) never was the transition between the option for stability and the one for growth abrupt, what does not support theses that mention a “shift” that would have occurred at a point in time that could serve as a landmark separating the two opposing economic policies; e) the pro-development rhetoric was present in the two phases of the analysed conjuncture, but only in the end of each one the option for growth was set as a priority, putting stability in the background; and f) finally, the pro-development speech took a quite critical tone, associating to nationalistic pledges, usually blaming foreign capital and international organizations for the deepening of the crisis, in a radical tone not seen in the first stages.

Key words: populism, credibility, João Goulart.

### Área temática 3: Brasil República

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## 1. Introduction

The Goulart Administrations (1961-1964), which include a parliamentary and a presidential period, are usually considered typical examples of populism in Brazil, a phenomenon that is present in several Latin-American countries as of the 1930's. The meaning, the historical motivations and the different manifestations of populism are subjects of intense debate, making a consensus conceptualization difficult, although there are common traits that are widely mentioned by the analysts. But they almost always highlight the phenomena of markedly political nature, as the existence of a charismatic leadership, the direct relationship between this leadership and the people, dismissing intermediary instances, the distributing speech and the symbiosis between demagogical and authoritarian political practices, among others. Dornbusch and Edwards (1991, p.9) define "economic populism" as "an approach to economics that emphasizes growth and income redistribution and deemphasizes the risks of inflation and deficit finance, external constraints, and the reaction of economic agents to aggressive nonmarket policies". While listing the most important characteristics of populism, the authors consider that "Policymakers explicitly reject the conservative paradigm and ignore the existence of any type of constraints on macroeconomic policy" (p.9). The analysis of the economic policies of the Goulart Administrations, however, allows us to detect certain patterns that may help clarify its behavior in this field and to better understand the populist phenomenon in terms of economics. More specifically, we will focus on the strategy to fight inflation and its short-term conflict with the proposals of fast economic growth.

We must recall the conjuncture in which Goulart took office: rising inflation and a trend towards a slowdown in the GDP growth rates, which are accompanied by an aggravated status of the foreign accounts with a deficit in the balance of payments and difficulties to attract foreign capital and to collect domestic savings. From the political standpoint, he had trouble taking office, amid a radicalization mood where part of the military and civil opposition got to the point of proposing the breakup of the constitutional rules. Despite the attempts to broaden the support bases made by the President which at various times used a moderate and conciliatory speech, the economic and political crises deepened and the growing radicalization wound up in a military coup against Goulart.

The disturbed political environment of these Administrations made a great part of the literature consider the economic policies implemented in the period as "hesitating", "irrational" and "ambiguous", involuntarily concluding, from these adjectives, that those

policies were completely erratic, having no logic at all. Aiming to prove that it is possible to detect a certain pattern of regularity in the economic policy, mainly in regard to the dilemma of inflation versus growth, we will focus on the Goulart Administrations which will be divided into two periods: parliamentary and presidential years.

This paper is divided in five sections including this introduction. Section two develops a theoretical-conceptual framework based in credibility models to deal with the populist pattern of economic policy. Section three describes the economic policy of the Goulart Administrations in the parliamentary and in the presidential periods. In section four we estimate a model of credibility for the period using a Bayesian approach. In the last section we summarize our conclusions.

## **2. The Populist pattern of economic policy**

### 2.1 Economic policy and credibility

The empirically observed regularity pattern in the handling of the economic policies in the two conjunctures comprising the Goulart Administrations can be put in a model that shows its internal logic. We do not attempt to test whether or not these were populist Administrations. On the contrary, this statement was taken from the specialized literature, mainly from the political science. Assuming it is adequate, the proper methodological procedure regards the question whether there was in fact an economic policy pattern - that we might call "populist" - in the before mentioned historical periods, looking for empirical evidence to help us understand how this phenomenon manifested itself in this area.

Resorting to the literature on economic policy we see, as Persson and Tabellini (1995) state, that the traditional approach of choices of the once-and-for-all type has given way to approaches that describe the handling of economic policy as the result of a strategic interaction between the government – as the one responsible for the economic policy measures – and the private sector. In this sense, a game theoretical approach helps to demonstrate the repetitive pattern seen in the two Administrations as the result of a balance in the framework of the so-called “political games”.<sup>2</sup>

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<sup>2</sup> We assume that the economic policy decisions are the result of a problem of strategic rational choice that involves the government and the private sector, each trying to maximize a certain objective-function, subject to certain constraints.

Following Barro (1986) let  $z_t$  be the cost function of the government, which depends on current inflation  $\pi_t$  and the surprise inflation  $(\pi_t - \pi_t^e)$ , where  $\pi_t^e$  is the inflation expected by the public.

$$z_t(\pi_t, \pi_t - \pi_t^e) = (a/2) \pi_t^2 - b(\pi_t - \pi_t^e) \quad (1)$$

The coefficients  $a$  and  $b$  are positive, which means that the costs increase with current inflation  $\pi_t$  and decrease with surprise inflation  $(\pi_t - \pi_t^e)$ . The surprise inflation is useful to the government as non-anticipated monetary expansions may lead to the increase in economic activity, lowering the unemployment rate, what is coherent with the definition of populism. This result can be obtained if we assume the existence of a Phillips' curve in the economy in such a way that the government can explore a trade-off between inflation and unemployment.

The government attempts to minimize the expected current value of the costs, given by:

$$E[z_t + z_{t+1}/(1+r) + \dots + z_T/(1+r)^{T-t}],$$

where  $r > 0$  is the discount rate in time, which is exogenous and constant, and  $T$  is the final period.

In determining equilibrium, Barro assumes two situations for the government's behavior. In the first one, the government is committed to an inflation goal, so that  $\pi_t^e = \pi_t$  and the level of inflation that minimizes costs is  $\pi_t = 0$  in all periods. The government's cost in each period is  $z(0,0) = 0$ . In the second situation, the government acts discretionarily, taking the public's present and future inflation expectation as given. In this case there will be a value of inflation rate in  $t$  that minimizes the cost, given by:

$$\pi_t^m = b/a. \quad (2)$$

The public, trying not to be misled, also solves the government's minimization problem and chooses  $\pi_t^e = \pi_t^m = b/a$ . Therefore, Nash's equilibrium for the model forecasts surprise inflation equal to zero. The cost for the government is:

$$z_t = z^m = z(\pi_t, 0) = (1/2) b^2/a > 0. \quad (3)$$

We can see there is a higher cost in discretionary policy compared with what would be obtained under the commitment to an inflation goal by the government.

In the next stage of the analysis the uncertainty of the public as to the type of Administration it is facing, out of two possible types, is introduced in the model. Type 1 is strong, committed to the non-inflationary goal. Type 2 is weak, with no capacity to take over

such commitment and only tries to minimize the expected current value of the costs. The government knows what its type is, but the public does not know what type of government it is dealing with and tries to identify it based on its moves, in a process of learning by experience. The fact that the public does not know the type of government it is dealing with results in the possibility that the weak government may manipulate its reputation, pretending to be strong when it chooses  $\pi_t = 0$ . By doing so, it tries to reduce the public's inflation expectation, minimizing its costs. The period the Administration is in office is finite, lasting from  $0$  to  $T$ . In the final period  $T$ , of common knowledge, the weak government does not have any more incentive to pretend being strong and chooses  $\pi_t = \pi^m = b/a$ .

According to Barro, let  $p_t$  be the probability of a weak government to choose  $\pi_t = 0$ , under the condition that the choice in the previous periods had been non-inflationary, let  $\alpha_t$  be the public's subjective probability in  $t$  that the government is of the strong type, being  $\alpha_0$  of common knowledge, and let  $p_t^p$  be the perception the public holds of  $p_t$ . If the result in  $t$  is  $\pi_t = 0$ , there are two possibilities: either the government is of the strong type (with probability  $\alpha_t$ ), or it is of the weak type (with probability  $1 - \alpha_t$ ) and is pretending (with probability  $p_t$ ). The result  $\pi_t = \pi_t^m$  will show up in case the government is of the weak type (probability  $1 - \alpha_t$ ) and is not trying to pretend (probability  $1 - p_t$ ). Then, the expected inflation in  $t$  is given by:

$$\pi_t^e = \pi_t^m (1 - \alpha_t) (1 - p_t^p), \quad (4)$$

which is the best forecast for  $\pi_t$ , given  $\alpha_t$  e  $p_t^p$ . If the public observes  $\pi_t = 0$ , it reviews its convictions regarding the government's reputation in the next period. The review is made according to Bayes' rule. If the public observes  $\pi_t = 0$ , the government's reputation improves in the next period.

Under such conditions, Barro identifies two equilibrium intervals. In the first interval -  $(0, \tau - 1)$  - the weak government mimics the strong government by choosing  $\pi_t = 0$ , trying to reduce the public's expectation of inflation to profit from the surprise inflation in the future. In this interval, there is no information gathering about the type of government because the public knows that both types can choose  $\pi_t = 0$  and  $\alpha_t$  remains constant.

In the second interval -  $(\tau, T - 1)$  -, the weak government randomizes, choosing  $\pi_t = 0$  with probability  $p_t$ , and  $\pi_t = b/a$  with probability  $1 - p_t$ . In this interval,  $\alpha_t$  is updated according to Bayes' rule. If the government chooses  $\pi_t = 0$ ,  $\alpha_{t+1}$ , is increasing and  $p_t$  is decreasing. The intuition behind this result is that, as the Administration approaches its end,

the gain obtained by a low inflation only offsets the advantage of inflating today, what makes inflate versus non-inflate irrelevant.

The major results of the model can be summarized by the analysis of the equilibrium trajectories of  $\alpha_t$  e  $p_t$ . In the first interval,  $(0, \tau - 1)$ , the probability that the weak government chooses not to inflate is 100% ( $p_t = 1$ ), the subjective probability that the public associates with the possibility of being dealing with a strong government is constant ( $\alpha_t = \alpha_0$ ) and the expected inflation is low ( $\pi_t^e = \pi_t = 0$ ). The range of this interval depends on the final period ( $T$ ), the initial public subjective probability ( $\alpha_0$ ) and the time discount rate ( $r$ ), parameters that are of common knowledge. In  $\tau$ , there is a slight decline in  $p_t$ , but  $\alpha_t$  remains equal. From  $\tau + 1$ ,  $p_t$  decreases and  $\alpha_t$  increases. Along all the trajectory, while the public observes low inflation, the expected inflation  $\pi_t^e$  is constant. This happens because, although the low inflation improves the government's reputation ( $\alpha_{t+1} > \alpha_t$ ), the fall in  $p_t$  offsets the effect that might occur over the expectation of inflation by the public, making any attempt to reduce inflationary expectations through the reputation mechanism vain. In time  $T$ , the value of  $p_t$  is zero, because the government has no more incentive to pretend being strong. We observe that the maintenance of a low inflation by a strong government, in front of a constant  $\pi_t^e$  will end up in economic recession. Barro's model describes, in general terms, the handling of the economic policy in the Goulart Administrations, as will be seen next.

## 2.2. Measuring the credibility

Despite being one of the main lines of research in macroeconomic theory lately, the empirical knowledge on credibility is still subject to many limitations. Blackburn and Christensen (1989, p.36) show some of the problems that occur regarding the notion of credibility. At first they mention the necessity to use proxy variables to measure credibility once we are dealing with expectations, an intangible concept by nature. By adopting such a procedure, the reliability of results is subject to the correct choice of the proxy variable. Another problem mentioned by the authors is inspired by the well-known critique by Lucas (1976) of the assumption of stability of parameters in econometric models and is relative to the structural changes that may result from modifications in the economic policy. As credibility has its path changed along the time, it becomes difficult to obtain a set of data that permits to describe it properly. Finally, the authors point out the analytical simplicity of the known credibility models as another obstacle to the empirical knowledge. They argue that the

theoretical constructs are excessively schematic and centered around few economic variables that are not always adequate to be tested.

The difficulties to deal in practice with the concept of credibility can be observed in the empirical studies done so far. Agénor and Taylor (1993), before presenting an approach to measure the credibility of economic policy and its effects, offer a very useful review to summarize the commonly used procedures. Most of the studies adopt the prediction and error method (for example, Christensen, 1987a; Kremers, 1990) that consists in initially estimating a model of inflation (a Phillips curve, for example) in a period before the implementation of the stabilization measures, and later using this model to predict the inflation of the post-program period. If the predicted inflation is higher than the actual inflation, the errors in the predictions are seen as evidence that there was a gain in credibility. Blackburn and Christensen (1989) mention two limitations to this kind of procedure. First, the changes in the expectations of inflation take some time to adjust to the announcement of regime change, which can make the data used in this type of estimate unable to identify them. Second, a problem of inadequacy of the model may occur. The errors might reflect any variable that had not been included in the estimate, and to assume that they necessarily refer to credibility is, at the very least, a heroic assumption.

An alternative to bypass this problem is to include a proxy variable of credibility explicitly in the model (see, for example, Christensen, 1987b; Croushore and Koot, 1991). Agénor and Taylor (1993), highlighting the critique by Blackburn and Christensen (1989) of this procedure, remind us that the definition of the proxy variable involves some degree of arbitrariness and does not guarantee the capacity to capture the effects associated with changes in credibility. In spite of that, they too propose the use of a proxy variable to measure expectations, as they consider it less vulnerable to the limitations of the other procedures. Considering that the difference between official and black market exchange rate is very sensitive to the expectation of the agents in relation to the governmental policies, the authors consider that it might be used to describe the behavior of credibility. The process supposes the split of the difference into two components: one would reflect the “foundations” of the economy and the other would be the basis of the measure of credibility. Variations in the difference therefore would be the result of changes in the “foundations” and in the credibility of the economic policies. The coefficient of the autoregressive component varies in accordance with the credibility.

The application of the regression technique with varying parameters to assess credibility fits the characteristic of variation along the time of the expectations of the

economic agents. Following this line of thought, Mankiw et al. (1987) assessed the effect of the creation of the Federal Reserve System in 1914 on the expectations. The study investigated whether there was a change in perception of the agents about the environment they operated in, since the system started to function. By examining the relations between short and long term interest rates, under the assumption that the long term rate incorporates the expectation of the future short term rate, Mankiw et al. tried to identify the existence of change in the stochastic process that generates the short term rate, which would lead to the alteration of this relation. The model of varying parameters was used to determine the most likely date of the change. The authors believe that from the results it is possible to infer that there was an adjustment of the expectations to the new economic policy regime, shaped by the creation of the Federal Reserve System. Although stronger, this technique also uses a proxy variable to represent credibility which is subject to the restraints above mentioned. An extra difficulty in this type of procedure, raised by Agénor and Taylor (1993, p.330), is that approaches that consider a single point of change, as is the case of Mankiw et al.'s, are useful to examine changes in trustworthy and permanent regimes within the period under consideration, but they are less valuable when the credibility is short-lived and may present more than one point of inflection .

So far, the above mentioned procedures all use the sample theory of the classical statistics. Another line of procedures attempts to be more loyal to the true spirit of the credibility models by adopting an explicitly Bayesian approach to assess the expectations of the economic agents regarding the government's commitment to stability. As Baxter (1985, p.348) states: "This problem has a natural Bayesian interpretation as it involves the principle of 'inverse probability', where the data are taken as given and the problem is to try to infer what random process generated them".

The method developed by Baxter (1985) defines credibility as the subjective probability with which the agents assess the government's commitment to the measures of stability proclaimed, making it a function of the adopted economic policies' parameters. In order to have credibility, a program must be feasible to satisfy two conditions which highlight the interaction between the fiscal and monetary sides of the economy: first, the rate of expansion of the money supply must be reduced as was announced; second, the deficit financing must not imply an explosive trajectory of the public debt stock. It is assumed in the model that the set of all the possible governmental policies can be divided in two sub-sets, one containing the policies that favor stability, and another containing policies that do not lead to this goal. It is up to the economic agents to associate a certain probability to the regime of



economic policy at hand, in regard to belonging or not to the set that aims at stability. Based on that, they can estimate the parameters of the rules of the governmental policy and then predict the future values of the variables. The more observations are aggregated to the initial stock of information, the more the agents know the real parameters. In this process of learning by experience, the calculation of the probability that the rules of the governmental policy belong to the set of measures that lead to stability is made using the Bayes' rule and it is updated with every available new piece of information.

The measure of credibility proposed by Baxter, for adopting the Bayes' rule as a way to update the confidence of the economic agents on the commitment of the government to stabilization, is more adjacent to the concept of credibility of the models described in the previous section. Thus it will be used to estimate the credibility of the economic policy during the Goulart Administrations.

### **3. The Goulart Administrations**

After Vargas' suicide in August 1954, succeeded the Café Filho (08/1954 to 11/1955) and the Juscelino Kubitschek (01/1956 to 01/1961) Administrations. The latter, although recording high growth rates and giving the country an integrated and diversified industrial structure with the Plan of Goals, left to its successor, the Jânio Quadros Administration (01/1961 to 08/1961), serious domestic and foreign disequilibrium. Eight months after taking office, Quadros resigned from the presidency and put the country in one of the most serious institutional crisis of its history. The Armed Forces resisted the idea of João Goulart, the vice-president, taking office. Congress, in its turn, did not accept the military's veto. The conflict was bypassed with the adoption of the parliamentary system on September 2, 1961. Goulart was supposed to remain in office until January 31, 1966 and before this date there would be a referendum to confirm or not the new regime.

In this disturbed political environment on September 7, 1961 João Goulart took office as president. On the next day, Tancredo Neves, a member of PSD (Social Democratic Party), the majority party in Congress, was nominated Prime Minister. By the end of 1962, Congress set the date of January 6, 1963 for the referendum that would define the political regime to be adopted. On this day, the voters decided, by a large margin, in favor of the return of the presidential system.

The legacy Goulart inherited was not much different from the one President Vargas did ten years before. The foreign sector was the only one where the new Administration did

not have immediate problems to solve, thanks to the foreign agreements made by the Quadros Administration. Inflation, calculated by the IGP-DI had reached 30.5% in 1960 and was again the main problem to be faced. Once more, the guiding of the economic policy would need to be split between trying to avoid a rise in inflation and at the same time keeping economic growth. Table 1 demonstrates that what happened was a reduction in the rates of economic growth, an acceleration in inflation and a deterioration in the balance of payments, especially between 1961 and 1963.

Overall the interpretations for the loss of dynamism in the economy either highlight the structural character of the crisis (Furtado, 1968; Tavares and Serra, 1972; Ianni, 1986) in a longer-term view, or mention the conjunctural aspects (Leff, 1977; Wells, 1977) often linking them to the existing political instability scenario. In general terms, the economic policy is described as indefinite or incoherent. Criticizing CEPAL's structuralism, Simonsen (1969, p. 67-68), for instance, says: "Another example, one more specific for Brazil, concerns the decline in the growth rate of the real output between 1962 and 1967. In the view of orthodoxy this was a reflection of the disequilibrium inherited from the 1950's, of the irrationality of the economic policy between August 1961 and March 1964, and of the further efforts for monetary stabilization". For Baer (1996, p. 87): "the tumultuous years that followed the resignation in the end of August 1961, until the overthrow of the next government in April 1964 were destitute of any consistent path in economic policy". On the Goulart Administration, in their analysis of populism in Brazil Castro and Ronci (1991, p.160-161) remark: "The features of Goulart's populism fit nicely into the description of a conventional mishandling of economic tools". A more detailed analysis of the parliamentary and presidential systems during Goulart's term, however, will let us detect a pattern of rationality in the economic policy that is coherent with Barro's model.

### 3.1 The Parliamentary Period

When it took office in September, 1961, the first parliamentary cabinet was faced with a difficult economic situation, made even deeper by the environment of political instability that followed Quadros' resignation. The effort to build a reputation of strong government began through the nomination of an austere cabinet. In the search for a consensus Administration, the main parties were chosen to be part of the cabinet in a reasonably balanced share of the ministries. In charge of the economy, as expected, a conservative minister. The Finance Ministry was taken by the banker Walter Moreira Salles, of an orthodox profile, responsible for the successful negotiation of the Brazilian foreign debt in the

United States during the Quadros Administration. Soon after taking office, he emphasized in his speeches the austerity of the economic policy to be undertaken, which would be "carried out through shared decisions of Parliament" (Jornal do Comércio, September 11, 1961, p. 6); he was trying to show a certain distance from the presidential figure, although the power of the president was not just symbolic in the Brazilian parliamentarism, since he was responsible for choosing the prime minister to be submitted for the parliament's approval. It is interesting to mention the case of the Ministry of Mines & Energy. For political reasons, it was given to Gabriel Passos, a member of the nationalistic wing of the UDN (National Democratic Union). However, in order to avoid any worry from the sector's foreign investors in relation to the treatment they would be receiving from then on, the new minister soon made declarations through the press, stating the importance of foreign capital and the role it played in the country's growth. Also worth mentioning is the fact that the Ministry of Labor & Social Security was not given to the PTB (Brazilian Labor Party) - one of the members of the government alliance and for a long time in charge of it - clearly demonstrating that the Administration wanted to avoid any link with the old labor party practice.

In face of the obscure division of power between the president and the prime-minister, the consolidation of the government's credibility went through the recovery of Goulart's image, inside and outside the country. Therein, the early presidential speeches had a moderate tone, undertaking responsibility for democracy, highlighting its opposition to communism, and giving political support to the strictest anti-inflation measures proposed by the cabinet.

The apparent success of Goulart's trip to the United States in April of 1962, materialized in the ratification of the agreements made by the Quadros Administration (although subject to the execution of the stabilization program), served for the consolidation of his political position domestically, especially with the middle-class and the military. In order to stay in power, though, the Administration had to be trusted by the economic agents relatively to its capacity to lead the country towards economic stability. The failure of the first attempt to stabilization by the first parliamentary cabinet, consolidated in the so-called "Emergency Action" in September of 1961 shook the trust in the Administration. The measures that were taken did not have the desired effect and the final months of the year were characterized by fiscal and monetary lack of control. The truth is: the Administration did not possess, in the short-run, tools to deal with the problems inherited from the previous government, hence the decision to concentrate efforts for stabilization on the following year. In January of 1962, Moreira Salles, even facing pressures from the business community opposing a possible tax increase and restrictions imposed by the stabilization program,

stressed that he would not move back and he made a plea for the "noble sacrifice" the conjuncture demanded (Jornal do Comércio, January 1<sup>st</sup>, 1962, p.8).

The new stabilization program, which was introduced in March of 1962, announced goals for a restraint on expenses and for the expansion of money and credit, seeking the equilibrium in that current year. From the expenses side, three measures were proposed: a new plan for a restraint on expenses to be sent to Congress for approval, which would save approximately Cr\$60 billion; a plan for a budget execution that programmed the payment of supplies and services for the January-May 1963 period, in the amount of Cr\$81 billion; and the transfer of Cr\$38 billion in expenses authorizations to future fiscal years, with no set date of liquidation. Therefore, the cash deficit would be reduced to Cr\$150 billion. In an effort to establish non-inflationary sources to finance the deficit, and given the constitutional limitation in respect to tax changes in the same fiscal year, two public loans were calculated in order to cover the difference: a compulsory one in the amount of Cr\$20 billion, as an additional tax on the income tax of juridical and physical persons, and a voluntary one, estimated in Cr\$100 billion on Treasury Bills or Obligations with a safety clause against monetary devaluation. The remaining deficit, Cr\$30 billion, was supposed to be financed by the Bank of Brazil. Besides that, an administrative tax reform was proposed aiming to guide to equilibrium in the following years. The program stated that the measures to control public deficit should be complemented by restrictions to credit expansion on the part of the monetary authorities. The loans from the Bank of Brazil to the private sector could not grow more than Cr\$35 billion along the year (nominal increase of roughly 12.7%) and the loans made via rediscount were limited to Cr\$15 billion. In April, the first month of the program execution, the goals were met. Public deficit stayed within the established limit, the same happening with the credit to the private sector, although, in both cases, dangerously close to the set goals.

Although resulting from a commitment engendered by the traditional "owners" of power, the conditions underlying the implementation of the parliamentary regime - through a constitutional amendment, "worked out in a few hours under the emotional influence of exceptional events" (Brochado da Rocha, *apud* Abreu, 1989, p.200) - and the constant pressure from president João Goulart to regain full powers, first in a covered then in an overt way<sup>3</sup>, made the political instability environment constant along the parliamentary period. The insecurity regarding Goulart's moves to regain power, an his adversaries' to prevent this from

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<sup>3</sup> "For fourteen months, from September 1961 to January 1963, Jango carefully manipulated in order to regain presidential powers". (Skidmore, 1976, p.264)

happening, only further increased the instability inherent in performing the parliamentary rule, contributing to a clear reduction in the horizon of the economic policymakers.

The proximity of the election to renew the House of Representatives, one-third of the Senate and the governors in half of the states scheduled for October 7 contributed to further confuse the political environment, increasing polarization around the stabilization program and hampering the approval of the necessary but unpopular measures. The members of Congress, including cabinet members, had no interest to associate their names to the approval of laws that could damage their electoral prospects. This is typically a situation where the future is strongly discounted, once the option for stability might cost at least four years of political ostracism. By mid-May, the Legislative had approved only the increase in the percentage of the banks' compulsory deposits. The bills authorizing compulsory and voluntary loans and the salary raise for federal employees went back to the House, after receiving amendments in the Senate<sup>4</sup>. The tax reform bill, sent to Congress in November of 1961, would not be analyzed soon. To make things worse, the degree of political polarization was also exacerbated due to arguments about the base reforms and the remittance of profits, issues that represented the main conflicting political projects at the time.

The randomization of the decisions in economic policy, due to the government's shortening of horizon and the increase in the discount rate along the time and helped by the rise of credibility in the first months (with a consequent reduction in the likelihood that the government would keep looking strong), is very clear in May and can be perceived in the confrontation between the monetary and fiscal policies. From this month on, the deficit quickly increased, distancing itself from the goals established by the program. Oppositely and in parallel, the Administration adopted restrained credit measures, raising the compulsory deposit through SUMOC's Instruction 225 in May 18, 1962. Another aspect that reveals the ambiguous posture of the government since May can be seen in Goulart's behavior. As the popular discontent in relation to the effects of the stabilization program grew, Goulart left the temporizing position he had taken in the beginning of his term, abandoning the emphasis on stability in order to focus on the advocacy of base reforms. This behavior progressed steadily, as can be seen in two parts of his speeches. On May first, Goulart, still using moderate language, advocated the necessity of constitutional changes that would permit the expropriation of land for land reform purposes, payable in bonds, not in cash. In a different

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<sup>4</sup> These bills were eventually approved by the House of Representatives in June. In the case of the federal employees' salary raise, the amount was equivalent to an increase of approximately Cr\$94.5 billion, above the Cr\$82 billion anticipated in the stabilization program.

speech, on the fourteenth, addressing longshoremen, Goulart was a lot more incisive, stressing his links with Vargas' *trabalhismo* and preaching the necessity of reforms to assure the economic emancipation of the country, emphasizing land reform. Besides, the president shunned any responsibility for the economic situation of the country blaming the cabinet for the difficulties the population was going through.

The effect of the Administration's change of attitude in relation to stability can be seen in the figures of the main political variables. In May, the government exceeded the limit projected for the public deficit and, consequently, the limit of credit from the Bank of Brazil to the Treasury. In that month, the credit to the private sector still remained within the limits that were set in the program. Nevertheless, to Abreu (1989, p.203), "the lack of control over the economy becomes evident as of May with the significant increase in the government's cash deficit produced by the raise in public expenditure and the raise in the expansion rate of money supply". The month of June, the last month of the Neves cabinet, marked the renunciation to the stabilization policy. In that month, besides a raise in public deficit - that reached more than double what had been set as a yearly goal - the limit of the nominal credit from the Bank of Brazil to the private sector was also exceeded. After this, whatever was left of the government's credibility vanished.

At this stage, the lack of credibility made any new attempt to stabilization impossible. The new cabinet, led by Brochado da Rocha, made a few moves towards it, but the odds of success were minimal. The goals of stabilization exceeded the limits and the transitory quality of the government, having urged a referendum to decide for the political system, hampered all endeavors. Moreira Salles stepped aside in September of 1962, worn out by the contrast between the measures he tried to implement and the speeches of the president, other Administration officials and their support base in Congress. They had a strongly nationalistic tone, supporting the expropriation of the Telephone Company of Rio Grande do Sul (subsidiary of an American company) and a bill limiting the remittance of profits abroad, approved by the Senate in early June shortly before the approval of the National Council for Land Reform.

The year of 1962 ended with a high GDP growth rate (6.6%) - although below the one of 1961 (8.1%) - inflation rate of 51.6%, a negative balance of trade of 89 million dollars, mainly due to a fall in exports (from US\$ 1,405 million to US\$ 1,215 million) while imports increased slightly (from US\$ 1,292 million to US\$ 1,304 million). By the year's end, Goulart blamed the IMF for these difficulties, because of the conditions it imposed on the Latin American economies (Jornal do Comércio, December 6, 1962, p.6).

### 3.2 The Presidential Period

Regaining full powers, in January of 1963, Goulart faced the huge challenge of conquering the trust of the economic agents in his capacity (and will) to solve the serious problems the country was facing partly deepened by his own actions during the parliamentary period. Once more, in view of the fragile structure of the country's economic institutions, the attempt towards stabilization lay on a delicate framework, as in relation to the nomination of the ministers. Goulart tried to choose a ministry made of eminent personalities, where moderation was key. The Finance minister was San Tiago Dantas. Although a member of the left wing of PTB, the new minister was known for his advocacy of orthodox ideas concerning inflation fighting. In the economic area Celso Furtado was a minister without a ministry; he was not linked to any political party and was responsible for the economic planning and for managing SUDENE. The hard-line leftists were represented by the minister of Labor, Almino Afonso and by the ultranationalist João Mangabeira, in charge of the ministry of Interior & Justice, an indication that Goulart was not willing to separate himself completely from his ties with the unions. The ministry of War continued in the hands of General Amauri Krueel, a moderate.

The first measures of the new stage of the Goulart Administration were registered in the Triennial Plan. It tried to reissue the old Campos Salles - Rodrigues Alves "formula", emphasizing the commitment to the economic development that would have stability in the short-run as a pre-requisite; without stability the growth goals themselves would be jeopardized. Therefore, the Plan intended to execute typical restraining policies from conventional stabilization programs such as reduction in the public deficit, control of money issues and credit restraint to the private sector. Besides, it proposed the uniformity of the exchange rates and its fixing in realistic levels. To prove how serious its intentions were the Administration set fiscal and monetary goals that should be fulfilled along the year. Once more the behavior adopted in previous periods is observed: strong measures to fight inflation are announced as a way for the government to build a reputation of strength.

The outcome was reasonably good in the first months. The exchange devaluation in April practically balanced the official exchange rate to the parallel market rate, somehow showing a change in the level of trust in the government. The goal for the public deficit was not fulfilled in the first quarter because the norms of financial execution were established only in March, but in the second quarter the Administration could keep the limit that was previously set. The credit policy although not having obeyed the fixed nominal goals, was

restrictive in real terms in the first two quarters, especially in the first when the real credit shrank almost 17%. In the second quarter, the reduction was around 4%. The rise in prices, after the corrective inflation of the first months, slowed down in April, signaling the possibility of success of the stabilization program.

The political situation in the beginning of Goulart's presidential Administration, despite the easy victory in the referendum, was not calm. Radicalizations continued to exist and the government's stability depended on Goulart's capacity to calm down the conflicting groups. Skidmore (1976) highlights the two disputing sides: the traditional anti-Vargas ones, led by Carlos Lacerda, and the radical left led by Leonel Brizola. According to Skidmore, the impossibility of a commitment policy showed itself mainly in the controversies on how to deal with foreign capital and on land reform. Thanks to acts of both groups, the threat of a coup loomed during the whole term, coming into effect in March of 1964. The hard-line right-wingers conspired against Goulart since Quadros' resignation - better yet, since the time he was a minister under Vargas. Now, better organized, they began to count on the decisive support of the Social Studies and Research Institute (IPES), an organization founded in November of 1961 by businessmen from Rio de Janeiro and São Paulo who opposed Goulart's guidelines. Such a support strengthened the conspiracy movement which already admitted to the "use of more direct methods" to resist the government. The radical leftists likewise operated with the possibility of "direct methods to fight the 'coup advocates', 'betrayers' and 'reactionaries'" (Skidmore, 1976, p.275-276, italics by the author). The imminent possibility of a coup that might come from any of the fighting political sides contributed to reduce the temporal horizon of the government and to increase its time discount rate. Any move by Goulart, in either direction, could mean the end of the government by the subversion of the constitutional order on the part of the neglected group. Such move occurred by the end of 1963 when Goulart sided with the radical left trying to stay in power, and marked a change of phase in the handling of the economic policy.

The economic difficulties associated with the costs of the stabilization program joined the progressive political deterioration picture to deepen the political radicalizations. The measures of fiscal and monetary discipline, necessary to the stabilization effort, were interpreted by the nationalists as a requirement of the developed countries to suit their interests, causing sacrifice to the Brazilian population. The corrective inflation that followed the readjustments of the exchange rate and the public utilities prices and the tight credit policy made the government even more vulnerable to criticism by the opposition. At this moment



one can say that the cost of adjustment came close to the cost of inflation and the Administration became indifferent in relation to it.

The government's change of attitude in relation to stability, marking the beginning of the economic policy randomization stage, began with the episode of the civil servants' salary readjustment in May. As it agreed to a readjustment of 70% a week after a visit of the IMF to the country, the Administration knew it was jeopardizing the central commitment of the stabilization program. Although the May and June financial reprogramming kept the deficit in approximately the same level that was forecast in the initial program, the Administration's move cast doubt on its capacity to support fiscal discipline. From the monetary policy side, a tight credit was maintained, imposed by SUMOC's Instructions 234 and 235<sup>5</sup>. Once more we see the lack of agreement between fiscal and monetary policies. The results of the main economic variables in the third quarter confirm the contradictory nature of the economic policy executed. The goal for the public deficit was surpassed in over 100% but the credit to the private sector, though not respecting the nominal limits anymore, kept stagnated in real terms. The ambiguity of the economic policy is stressed by Lessa (1982, p.134): "However, although in the second half of 1963 the fiscal, exchange and monetary policies did not comply with the Triennial Plan, exceeding their projections, there were still attempts of conjoined formulation of the short-run policies, unfortunately not very successful". The problem is that the non-fulfillment of the goals eroded the government's credibility, pushing the economy to the discretionary equilibrium.

Among the last attempts to a short-run stabilization we find SUMOC's Instruction 255 by which the banks that surpassed the government's authorized credit limits would be required to buy Treasury bonds, without interest, with a discharge term of 180 days. This measure was proposed by Carvalho Pinto, the second Finance minister under Goulart. By choosing a conservative politician who had good relations in the business environment in São Paulo, Goulart tried to pass an image of moderation, meaning he would not leave off the search for credibility. But the new minister, as he took office, made it clear that his policy would alter the stabilization priority; it should be pursued, but it would have to be compatible with the search for growth - not in the long-run, but right away. Expressing common sense, the most popular newsmagazine of the time, *O Cruzeiro*, records this as a positive fact: "Mr. Carvalho

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<sup>5</sup> Through Instruction 234, of February 14, limits of expansion per quarter were fixed for the Department of General Credit and the Department of Agricultural & Industrial Credit. Instruction 235, of March 7, set the limits of the credit operations according to the programming of the Triennial Plan and measures of selective control of investments, with credit priority bands. Besides, it increased the percentage of the compulsory deposits from 20 to 28% for in cash deposits, and from 7 to 14% on installment deposits.

Pinto intends to discipline the finances, but will soften the controls fixed by his antecessor promoting some items of the development program. His name commands confidence to the ruling classes and tranquilizes São Paulo, so restless lately in relation to the paths of the government". (July 13, 1963). By so doing, the minister looked for more social support, but especially tried to synchronize his speech to the president's since in a previous issue the newsmagazine said that Goulart when choosing his cabinet, "Had serious thoughts about the possibility of making public constructions and opening new job opportunities in the many areas of the country"; And that "despite the danger" of inflation rise, the option "offered the best advantages from the political point of view" (July 6, 1963). On this same day we must record the symbolic fact that populism ceased to be a vague speech looking for legitimacy, and that repercussions abroad were so high that Roberto Campos, the Brazilian ambassador to the United States, resigned from his post for considering "the possibilities of credit to Brazil totally lost, after the cabinet changes made to alter the financial recovery policy". In August, Businessweek magazine informed that Goulart abandoned the policy to fight inflation.

The revocation of SUMOC's Instruction 255 two months after existence - when the economy was already under the third Finance minister, Nei Galvão - marks the passing of the handling of the economic policy to the discretionary equilibrium phase, when the Administration no longer had public credibility. In Skidmore's words (1976, p.326): "the death-knell was tolled when Carvalho Pinto left the Finance ministry by the end of December. One of the first actions of his successor was to agree with the revocation of SUMOC's Instruction 255, this way putting down the last resource to finance the dying Triennial Plan". As a matter of fact, in December no more references were made in relation to the goals set in the early months. By the end of 1963, the deficit was 50% above the forecast and the tight credit was reversed.

#### **4. Credibility in the Goulart Administrations**

To support the hypothesis that the credibility played a fundamental role in the way economic policies were conducted during the Goulart Administrations, we estimate the credibility of these policies according to the Bayesian approach. Following Baxter (1985), in the empirical implementation of this credibility model, it is assumed that the governmental policies can be described as a linear multiple regression model:

$$y = \mathbf{X}'\boldsymbol{\theta} + u, \quad (5)$$

where  $y$  is the policy's variable,  $\mathbf{X}$  is a vector of state variables,  $\boldsymbol{\theta}$  is a vector of regression coefficients and  $u$  is the error term, assumed as i.i.d. (independently and identically normally distributed) with mean zero and variance  $\sigma^2$ . When a new regime of economic policy is proclaimed at  $t = 0$ , to be followed as of  $t = 1$ , the agents possess prior beliefs about the real future value of  $\boldsymbol{\theta}$  and  $\sigma$ , summarized in a prior probability density function  $f(\boldsymbol{\theta})$ . Through the Bayes' rule, this prior function is combined with the sample information obtained after the proclamation of the measures, represented by a likelihood function,  $f(y_t|\boldsymbol{\theta})$ , to yield the posterior probability density function  $f(\boldsymbol{\theta}|y_t)$ . Credibility then is defined as the posterior probability attributed by the agents to the event that the economic policy belongs to the set of measures that lead to stability. At time  $t$ , it will be:

$$C_t = \int_{\boldsymbol{\theta} \in R} f(\boldsymbol{\theta}|y_t) d\boldsymbol{\theta}, \quad (6)$$

where  $f(\boldsymbol{\theta}|y_t)$  is the marginal posterior probability density function for  $\boldsymbol{\theta}$ , given the vector of observations of the variable for policy  $y_t$ , and  $R$  is the set of measures that favor stability.

According to Baxter(1985), there are two conditions that must be satisfied so that a stability program is trustworthy: rate of expansion of the money supply according to what was announced and deficit financing under conditions that do not imply an explosive trajectory of the public debt stock. These conditions can be expressed by two rules as a fixed exchange rate is assumed. The rule of monetary policy is given by:

$$DC_t = (1 + \theta + \varepsilon_t) DC_{t-1}, \quad (7)$$

where  $DC_t$  is the level of domestic credit,  $\theta$  is the target for the credit growth rate and  $\varepsilon$  is the error, with mean zero and  $\sigma_\varepsilon^2$  variance. Considering the equality between the domestic inflation rate  $\pi$ , and the foreign inflation rate  $\pi^*$ , the monetary authority must keep  $\theta \leq \pi^*$  to prevent an excessive money supply, thus making sure that the exchange rate remains at the established level and that inflation is reduced. The rule of fiscal policy is given by:

$$D_t = \alpha_0 + \alpha_1 B_{t-1} + u_t, \quad (8)$$

where  $D_t$  is the real value of deficit at time  $t$ , minus the debt service,  $B_{t-1}$  is the real value of the governmental debt stock in period  $t-1$ , and  $u_t$  is the error with mean zero and  $\sigma_u^2$  variance. The budget constrain of the government is given by:

$$D_t = B_t - (1 + r) B_{t-1} + (DC_t - DC_{t-1})/p_b, \quad (9)$$

where  $r$  is the real interest rate which is assumed to be constant, and  $p_t$  is the level of prices in  $t$ .

Combining equations (8) and (9), we obtain:

$$B_t = \alpha_0 + \gamma B_{t-1} - (DC_t - DC_{t-1})/p_t + u_t, \quad (10)$$

where  $\gamma = (1 + r + \alpha_I)$ . The necessary condition so that the governmental debt does not have an explosive trajectory is  $\gamma < 1$ , because in this case  $\alpha_I < -r$ , which means, from equation (9), that at each period the government reduces part of the total of its debt.

According to Rocha (1997), under a flexible exchange rate regime, the change in domestic credit is the change in the money supply. Therefore, the rule of monetary policy is given by:

$$MB_t = (1 + \theta + \varepsilon_t) MB_{t-1}, \quad (11)$$

where  $MB_t$  is the monetary base in  $t$ ,  $\theta$  is the rate of growth of the monetary base and  $\varepsilon$  is the error, with mean zero and  $\sigma_\varepsilon^2$  variance. The restraint is that  $\theta \leq 0$ , which shows a restrictive monetary policy, assuring a decline of inflation in the long term. The fiscal restraint is similar to the one described by Baxter, replacing the level of domestic credit with the monetary base.

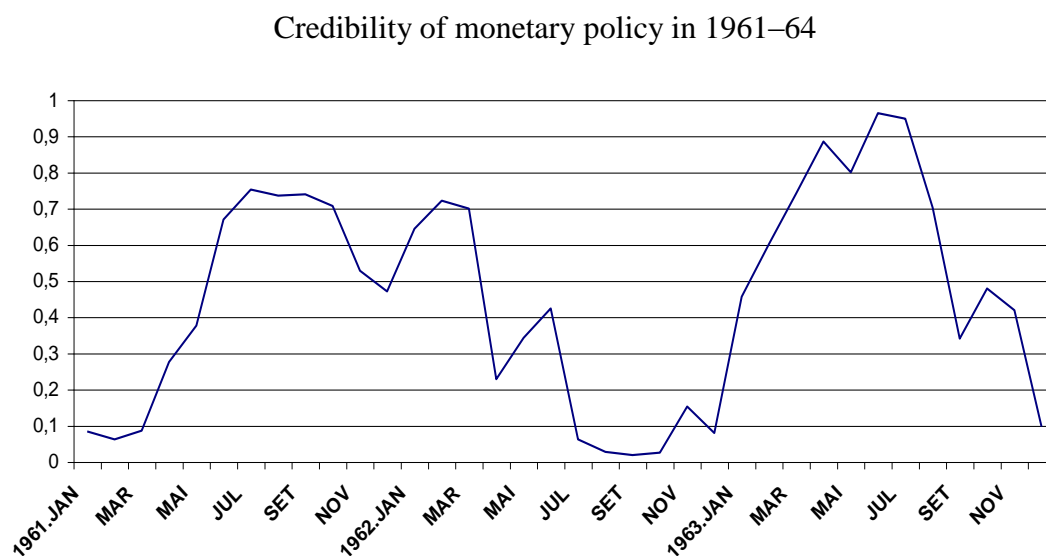
In the Brazilian case in the early 1960's, it does not make sense to apply the restraint to fiscal policy once there was no public bonds market. The absence of this market forced the government to turn to loans from Banco do Brasil as its main source of financing the excessive expenditure. The peculiar position of Banco do Brasil on the financial system deserves a special reference because of the implications it has on the money supply. At this time there was no authentic central bank<sup>6</sup>, and the role of monetary authority was split between Superintendência da Moeda e do Crédito (SUMOC) and Banco do Brasil. The former was in charge of decisions on currency and credit, and the latter dealt with the executions of those decisions. By accumulating the roles of commercial bank and financial agent of the monetary authorities, Banco do Brasil gained the ability to expand the monetary base through the expansion of its deposits. Under these circumstances, credibility will be measured from the rule of monetary policy with a flexible exchange rate regime.

The Bayesian estimates of the model were made from equation (11), using data of the real monetary base (deflated by IPA-DI), through the SHAZAM software version 8,0. Following the Geweke (1986) methodology, a prior distribution with inequality constraints was used, generating probability values from the posterior distribution, which were used as a

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<sup>6</sup>The creation of Banco Central da Republica do Brasil was in December, 1964.

measure of credibility of the monetary policy, according to equation (6). To calculate the probability, the program uses a Monte Carlo numerical integration procedure which is implemented by generating replications from a multivariate  $t$  distribution. The antithetic replication changes the sign of the vector of random numbers. The procedure consists in artificially generating samples from a posterior probability density function. The proportion of the observations that obey the restraint ( in this case,  $\theta \leq 0$  ) is the estimate of probability. The estimates of the probability were done considering the information of the six months prior to each month in study, reaching 200,000 replications (100,000 antithetic). The results obtained are in the chart below:



The measure of credibility of the monetary policy shows that the Jânio Quadros Administration (January 1961 to August 1961) started with a credibility of a little over 8% in January 1961 and had a constant increase from a policy committed to stabilization, this effort being represented by the reform in the exchange system sealed by SUMOC'S Act 204 in March 1961. After he left his office, the credibility starts to decrease.

In the parliamentary period (September 1961 to December 1962), there was an initial attempt to stabilization by the first Cabinet led by Tancredo Neves, consolidated in the so-called "Emergency Action". These measures were not effective and the last months of the year recorded a loss in credibility. There is a slight gain in credibility as new measures were announced for 1962, but the frailty of the political framing makes credibility tend to decrease. In June, the first Cabinet resigned and in July credibility falls to around 6%. The new Cabinet, led by Brochado da Rocha, sketched a new attempt to stabilization but it was predestined to failure. The ephemeral feature of the government, symbolized by the demand to move the

date of the referendum about the system of government to an earlier date, prevents the perseverance in the effort. In September, the month of the resignation of the second Cabinet, credibility reaches its lowest level (less than 2%). Finally, the next Cabinet, led by Lima, complied with its ephemeral feature, acting only in order to try to prevent the worsening of the economic situation.

The year of 1963, already under the presidential government of João Goulart, showed impressive gains in credibility, supported by the Plano Trienal which was clearly orthodox. The results of the first months are fairly encouraging. In April, an exchange rate devaluation practically equaled the official exchange rate to the black market rate somehow reflecting a change in the level of trust in the government. At this point, credibility almost reaches 88%. The goal of the public debt was not reached in the first trimester because the norms of financial execution were established only in March, but in the second trimester the government managed to stay within the established limit. The policy of credit, although not obeying the fixed nominal goals, was contractionist in real terms in the first two trimesters, especially the first one, when the real credit diminished almost 17%. In the second trimester it shrank around 4%. The rise in prices after the corrective inflation of the first months slowed down in April, signaling the possibility of success of the stabilization program. In June credibility reached its highest level, about 96%.

Nevertheless, the economic difficulties associated with the costs of the stabilization program were accompanied by the progressive political deterioration and this increased the radicalization of positions. The tight credit policy and the corrective inflation that followed the readjustments of the exchange rate and public tariffs made the government very vulnerable to the critiques of its opponents. The social costs of maintaining a recessive policy had the government sending ambiguous signs concerning its commitment to stabilization. In the third trimester, the goal of the public deficit was exceeded in over 100%. This trimester marked the beginning of the progressive loss of credibility. According to Skidmore (1976, p. 326): "The final blow happened when Carvalho Pinto lost his position as Treasury minister in late December. One of the first actions of his successor was to agree with the revocation of SUMOC's Act.255, this way avoiding to finance the almost dead Plano Trienal". In December, credibility was below 10%, when the political and economic conditions already announced the institutional rupture that would happen in the next year.

## 5. Conclusions

The economic policies of the two conjunctures, known as "populist" governments in the Literature, follows a certain pattern that is quite close to the model proposed by Barro (1986), which, based on the governmental dilemma between lowering inflation and speeding up growth, simulates the interaction between the government and the private sector as a repetitive, non-cooperative game with incomplete information and finite duration. We do not mean to say that Barro's model is the only explanation for the observed phenomenon - which is certainly more complex in its economic, political and institutional determinations -, but it seems undeniable that it cooperates to question certain interpretations on the economic policies implemented in these conjunctures and, therefore, it helps to shed light on new elements that contribute to better understand the way populism expresses itself in matters of economic policy.

It is clear, initially that in the two conjunctures analyzed we can see a sequence of three phases. Although the boundaries of each of the three can be a controversial issue, it seems unarguable that the first phase of each conjuncture started with the advocacy of the need for a stabilization policy, not dismissing, however, in rhetoric, the need for a long-term development. In this sense, in the three conjunctures we see that both the economic team and the presidency adopted a speech advocating austerity, trying to convince the economic agents that it was a priority. It is not reasonable to state, therefore, that "populist" governments are unable to incorporate a pro-stability practice or speech, since this resorting to orthodoxy is not only detected in rhetoric but also in the effective handling of the economic policy, what happened in the initial phase of the two conjunctures. The existence of this initial stage, where orthodoxy predominates, contrasts with the sequence of stages proposed by Dornbusch and Edwards (1991) to describe the populist paradigm.

What can be seen next is the incapacity of these Administrations in keeping this option, maybe due to the very vulnerability of their political support base mainly in the moments of crisis, as in the Goulart Administrations that were analysed. In all the cases there was an oscillating policy or randomization phase, stop-and-go type, that among other interpretations may suggest that the governments themselves were not willing, in the face of the first pressures, to leave off the initially engaged stabilization proposal. Thus, they backed away with isolated growth policies and loosening goals without immediately abandoning stabilization perspective, maybe trying to make them compatible - a fruitless attempt because

by this procedure they signaled to the economic agents and the lobbyists that they were sensitive to the demands or unable to bypass them.

Considering all this, various aspects of how the Literature deals with these Administrations, affecting the very understanding of what populism would be in terms of economic policy, may be brought into question. Then, we may imply that: a) there is a logic and a coherence in the economic policies implemented which cannot therefore be considered irrational or erratic; b) orthodoxy is present both in the speech and in the actual implementation of the policies, especially in the first phase of each of the conjunctures, what prevents us to see the populist phenomenon only as an option for growth, totally disregarding stability; c) despite being present, this option for inflation fight was not maintained along either of the analysed periods; d) never was the transition between the option for stability and the one for growth abrupt, what does not support theses that mention a "shift" that would have occurred at a point in time that could serve as a landmark separating the two opposing economic policies; e) the pro-development rhetoric was present in the two phases of the analysed conjuncture, but only in the end of each one the option for growth was set as a priority, putting stability in the background; and f) finally, the pro-development speech in these final phases, in the two conjunctures, took a quite critical tone, associating to nationalistic pledges, usually blaming foreign capital and international organizations for the deepening of the crisis, in a radical tone not seen in the first stages.

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