Multinational Firms and the Regulatory Framework in Brazil (1951-1967)

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Abstract

Taking into account the significant number of new multinational companies that entered Brazil in the 1950s, the objective of this paper is to present the main mechanisms of state regulation of international investment and profit remittances during the stage of industrialization that took place between the second Vargas government (1951-1954) and the beginning of the military dictatorship (1964-1967). This was a period in which multinationals had considerable influence in the internal deployment of productive forces. The study focuses on discontinuities in the government's institutional arrangements related to international capital. The analysis concentrates primarily on two questions: i) was the association with international capital during Kubitschek's government really a rupture with the development strategy proposed by the second Vargas government?; ii) what was the essence of the most important changes in Brazilian productive internationalization following the economic reforms that were implemented as soon as the military regime took power in 1964?

Keywords: multinational enterprises; foreign capital; state intervention; Brazil

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Acronyms

Amforp	American and Foreign Power Company
BNDE	National Bank for Economic Development (Banco Nacional de Desenvolvimento Econômico)
CIFER	Committee for Registrable Foreign Investments and Financing (Comissão de Investimentos e Financiamentos Estrangeiros Registráveis)
CKD	Completely knocked down
CMBEU	Brazil-United States Mixed Commission (Comissão Mista Brasil-Estados Unidos)
CNE	National Economic Council (Conselho Nacional de Economia)
FAPESP	São Paulo Research Foundation (Fundação de Amparo à Pesquisa do Estado de São Paulo)
IBRD	International Bank for Reconstruction and Development (now the World Bank)
FDI	Foreign Direct Investment
IMF	International Monetary Fund
NATO	North Atlantic Treaty Organization
PAEG	Government Economic Action Program (Programa de Ação Econômica do Governo)
SUMOC	Superintendency of Currency and Credit (Superintendência da Moeda e do Crédito)
UNESP	Universidade Estadual Paulista
UNICAMP	Universidade Estadual de Campinas

INTRODUCTION

Brazilian internationalization has been a lengthy process, with the first influx of foreign direct investment (FDI) to the country dating back to the imperial era, largely destined for public utility sectors such as electricity and rail transportation, as well as ports, commerce, and finances. At the start of the 20th century, such investment was concentrated in coffee exportation activities with an emphasis on marketing, as well as the insurance and maritime transport sectors. Capital inflows to Brazil continued until the end of the 1920s, when they were brought to a halt by the 1929 crisis and the consequent world economic depression of the 1930s. That decade was also characterized by voluminous foreign investment in industry, centered on sectors such as mining, metalworking, chemicals, cosmetics, pneumatics, and automobile assembly, among others (Arruda 2012; Suzigan 2000). The adverse conditions of World War II also precipitated a significant downturn in international investment, given that the central economies were geared exclusively toward internal production in an attempt to develop their war industries.[1]

International capital in the form of direct investment was of considerable importance to the Brazilian economy, but it was only from the beginning of the 1950s that the internationalization of the domestic markets and, in turn, the establishment of heavy industry brought about a qualitative change in the strategic role of its capitalist development (Hymer 1983). From that point on, political and intellectual discussion on the development strategies associated, or not, with multinational firms became increasingly prominent.[2] From an external standpoint, this internationalization of production occurred due to the change in the dynamic of oligopolistic competition in the postwar period that resulted from the worldwide expansion of international capital, especially from the USA, which created the necessary conditions for the increased entry of multinational (primarily European) firms into Brazil from 1956 onwards. Thus, FDI became a driver of Brazilian industrialization, comprising, alongside state and local private capital, the "tripod" of capitalist development in the country.

1. On the internationalization of production that precedes the period discussed here, see: Castro (1979); Furtado (1975), Prado (1970); Rippy (1952); Saes and Szmrecsanyi (1985); and Stone (1977).
2. The view that this stage was fundamental to Brazilian capitalist development is expounded by: Furtado (1980); Mello (1998); Prado (1999); Sampaio (1999); and many other authors. The conception of this period as a milestone in Brazilian capitalism based on international capital, as argued in our previous research (Campos 2003, 2009), is also present in approaches such as those of: Nonnenberg (2002); Moraes (2003); Benayon (2005); Costa (2008); Arend and Fonseca (2012).

Following on from this perspective, our study concentrates on the entry of new multinational firms into the Brazilian economy and explores certain continuities and inflections in the regulatory framework of FDI. This analysis seeks to contrast some of the regulatory activities of Brazilian governments during this period with respect to international capital, as well as investigating the international restrictions that help to explain the high inflow of FDI to Brazil. From this perspective, we will primarily discuss two possible discontinuities that overlap with the Brazilian internationalization process between 1951 and 1967: i) Did the state's association with international capital during the Kubitschek administration really represent a rupture with the development strategy put forward by the second Vargas government? and ii) What was the purpose of the principal changes in Brazilian productive internationalization brought about by the economic reforms as implemented by the military dictatorship that took power in 1964?

To this end, in the first section we will explore restrictions on the production expansion strategy of multinational firms during the postwar and Latin American internationalization period. In the second, we will present the main instruments regulating international capital, discussing the differences between the second Vargas administration and the Kubitschek government as well as describing the effects of the Brazilian economic crisis of the 1960s that culminated in the military dictatorship. Finally, we will conclude by analyzing this period in light of the internationalization of production, against the backdrop of the vicissitudes in the regulatory framework.

1. MULTINATIONAL FIRMS, THE POSTWAR PERIOD, AND LATIN AMERICAN INTERNATIONALIZATION

The end of World War II marked the beginning of the "Great Prosperity," which represented the attempt by the West to maintain a degree of stability while establishing the territorial parameters of capitalist expansion in the emerging Cold War context. In this regard, the movement of international capital responded to three interrelated processes[3]: i) the need of big corporations from the capitalist core to expand territorial spaces for accumulation as a tactical means of seeking out new markets, supplanting a purely commercial strategy with the establishment of production platforms in domestic economic spaces; ii) institutional reconfiguration created by regulations which included general norms for the circulation of capital and goods in the capitalist world and the allocation of resources to economies devastated by the war, while at the same time expanding markets for U.S. firms; and iii) the nascent rivalry between the capitalist bloc, led by the United States, and the socialist

3. This strategic inflection of international capital was analyzed by Coutinho (1975).

bloc, led by the Soviet Union, giving rise to zones of political and economic influence strictly demarcated by subordinate national spaces.

The flow of international investment in this period was subject to these external restrictions and originated with U.S. capital largely destined for the countries of Western Europe. Meanwhile, as the European economies recovered, movement expanded and the flow of goods and capital moved from Europe to the U.S. itself, and, later, was rerouted to the periphery. This was a product of the world economic recovery propelled by the United States, which succeeded in revitalizing the entire capitalist core from its domestic economy. The trail blazed by the United States was followed by European firms in the 1950s and 1960s and then, in the late 1970s, by Japanese companies, which sought to compete for markets with U.S. firms on their own ground, as well as establishing themselves in Latin America (Gilpin 1975).

At this point it is important to note that this strategy of multinationals to conquer domestic markets had two dimensions: export of capital borne of the need for its expanded reproduction; and the definition of a world pattern of accumulation in which the leadership of the U.S. over other capitalist states was aimed at halting the Soviet advance by integrating various markets and regions under its tutelage.

In reference to the first dimension, at least from the Second Industrial Revolution at the end of the 19th century and the rise of monopoly capital, it was evident how internationalization, through the export of international loans and investments, was fundamental in order for capital to expand beyond the national limits of its reproduction while retaining its value.[4] Thus, alongside finances intended for monetary compensation of the balance of payments of peripheral economies geared toward the export of commodity, FDI became essential for multinational expansion and underpinning complex production chains, establishing itself as one of the most important pillars of imperialism.[5]

4. The export of capital as a consequence of the contradictions its process of concentration and centralization can be seen in: Bukharin (1988). The transfer of this phenomenon to the postwar era is found in: Brown (1974), Michalet (1983), and Panitch and Gindin (2006).
5. On the origins of the phenomenon of imperialism, see: Hilferding (1985); Lenin (1979); Luxemburg (1985). For a discussion of the phenomenon of imperialism in the postwar period and, especially, export of capital, see: Andreff (2000); Baran (1984); Brown (1974); Magdoff (1972); Michalet (1983); Panitch and Gindin (2006); and Sweezy (1983). An update on the concept of imperialism from a Marxist perspective, for both its beginnings and the immediate aftermath of World War II to present day, can be found in: Harvey (2011).

After two world wars divided by the greatest crisis of the capitalist system, the export of capital again became essential for the emergence of a new global pattern of accumulation in the 1950s. According to Barratt Brown (1974), the following characteristics of the classical age of imperialism endured: i) inter-capitalist competition based on contradictions in the capital-labor relation and in centralization of capital due to competition in new markets; ii) export of capital, which from the "highest stage of capitalism" became one of the constant forms of capitalist valorization; iii) different facets of exported capital (loans, financing, and investments) articulated in complementary valorization strategies in new markets; iv) continuation of the imperialist rivalry - though that which preceded World War I was substituted by the pragmatism of the core bourgeoisies in response to the risk of socialism during this phase, this rivalry continued to be expressed in the competition between different multinational companies whose domestic economies constituted their rearguards; and v) as before, valorization of international capital dependent on guarantees of mobility for its flow, which was demanded in an imperialist fashion through certain monetary patterns, exchange-rate and trade regimes, and military interventions.

Starting off from the abovementioned restrictions, Magdoff (1972) updated Lenin's (1979) legacy on imperialism for the post-WWII period by affirming that, if before there had been disputes between companies and governments in given national economies, later (in the 1970s) it was the "giant capitalist enterprises" that competed for each industry in the capitalist corporate space. Moreover, the author argues that the maturation of the transformations of the Second Industrial Revolution exponentially increased the international dimensions of confrontation between multinational firms, and also led to the great North American corporation playing a unique role in the propagation of this phase of imperialism. Magdoff also defends the notion that the imperialist nexus - defined by the dominance of the developed economies over the peripheries - increased, and that FDI was instrumental to this. The central axis in the organization of this peripheral economic space, hierarchized for the new imperialist expansion, was the United States; at this time, in contrast to its disinclination to assume a hegemonic position in the interwar monetary system, this country was central to the construction of the new order, which revealed the anatomy of the worldwide pattern of accumulation.

With specific reference to the relationship between the core and the periphery, alongside Magdoff (1972), Prado (1966) and Andreff (2000) show how in this era - unlike the transition from the First to the Second Industrial Revolution, when it was possible for direct British investment to help develop the heavy industries of late capitalist economies, such as those of Germany and the USA - the domination was of a different kind. From the 1950s onwards, this form of international capital, in addition to unequally distributing Fordist structures of production and consumption, maintained tight control on technology transfer and placed intense pressure on the host economies, especially those on the peripheries, forcing them to guarantee mobility in capital flows so that their profits would be accrued in the original currency without many restrictions. This is why recipient countries had to constantly adapt their regulatory frameworks to the valorization interests of these multinational companies.

In other words, the development of the technological and financial power of the multinational firms in the postwar period served to elevate imperialist control over peripheral economies to a new level of domination. From here on, competition between various capitals would adjust to the national cooperation of the different economic spaces for which North American state power was the nexus that articulated and gave meaning to the new world pattern of accumulation. We therefore arrive at an understanding of the second dimension of this expansion strategy pursued by multinational companies.

Through an institutional order built on the foundation of Bretton Woods, a kind of asymmetric association was established between the capitalist states that formed an imperialist network that was hierarchically defined, between the core and peripheral economies, based on: the gold-dollar monetary system; certain tariff agreements; multilateral organizations such as the International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF); military organizations such as the North Atlantic Treaty Organization (NATO); and the dissemination of political and cultural values based on typically North American patterns of consumption (the "American way of life"). One of the strategic channels along which this range of capitalist relations flowed was that of foreign direct investment. At the same time, FDI represented both the maturity of the competition between various capitals - primarily U.S. and European companies - and an important vehicle for the heterogeneous dissemination of capitalist development across the entire Western world.[6]

Though it is difficult in many cases to establish a direct relationship between the expansion of the great U.S. corporation and the country's foreign policy (Gilpin 1975), the fact is that FDI, including that of European companies, served as an elementary instrument to remove the constraints on the construction of this Washington-led imperialist network against real socialism (Magdoff 1972). It was also through this instrument that the consciousness

6. On the role of FDI in this phase as a disseminator of new social relations of dominantion and a multinational unifier of bourgeois interests, see Andreff (2000); Baran (1984); Brown (2011); Magdoff (1972); Michalet (1983); Panitch and Gindin (2006); and Sweezy (1983).

of the bourgeois class was strengthened worldwide, so that competition and cooperation among its factions solidified business and bolstered the ideological shield against the Soviet Union. This can be attested in the relationship between U.S. consumer products companies and German capital goods companies, which enabled the recovery of the entire central European economic space after the war. The Latin America of the 1950s was no different, given that multinational firms, having entered its markets on account of the competition between capitals of U.S. and European subsidiaries, also maintained cooperation with local companies. These relationships obviously were not only economic in nature, but were intricate schemes of political and cultural domination that gave rise to greater control of the peripheral domestic markets. In reality, the dependent relationship between local and multinational companies brought about many and varied businesses with excellent returns. In addition, it functioned as a skilled form of local intermediation to pressurize peripheral states into refraining from increasing controls on international movements of capital, while keeping the working class subjected to forms of labor exploitation imposed by the subsidiaries and directly influencing the main economic policy decisions of the recipient country (Fernandes 2006).

Having completed this brief discussion on the specificities of the internationalization of production by multinationals in the immediate postwar period, we will now turn our attention to its development in Brazil and Latin America. But before doing so, it should be noted with respect to the expansion of FDI to the periphery that Latin America was the preferred destination in the 1950s, as shown in Table 1. Unlike the other inflows of capital to all Latin American countries for the creation of infrastructure geared toward commodity exports, the exploitation of natural resources, or commercial representations of manufactured products that were only assembled locally under the completely knocked-down (CKD) system,[7] the major economies in the region at that time (Argentina, Brazil, and Mexico) held the most appeal for multinational manufacturing firms. These companies, of European and North American origin, built heavy industrial plants chiefly in the capital goods and consumer durables sectors, structurally modifying capitalism in the region.

7. Between 1920 and 1930, companies from the automobile sector such as Ford, General Motors, and Chrysler entered Brazil and imported all car and truck parts, which they only assembled locally. For more details on the CKD system in Brazil in this period, see: Phelps (1936); Suzigan (2000).

Table 1
World supply of foreign direct investment, by region, 1967 (in millions of dollars)

Destination	Total	Origin		
		United States	Europe	Japan and other countries
Latin America	18,449.3	11,776.6	6,268.0	404.7
Africa	6,591.1	1,371.2	5,206.1	13.6
Asia	4,991.5	1,776.5	3,018.6	196.4
Middle East	3,102.7	1,779.0	1,238.7	85.0
Underdeveloped countries	33,134.5	16,703.9	15,731.5	699.7
Developed countries	72,129.5	39,860.7	23,768.5	8,500,3
Total	105,264.0	56,564.6	39,500.0	9,200.0

Source: Sourrouille *et al.* (1984: 18).

Unlike the other peripheral regions such as Asia and Africa, which endured considerable institutional instability as a result of countless decolonization movements or were under direct Soviet influence, the Latin American economies offered a local market that was potentially attractive to multinational companies, as well as a degree of institutional stability, state infrastructure, and some local financial resources. Given that they marketed goods with a high unit value, the multinational companies needed to establish themselves in populous countries that made their industrial operations viable, because their subsidiaries were set up with planned idle capacity with the objective of creating a supply that was far ahead of current demand. According to the calculations of the parent companies, consumer markets would have to be relatively consolidated with a high concentration of revenues if their initiatives were to be viable in peripheral economies. Brazil, as the most populous country in Latin America and on the basis of its longstanding underdevelopment characterized by external dependence and social segregation, fulfilled the ideal conditions to establish itself as the foremost recipient of FDI in manufacturing in the 1950s (Furtado 1980).

It also should be noted that there were local efforts to promote Brazil as an appealing destination for international capital. President Kubitschek led numerous foreign trips to "invite" multinational firms to invest in the country (Cardoso 1978). Though the data does not provide information on which sectors received FDI flows and leaving aside Venezuela's preeminence in attracting investment by U.S. companies to its petroleum sector, Table 2 shows that Argentina, Brazil, and Mexico were the main recipients of this capital during the period.

Table 2
Foreign direct investment flows to Latin America, by country, 1946-1960 (in millions of dollars, current prices)

Countries	1946-1950	1951-1955	1956-1960	Total
Argentina	- 113.8	15.8	828.8	730,8
Bolivia	0.2	3.6	66.2	70,0
Brazil	219.6	350.0	743.0	1.312,6
Chile	41.5	93.9	208.3	343,7
Colombia	98.9	12.2	18.7	129,8
Costa Rica	20.9	7.4	15.9	44,2
Cuba	9.4	89.0	263.0	361,4
Ecuador	27.2	19.2	29.6	76,0
El Salvador	0.2	-0.1	0.6	0,7
Guatemala	12.0	-2.0	71.8	81,8
Haití	4.7	21.1	2.1	27,9
Honduras	24.9	41.4	-12.0	54,3
Mexico	176.9	439.4	423.5	1.039,8
Nicaragua	5.5	9.0	10,3	24,8
Panama	29.2	27.4	78,9	135,5
Paraguay	9.2	2,2	10,4	21,8
Peru	23.0	170,2	179,2	372,4
Dominican Republican	4.4	9.1	20,3	33,8
Uruguay	68.0	40.0	20,0	128,0
Venezuela	1,026,4	366.7	1.550,8	2.943,9
Total	1,688.3	1,715.5	4.529,4	7.933,2

Source: Naciones Unidas (1964: 259); compiled by author.

FDI also required a regulatory framework adapted to this phase of productive internationalization. Because this period was characterized by relatively closed economies with some tariff discrimination, fixed exchange rates, reduced real interest rates, and controls on speculative capital, the theory behind the conquest of peripheral domestic markets was freedom for inflow in the form of investment and also for outflow through return of capital and profit remittances. On establishing itself in a peripheral country and as well as calculating the future potential of its market, a given foreign subsidiary required shielding through exchange-rate and tariff protection, discriminated in favor of the goods it marketed domestically. This guaranteed privileged status against imported goods, which were rendered more expensive by the exchange rate that benefited domestic alternatives, and ensured a significant advantage over other subsidiaries that did not tie up investments in this region.[8]

8. A fuller description of this strategy can be found in: (Campos 2009).

In summary, in this phase, multinational companies moved to the periphery, where they replicated the production structure they employed in their country of origin by allying with local companies that would serve as their suppliers (the example of the automobile assemblers being a case in point), rendering the domestic market captive for valorization. Moreover, this valorization reflected the generation of profits resulting from initial investments that could be reinvested locally or remitted abroad. For the latter option, which meant a return to the initial route taken by the parent companies, the recipient countries had to issue convertible currency so that these profits could be accumulated in the original currency.

Because these endeavors were primarily aimed at the domestic market at that time, the convertible foreign currency was not generated by the exports of foreign subsidiaries but by the old agro-export sector, always with low added value and susceptible to the wide fluctuations of international commodity prices. In relation to this, at times of currency exchange crises when profit remittances put pressure on the balance of services in current transactions, peripheral economies would have to resort to foreign loans to offset the deficits in the balance of payments, and thus submit themselves to multilateral organizations such as the IMF. As we will see below, any change to the regulatory framework that jeopardized this movement of valorization by multinational companies would be quashed.[9] This was because these companies had enormous influence on the domestic economies of capital-receiving countries, in that they represented the most dynamic sector in the Latin American heavy industrialization process; thus, they were the guarantors par excellence of the continuity of capitalist development. One example of this is what occurred in Brazil, as we will see below.

2. THE REGULATORY FRAMEWORK OF BRAZILIAN INTERNATIONALIZATION

2.1 The second Vargas government

The internationalization process of domestic markets led by multinational companies that were entering Latin America did not come to Brazil until 1956. Prior to this, the second Vargas administration sought to attract new venture capital, but wished to discipline it in the same way as had been attempted with foreign subsidiaries established in the country, such as those in the electricity sector (Bastos 2001). Thus, the regulatory framework that Getúlio Vargas established in relation to multinational firms sought to lead them to a division of the tariffs imposed, primarily by state-owned companies. The conjunction between state capital and international private capital would be established by direct association, in a kind of joint venture in which the multinationals would be institutionally conditioned to

9. This analysis was originally developed by Prado (1966, 1970, 1999).

act domestically in line with the strategic needs of Brazilian capitalist development. The promulgation of Law Nº 2,004 (Câmara dos Deputados do Brasil 1953c) - which instituted a public monopolistic policy in relation to Brazilian petroleum (giving rise to Petrobras) fell within this framework, as did the attempt to create a domestic financing model through the creation of the National Economic Development Bank (Banco Nacional de Desenvolvimento Econômico, BNDE) in 1952.[10]

Control over the appreciation of multinational firms attempted to follow the same state intervention model; that is, to use international capital to cover domestic needs, while continuing to keep it subordinate to domestic centers of decision-making. The question of profit remittances, for example, was a frequent source of confusion and ambiguity. But essentially, the same approach was taken; that is, the attempt to discipline flows of international capital in accordance with the interests of the Brazilian state. Thus, on January 3, 1952, Getúlio promulgated Decree Law Nº 30,363 (Câmara dos Deputados do Brasil 1952), which revisited the legal precepts of Law Nº 9,025 (Câmara dos Deputados do Brasil 1947) of the Dutra administration, imposing 8% as the limit on remittances of profits and dividends on seed capital, excluding the reinvestments from the base of the calculation, as well as setting a limit of 20% on capital repatriation and 8% on interest remittances. Any excess over 20% for capital returns would be considered as seed capital. This decree also included a rigid control mechanism on registrations that would be applied retroactively to the seed capital. In other words, this capital, which had been remitted based on the total of past reinvestments, would have its future remittances discounted until arriving at the true balance of the FDI that was initially invested in the country. External reprisals to this decree were immediate, with the IBRD breaking off relations with Brazil and the United States threatening severe commercial sanctions.

It is also necessary to downplay the nationalist character of this decree, given the ongoing exchange restrictions and the adverse environment resulting from the Korean War. These two key moments, 1947 and 1952, were preceded by two currency crises. In the first crisis, during the Dutra government in 1947, the presumption that the country's accession to the Bretton Woods agreement could result in external financing, above all private and from the U.S., meant that control instruments from the era of the "Estado novo" were terminated, including: i) the windfall profits tax (1944); ii) Constitutional Act Nº 9, which created the National Economic Council (Conselho Nacional de Economia, CNE) for interventions in certain sectors of the economy; iii) the "Malay Law" (Decree Law N° 7,666 of 22/6/1945), which constituted an antitrust policy; iv) Inter-Ministerial Resolution N° 7 (1945), which

10. For an analysis of the second Vargas government, see Bastos (2001); Malan (1984).

imposed conditions on control of foreign currency for imports deemed strategic for the establishment of basic industries; and v) the reduction in the proportion of export taxes.[11] This "liberal shock," associated with lack of FDI as well as the decrease in the prices of Brazil's main export products, the increase in imports - not only of luxury goods, but also of industrial machinery and equipment - and, additionally, the pressure exerted by profit remittances, caused a severe currency crisis. Despite the trade balance of US$130 million at current prices in 1947, the deficit in the services account was US$ 257 million (US$ 47 million in profit remittances), with a balance in the capital account of just US $12 million, which gave rise to a balance of payments deficit of US$ 182 million (Abreu 1992; Ipeadata 2004). In response, the official exchange rate was set at 18.72 cruzeiros to the dollar while much of Vargas' legislation was restored, including the restrictions on profit remittances.

At the start of the second Vargas government in 1952, a new currency crisis arose. The Korean War and fears that it could escalate into a new world conflict prompted a relaxation in the licenses for imports deemed essential to industrialization. There was a considerable decline in exports due to the retention of commodity stocks, motivated by an expectation of a currency devaluation (it had been at 18.72 since 1947) and a fall in the international price of some export products, such as cocoa and cotton. In the face of currency exchange restrictions, from 1947 there was also the promise of profit remittances totaling US$ 500 million, which intensified the pressure on the balance of payments. It was no coincidence that in his 1951 end-of-year speech, Getúlio Vargas expressed concern about the successive deficits in the balance of payments, occasioned, in part, by the remittance of profits and dividends by foreign companies in Brazil. Vargas vehemently attacked the problem of reinvestments, which amounted to double the registered seed capital. According to Vargas, of the 25.1 billion cruzeiros amassed by Brazil's foreign exchange portfolio in 1950, slightly over one third corresponded to the 8.4 billion in capital inflows from abroad, while the remaining 16.7 billion represented capital from profits reinvested by companies established in the country. Following yet another currency exchange crisis that led to a commercial deficit of US$ 286 million in 1952, a deficit in the service account of US$ 333 million (US$ 99 in remitted profits) and a balance in the capital account of just US$ 35 million, generating a deficit in the balance of payments of US$ 615 million (Abreu 1992; Ipeadata 2004), Vargas increased controls on profit remittances through Decree Law N° 30,363 (January 3, 1952).

These controls on remittances were eased through the Free Market Law (Lei do Mercado Livre) of January 7, 1953 (Law N° 1,807; Câmara dos Deputados do Brasil, 1953a), which

11. All of this legislation has been researched and analyzed by Corsi (2008).

reestablished the right of remittance on reinvestments at the set limit of 10%. With a view to satisfying the expectations regarding foreign capital inflows, this law applied an element of liberality in the flow of international capital, without ceding control altogether. The criteria of need and selectivity were maintained, and associated with remittances of capital of "indisputable interest to the national economy."[12] If the new capital was of interest to the country, it could be transferred to Brazil at the official exchange rate of 18.72 cruzeiros to the dollar, under the scrutiny of the Superintendency of Currency and Credit (Superintendência da Moeda e do Crédito, SUMOC) for the inflow of foreign loans and financing and remittances of profits and dividends. Some of the criteria of need for FDI included its targeting the most underdeveloped regions in the country, in addition to public utilities, which were also incorporated into the "Free Market Law" under the heading of "special national interest."[13]

Pre-existing international capital was assured of interest remittances of 8%, and profit and dividend remittances of 10% (Art. 6, section I), with profit reinvestment permitted as the base of the calculation in response to the revocation of Articles 6, 7, 8, 17, and 18 of Decree Law N° 9,025. An extremely favorable mechanism for the movement of pre-existing FDI was instituted through Law N° 1,807, given that it provided for its entry at the free market exchange rate of 43.32 cruzeiros to the dollar, and the use of the official exchange rate for later remittances, which constituted a clear exchange rate subsidy. Indeed, if, for example, a sum of US$ 1,000 entered the country at the free exchange rate, the FDI would be converted into 43,320 cruzeiros, and the official exchange rate for the return or remittance of this capital would enable its automatic transformation into US$ 2,314.10, as a result of equilibrium between external accounts and foreign exchange availability.

These provisions, meanwhile, never removed the interventionist institutional approach that Vargas sought to impose on the industrial development. This motivated the establishment of a condition for remittances according to prevailing exchange rates, and for the signing of a strategic directive for certain economic sectors in which international capital would be considered of "special national interest."[14] In addition, a new criteria of need was added to the mechanism through Decree N° 32,285 (Câmara dos Deputados do Brasil 1953b), in reference to the selection of areas of economic potential and productivity capable of leveraging heavy industry; this was fixed in the analytical budget of the "points of germination" ("pontos de germinação") that the Brazil-United States Mixed Commission (Comissão Mista Brasil-Estados Unidos, CMBEU) had researched.

12. Translation by *Apuntes*.
13. Translation by *Apuntes*.
14. Translation by *Apuntes*.

On 5 January, 1954, Vargas again radicalized his position on controls on profit remittances, promulgating Decree N° 34,839 (Câmara dos Deputados do Brasil 1954a), which set a new limit of 8% for remittances of profits and dividends on seed capital, again excluding reinvestments from the base of calculation. Still in the same period, the government improved the criteria of selectivity and need for the flow of international capital, applying conditions of "indisputable national interest"[15] that imposed yet another regulatory instrument, instituted through Law N° 2,145 (Câmara dos Deputados do Brasil 1953d), Decree 34,893 (Câmara dos Deputados do Brasil 1954b), and Instruction N° 81 (22/12/1953; SUMOC 1955) and the creation of the Committee for Registrable Foreign Financing and Investments (Comissão de Investimentos e Financiamentos Estrangeiros Registráveis, CIFER) in 1953.[16] According to Order N° 28,816,[17] the general guidelines for CIFER in ascertaining the types of international capital that were consistent with domestic needs were as follows:

> a) Greater independence in essential activities in relation to supplies from abroad; b) Filling the gaps in the country's economic organization, motivated by the absence or insufficiency of activities of relevance to national development; c) Direct or indirect impacts on the increase in national revenues; d) Better economic performance of the factors of production; e) Social repercussions in favor of the general wellbeing of the population; f) Balanced effects on the potentialities of regions and the preservation of national unity g) Reinforcement of national defense (Despacho N° 28,816, 1954, retrieved from: Graeff 1981: 126).[18]

Whether through regulatory measures, such as those mentioned above, or the more flexible channel of capital flow, as described earlier, the fact is that the legislation taken as a whole did not allow an influx of private capital that was consistent with the growing needs of industrial development. This was because neither the domestic nor the international context were favorable. As to the economic policy objectives, even with the currency exchange reform as a general goal, the export of "onerous" products (without prejudice to sectors with inelastic demand, such as coffee), as well as the rigorous selection of imports by license as per Instruction N° 70 of the SUMOC (9/10/1953; SUMOC 1955) - in which the remittances of international capital were favored by the official exchange rate, assuming an exchange difference of 7 cruzeiros to the dollar - these objectives did not prevent the

15. Translation by *Apuntes*.
16. Source taken from Graeff (1981).
17. This and the following excerpts from the legislation of SUMOC, the Chamber of Deputies of Brazil, and the Central Bank of Brazil were translated by *Apunte*s; information retrieved from Graeff (1981).
18. For further details on this legislation, see: (Campos 2003), especially Chapter 2, and Chapter 3 of Campos (2009). Authors such as: Graeff (1981) and Sochaczewski (1991) also analyze this legislation. Translation by *Apuntes.*

exchange rate crisis of 1954. With the fall of the international price of coffee and the growing need to import capital goods for industry, that year the balance of trade was just US$ 148 million, the deficit in the service account was US$ 338 million (US$ 89 million in profit remittances) and the deficit in the capital account was US$ 18 million (moreover, as a result of the fall in foreign capital inflows, external debt payments due totaled US$ 134 million), which created a balance of payments deficit of US$ 203 million (Abreu 1992; Ipeadata 2004).

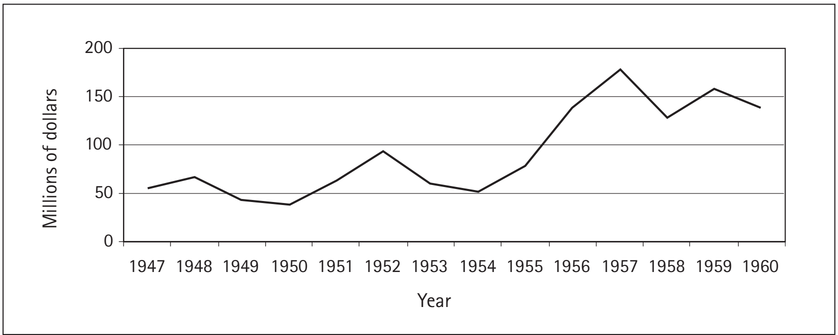
2.2 The Café Filho and Kubitschek governments

The tragic suicide of Getúlio Vargas in August 1954 marked a sudden change in this institutional policy of control over foreign investment in Brazil. This occurred during the Café Filho government (1954-1955), when the Minister of Finance, Eugênio Gudin, instituted the famous Instruction N° 113 of the SUMOC (17/1/1955; SUMOC 1955) which allowed the importation of machinery and equipment by foreign companies "without currency hedging," requiring only that the import values were converted with the participation of Brazilian private capital. Thus, the measures that Vargas had implemented to regulate international capital, based on the criteria of selectivity and need, were revoked (Campos 2003, 2009; Caputo and Melo 2009). Some authors, such as Sochaczewski (1991), Bastos (2001), and Caputo and Melo (2009), cite Instruction 113 as just one response to the currency restrictions of 1954 for the attraction of FDI, and thus downplay the strategic inflection which this instruction represented. Meanwhile, in addition to the short-term effects of foreign exchange strangulation that Ruling 113 sought to tackle, the situation that developed in the second half of the 1950s was quite different and represented a change in how international capital was disciplined in Brazilian capitalist development. The Instruction included an element of continuity, but also represented a rupture with the regulatory framework of international capital; it retained importation without currency hedging just as Vargus's Law N° 1,807 had provided for, while also abolishing all institutional mechanisms for the selection of international investments that were consistent with the logic of a less dependent form of capitalist development. According to the first paragraph of the Instruction:

> [...] the Council of the Superintendency of Currency and Credit, considers the need to simplify the regulation of the licensing of imports that are not dependent on currency hedging, as well as the advantages of creating a favorable climate for foreign capital investments in the country (SUMOC 1955: 51).

Thus, Instruction 113 complemented the 1956 Target Plan (Plano de Metas) in the strategy of capturing FDI for the establishment of heavy industry in the country, given that this instruction was defined as an indispensable legal instrument to make internationalization viable as part of the "50 years in 5" (50 anos em 5) approach.[19] However, Instruction 113 cannot be deemed to be solely responsible for the institutional deregulation of flows of international capital into the country, as it must be understood as part of the development strategy implemented by Juscelino Kubitschek, which sought - in the internal expenditure schemes and in the division of tasks proposed by the Target Plan - to impose a favorable dynamic of international productive expansion as part of the general design for industrialization. The considerable influx of such international investments at that time can be seen in Figure 1. Moreover, the nature of the association with international capital pursued by Vargas through the verticalization strategy of the state on international capital was supplanted by a horizontality whose discretionality was weakened substantially during the Café Filho and Kubitschek governments.

Graph 1
Foreign direct investment flows in Brazil, 1947-1960 (in millions of dollars, current prices)



Source: Ipeadata 2003); compiled by author.

19. The study by Caputo and Melo (2009) showed that the main foreign subsidiaries that made use of Instruction 113 were: Willys Overland del Brasil S. A. Industria y Comercio (US$ 27.97 million; 14.8% of the total); General Motors del Brasil S.A. (US$ 25.02 million; 13.2% of the total); Ford Motor del Brasil S.A. (US$ 22.42 million; 11.8% of the total); Volkswagen del Brasil Industria y Comercio de Automóviles S.A. (US$ 14.32 million; 7.6% of the total); Roberto Bosch del Brasil Ind. y Con. de Accesorios para Motores y Chasis (US$ 12.99 million; 6.9% of the total); Mercedes Benz del Brasil S. A. (US$ 12.78 million, 6.7% of the total); and Industria Nacional de Locomotoras INL Ltda. (US$ 11.5 million; 6.1% of the total).

Comparing external funding during the Kubitschek administration with that of Vargas, it is clear that there was a reversion in external conditions, which enabled a significant increase in venture capital starting in 1956. Between 1951 and 1954, there was a net inflow of FDI of US$ 241 million (annual average of US$ 60 million), while reinvestments stood at US$ 1,498 million (annual average of US$ 374 million).[20] Remittances totaled US$ 1.937 billion (annual average of US$ 484 million), generating a negative net balance of US$ 198 million (annual average of US$ 50 million). The improvement in international conditions combined with infrastructure development during the Vargas administration, the industrial maturity of intermediary sectors and a partially-organized financial sector, as well as the institutional simplification imposed by Instruction 113, enabled the installation of Brazilian heavy industry, whose most dynamic sector was represented by FDI. Net FDI between 1955 and 1961 was US$ 4.4 billion (annual average of US$ 629 million), exceeding profit reinvestments which amounted to US$ 1.555 billion (annual average of US$ 222 million), and profit remittances abroad, which reached the level of US$ 2.806 billion (annual average of US$ 400 million). Thus, a total positive net balance of US$ 3.149 billion (annual average of US$ 450 million) was accrued; the opposite of what was the case during the second Vargas administration.

As to the origin and destination of FDI in the second Vargas administration, according to Campos (2009), the much higher volume of reinvestments compared with net investment reflects the maturity of capital that had entered the country in the past, primarily in the manufactured goods marketing and distribution sector that was dominated by U.S. corporations, as well as the public utilities sector in which the stock of capital of the Canadian company Light and the U.S.-owned American and Foreign Power Company (AMFORP) stood out. The breakdown of FDI inflows through Instruction 113 during the Kubitschek government between 1955 and 1963 was 45.7% from Western Europe (with Germany accounting for 18.7%), followed by the United States with 43.5%, and other countries with 10.8%. Of a total of US$ 497.7 million in FDI during this period, 38.1% went to the automotive, trailer, and body shop industries; 23% to the chemical sector, machinery, and equipment; 6.2% to plastics and rubber; 5.1% to electrical machinery, devices, and materials; and 27.6% to the remaining manufacturing industries (Caputo and Melo 2009).

In addition to the slackening of control over international capital flows through Instruction 113 and the sectoral regulation of industrialization by the Target Plan's "executive groups," the Brazilian economy's process of internationalization of production also required

20. This and the following data were retrieved from Campos (2009).

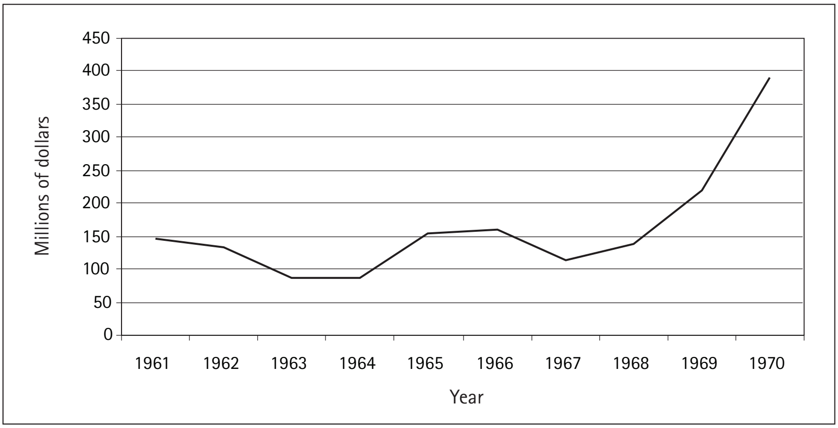
the protectionism of the Kubitschek government in order to safeguard the internal accumulation of multinational companies that entered after 1955. In 1957, Law N° 3,244 (Câmara dos Deputados do Brasil 1957a) was promulgated; it anticipated the "customs duties reform." Prior to this law, domestic "market reserve" was ensured through control of the exchange rate, on the basis of the five import categories and with five different rates (Instruction N° 70). At this point, the surcharge was retained for given imports, but with only two rates: general, for product imports, without domestic equivalents and set at 80.29 cruzeiros to the dollar; and special, set at 177.7 cruzeiros to the dollar, for those goods already manufactured locally, with direct control over exchange rate supply. Moreover, there was also a cost exchange rate, set at 43.82 cruzeiros to the dollar, for government use. A statute for the registration of similar products was also promulgated, which when applied to the industrial sector considered as mature, prohibited imports that competed with locally-supplied products, even when externally financed. In this case, multinational companies were favored by the market guarantee for the sectors they dominated, with tariffs of up to 150% established for the importation of products similar to those manufactured domestically. This instrument therefore served to protect fledgling industries, consolidating a protectionist barrier for the oligopolization of the new domestic industrial sectors.

Law N° 3,244 was regulated by Decree N° 42,820 (Câmara dos Deputados do Brasil 1957b), which provided for more assertive institutional coverage, given that it legalized Instruction 113 (Chapter V). This decree allowed the entry of foreign capital in the form of FDI without currency hedging, as it was "considered essential for the process of economic development" (Câmara dos Deputados do Brasil 1957b: 1), in accordance with the general directives of the SUMOC council. Capital outflows in the form of repayments and interest on the foreign debt were carried out according to the official exchange rate, as was profit remittances corresponding to investment without currency hedging (Art. 4). In addition, through Decree N° 42,820, free exchange rate transactions were instituted, contracted through immediate settlement, enabling the SUMOC council to authorize transactions for future settlements known as swaps (Art. 14). Consequently, it is clear that there was clear continuity in the advantages provided to multinational firms from the Kubitschek to the Café Filho administration, and important contrasts with Vargas policies.

Thus, considering the period 1951-1961, we consider that the possible inflection in Brazilian capitalism at the end of the second Vargas administration - marked by the collapse of its development strategy and the subsequent institutional receptiveness to international capital flows enabled by Instruction 113 - should be understood in the context of the internal difficulties in applying a relatively autonomous project of domestic capitalism, and of the existence of the following conditions: i) the enormous exchange-rate vulnerability in Brazil during 1954, which resulted from fluctuations in the international price of the main export product, coffee, as well as the adverse international environment that intensified in response to the end of the CMBEU, and, with it, the end to expectations of external public loans as a result of the unilateral decision taken by U.S. President Eisenhower (Bastos 2001; Malan 1984); ii) the institutional incapacity of the Getúlio Vargas government to concentrate efforts on the development of a pattern of internal financing or even a fiscal reform that matched his nationalist pretensions (Bastos 2001); iii) the political fragility of the government, evident in its attempts to unite several antagonistic tendencies in order to maintain a politically eclectic administrative team, which, at the same time, was subordinate the executive branch (Boito 1982); iv) finally, the lack of expansion of European private capital to the periphery, since it had not yet achieved a sufficient level of productive maturity (Campos 2009). This did not occur until the second half of the 1950s, when U.S. investments in the reconstruction of Western Europe and Japan through the Marshall Plan had stimulated the internal productive forces of those countries (Block 1987; Gilpin 1975).

The collapse of the Vargas project, which was plagued by the abovementioned problems, contributes to an understanding of the rupture with the strategy of embracing international capital, implemented through the Target Plan. However, following the end of the Kubitschek government, the 1960s ushered in the economic consolidation of multinational companies that had entered the country starting in 1956, which reinforced their hegemony in the Brazilian production process by establishing themselves as the core of economic power. In this way, the domestic effects of the action taken by multinationals in this period reflected the competition between diverse capital from around the world, given that, on the one hand, the capitalist development that had emerged was not accompanied by the displacement of the formative core of cutting-edge technology; and, on the other, the oligopolistic expansion of companies from the core countries to the peripheries resulted in the absorption of local firms at the cost of the denationalization of domestic private capital (takeovers). This movement was determined by the reinvestments of the profits of companies that were already established in Brazil, and by the new capital flows, for which Latin America was then the primary destination in this period (Chesnais 2013; Fajnzylber 1971). In reality, the new entry of FDI tapered off in Brazil from 1959 on and only started to return to any significant degree from 1968, as seen in Figure 2.

Figure 2
Foreign direct investment flows in Brazil, 1961-1970 (in millions of dollars, current prices)



Source: Ipeadata 2003); compiled by author.

This fall in FDI should chiefly be understood as a result of the blocks of investment in the Target Plan, the continuity of which was made difficult if it was not possible to permanently revolutionize its production bases through innovation in new processes and products. On the question of innovation in industrial processes, we can discern a clear strategy by the multinationals to only internalize a certain level of technology, without creating a research and development base in the recipient country to resemble that of the parent companies. If this were to occur, it would fatally weaken control of this strategic asset in the competition between capital on the basis of the corporations' core business (Hymer 1983). Meanwhile, for product innovation, the entry of heavy manufacturing multinationals to Brazil satisfied the pent-up demand existing since the Vargas administration, but faced a diminished domestic market whose pattern of consumption of high added-value durable goods was limited to a small sector of the population: the wealthiest, historically characterized by a long-standing concentration of income due to Brazil's underdevelopment (Furtado 1980).

In this way, both the slowdown in the influx of FDI, the increase in profit remittances, and the need to import various supplies and intermediate goods for heavy industries and the petroleum sector, as well as the exclusive dependence on commodity exports - given that the multinational firms and state-owned companies established in the country solely catered to the domestic market - resulted in a new currency crisis at the end of the Kubitschek government. In 1960, this government had a commercial deficit of US$ 23 million; a deficit in the services account of US$ 459 million (US$ 79 million in profit remittances); and a small balance in the capital account of US$ 58 million, which gave rise to a balance of payments deficit of US$ 410 million (Abreu 1992; Ipeadata 2004).

2.3 The Quadros and Goulart governments

The government of Jânio Quadros, which assumed these foreign liabilities in 1961, launched an offensive abroad that resulted in an accumulation of resources from international agencies as well as autonomous loans worth more than US$ 500 million, mostly between 1951 and 1966. In the case of currency regulation, Instruction N° 204 of the SUMOC (13/3/1961; SUMOC 1963) unified the exchange rate for exports and imports (with the exception of some mineral and agricultural products). In addition, the exchange rate was raised to 200 cruzeiros to the dollar for petroleum and drilling equipment, wheat, paper reels for newspapers, and other selected imports, while products in the miscellaneous category were included in the free market exchange rate of 300 cruzeiros to the dollar, leaving those products considered superfluous for the foreign exchange swaps.

The exchange-rate unification provided for by Instruction 204 had the primary aim of solving the deficit problems in foreign accounts based on the economics of foreign-exchange resources. To this end, the exchange rate for export products such as coffee and cocoa was devaluated, while, through the unified exchange rate, an attempt was made to economize on currency exchanges in the free market, in addition to the accumulation of resources through exchange rate differences with an impact on the importation of superfluous goods. This measure constituted an attempt to solve the drain on the balance of payments caused by the external remuneration of international capital. This was because the old problem of import restrictions arising from a lack of foreign-exchange reserves was seen as a structural need, and was reinforced by the Target Plan when the importation of capital goods became urgent as a means of supplying the establishment of heavy industry in the country (Gennari 1999).

The matter of "dependence in process" (Bastos 2001),[21] updated in the 1960s, was again applied to the exchange-rate question, in relation to the rise in inflation which had a structural dimension that originated in the subordination of internal interest to the need for remittances abroad by international capital. Moreover, from a broader perspective, the pattern of accumulation venerated during the years of the Kubitschek government showed signs of coming to an end, with the emergence of a cyclical crisis precipitated by the drop

21. Translation by Apuntes.

in investments. This was the result of the strong concentration of powers in companies producing consumer durables in the face of the weak internal bases that underpinned the development of capital goods.

During this structural crisis at the beginning of the 1960s, which put in check the pattern of capitalist development defined by the Kubitschek government, various popular and nationalist protests such as the "Oil is Ours" (Petróleo é Nosso) campaign of 1953 reappeared in force to pressurize parliamentarians into regulating multinational firms in the country. Thus, a political process was set in motion that would culminate in the promulgation of the most rigid and systematic legislation yet with respect to international capital. The Law on Profit Remittances (Lei de Remessa de Lucros, N° 4,131; Câmara dos Deputados do Brasil 1962) of September 3, 1962, thus became one of the most hostile internal restrictions on the entry of international capital to Brazil between 1961 and 1964, given that it constituted a direct challenge to its interests.

The purpose of this law was to systematize the set of rules on the movement of international capital in the country, and thus aimed to define international capital (Art. 1) and to guarantee an equal legal footing between foreign and domestic capital (Art. 2). In addition, the law also provided for mandatory registration of foreign capital in its original currency, and provided a definition of what was considered to be reinvestment of profits. It also set an 8% limit on interest remittances (a higher amount would be deemed a repayment), and on income tax on remittances of profits and dividends, royalties, and technical and administrative assistance.

The law also limited the remittances of royalties and technical and scientific assistance to a maximum value of 5%, while prohibiting foreign subsidiaries established in Brazil from paying such remunerations to the parent company. Another form of control imposed was the ban on the under-invoicing of exports and/or the over-invoicing of imports, known as transfer pricing. The penalty anticipated for these infractions was a fine of ten times the value of the imported or exported merchandise, and/or a five year ban on engaging in commercial exchanges in the country.

In addition, the Law on Profit Remittances included articles that regulated the foreign exchange market, as well as disciplining Brazilian capital goods invested abroad and regulating the banking and fiscal regime in general terms. In addition, what really stood out at the time as a polemical issue with considerable repercussions on the debates of the National Congress was control over profit remittances, which anticipated deductions only on registered capital and excluded profit reinvestments from the base of the calculation for remittances. These discussions were centered on Article 28 of the law:

> If a severe disequilibrium in the balance of payments were to occur, or there were serious grounds to anticipate that such a situation was imminent, the Council of the Superintendency of Currency and Credit can impose, for a limited time, restrictions on importation and the remittance of profits of foreign capital, and, to this end, grant the Banco do Brasil full or partial monopoly on exchange operations (Câmara dos Deputados do Brasil 1962: art 28, § 1º and 2º).

In this case, a rate of 10% would be applicable to capital registered for remittances; if this limit were exceeded, the SUMOC would have to be informed immediately. The article established a maximum limit of 5% for remittances on royalties and technical assistance (§ 3) and a limit for exchange expenses in the case of "international trips" (§ 4).

As can be seen, Article 28 established that, in exceptional cases, provisions could be made to rectify the disequilibrium in payments. However, on examination of three famous original articles of the "Celso Brant Draft Law," one can see that the 10% limit for registered capital did not constitute an exception in the case of extreme disequilibrium in the national accounts:

> [...] Article 31, Annual remittances of profits abroad shall not exceed 10% of the value of registered investments; Article 32, Profit remittances that exceed the limit established in the previous article shall be deemed capital returns and deducted from the corresponding register, for the purpose of future profit remittances abroad; Sole Paragraph, The annual quota of foreign capital remittances cannot exceed 20% (twenty percent) of registered capital. Article 33, profits in excess of the limit established in Article 31 of this law shall be registered separately as supplementary capital, and will not provide the right for future remittance of profits (Câmara dos Deputados do Brasil 1962: art. 31-33).

Law 4,131 constituted an attempt to reinstate the principles of the SUMOC instructions, announcements, and acts dating back to 1954, before Getúlio's suicide. Thus, this law reestablished the criteria of need for the concession of currency-exchange rights to foreign capital:

> [...] Article 53, the Council of Ministers may establish, by decree and on consultation with the National Economics Council [Consejo Nacional de Economía]: I) that the investment of foreign capital, in certain activities, be carried out in accordance with a scale of priorities, for the benefit of the least developed regions of the country; II) that the capital thus invested be excepted, to a greater or lesser degree, from the restrictions provided for in Article 28; III) that identical treatment be applied to capital investors in activities deemed to be of major interest to the national economy (Câmara dos Deputados do Brasil 1962: art. 53).

Thus, the Law on Profit Remittances imposed controls on both the inflow and outflow of foreign capital. For the case of inflows, a selective investment criteria was provided for, as had been attempted towards the end of the second Vargas government. With regard to outflows, by way of remittances of profits and dividends, the law provided institutional continuity to Decree 30,363 (abolished by Vargas in 1953 through the Free Market Law) which eliminated profit reinvestments from the base of the calculation. Thus, Law 4,131, in the form it was promulgated in 1962 and later regulated in 1964 by João Goulart (Decree N° 53,451; Câmara dos Deputados do Brasil 1964a), constituted the tightest control imposed to date on the movement of international capital in Brazil. As such, it meant that internally, both the forces opposed to and those in favor of international capital could adopt a political position in relation to the type of strategy that they believed to be ideal for Brazilian capitalist development.

From an economic standpoint, Law 4,131 compounded uncertainty for new foreign investors, given that its promulgation in 1962 and the two-year wait for its regulation also impeded the registration of profit remittances in 1963 and 1964. Added to this was the persistence of inflation due to the failure of the attempt at stabilization through the Three-Year Plan (Plan Trienal, 1963), the impasses in the renegotiation of the foreign debt, and the nationalization of foreign subsidiaries in the electricity sector in Río Grande do Sul. External accounts also reflected the adverse environment, given that the balance of trade in 1963 was just US$ 112 million, with a deficit in the services account of US$ 269 million and a deficit in the capital account of US$ 54 million, which gave rise to a deficit in the balance of payments of US$ 244 million (Abreu 1992; Ipeadata 2004).

Politically, the social situation was marked by polarization between, on the one hand, nationalist-popular forces, including rural and urban workers, students, leftist intellectuals, elements of the middle class, and some businessmen, among others who called for structural transformations through an agrarian reform, urban reforms, income distribution through tax reform, and reforms to the education and electoral systems, all in some way analogous to Goulart's "base reforms" (reformas de base); and, on the other hand, the conservative groups that demanded reforms aligned with the interests of the major media and the United States, businesses, banks, broad sections of the middle class, the army, the Catholic church, foreign subsidiaries, intellectuals with links to the private sector, etc. In this balance of forces, the latter group conspired to create the ideal conditions for the coup d'etat of April 1, 1964.

2.4 The Castelo Branco government

Despite the long debates set in motion by this regulatory framework, as of August 29, 1964, the most important aspect of the legislation was modified; that is, the question of the reinvestment of profits. This occurred immediately after the overthrow of João Goulart by the military coup of April 1964, when Roberto Campos - the then Minister of Planning of the first military government, headed by Castelo Branco - repositioned reinvestments of the profits of foreign subsidiaries in the base of the calculation for remittances, as well as increasing the limit from 10% to 12% on remittances send abroad by way of Law N° 4,390 (Câmara dos Deputados do Brasil 1964b).

As well as the modifications to Law 4,131, Instruction N° 289 (Banco Central do Brasil 1965) complemented the institutional framework that made it possible for the economic policy defined by the Government Economic Action Program (Programa de Ação Econômica do Governo, PAEG) to align with the capital accumulation expectations of multinational firms. This instrument authorized the foreign exchange portfolio of the Central Bank of Brazil to buy foreign currency, assuring that the vender was subsequently entitled to hedge foreign currency returns given the considerable leeway of foreign subsidiaries to acquire resources abroad, it is easy to conceive of the discrepancy between the facilities conceded to international capital after the 1964 coup and the treatment offered to Brazilian private capital.

Instruction 289 provided for facilities to access international liquidity, in that it guaranteed direct exchange between international agents and domestic recipients, generally represented by foreign and state-owned firms:

> 5) the registration of the transactions that this Instruction refers to, for the purposes of Law N° 4,131 of 03/09/62, amended by Law N° 4,390, of 29/08/64, shall take place automatically, through the communication of the Foreign Currency Portfolio of the Banco do Brasil S.A. to this Superintendency; 6) the transactions covered by this Instruction shall be exempt from the deposit and the financial levy established by Instruction N° 285, of 24/12/64; they are also exempt from the current provisions on the obligatory character of the guarantee deposit and the corresponding compulsory payment, by order of the Superintendency (Banco Central do Brasil 1965: 34-35).

It also stressed that this capital will be subject to the same guarantee on its outflow: "7) the right of remittance of interest abroad shall be assured, under the same conditions established in this Instruction" (Banco Central do Brasil 1965: 34).

In addition to Instruction 289, another important measure introduced by the Central Bank was the establishment on August 21, 1967 of new access channels for foreign loans. Resolution N° 63 of the Central Bank of Brazil (1967) – unlike Instruction 289 and Law

4,131, both of which provided for direct acquisition - instituted financial intermediary between domestic and international institutions, establishing transactions as follows:

> I) To entitle private investment or development banks and commercial banks authorized to perform currency exchange transactions and to directly arrange foreign loans that are to be turned over to companies in the country, whether for financing fixed capital or circulating capital, pursuant to the provisions of this Resolution and the other legal norms and regulations in force (Banco Central do Brasil 1967: 112).

In this way, in addition to foreign and state-owned companies, which were already exclusively authorized to carry out direct acquisitions by way of Law 4,131 and Instruction 289, Brazilian private capital firms would now have access to international liquidity. Those who had truly benefited from this measure were the foreign commercial banks; although they were now prevented from using their competitive power in capturing resources in domestic markets, they were able to enormously expand their operations through the simple transfer of foreign loans (Pereira 1974; Cruz 1999).

The international capital represented by multinational firms - whether in the industrial or the financial sector – was the greatest beneficiary of the reform carried out by the Castelo Branco government in the second half of the 1960s. This was because the reform meant the systematic imposition of the interests of international capital through institutional mechanisms that allowed the integration of the national financial system to be reconciled with the drive toward financialization of the international capital established in the country. This imposition resulted in enormous advantages based on lengthy terms and low costs for obtaining foreign loans, which multinational firms established in the country fully took advantage of in the 1970s. Thus, the influx of FDI, which amounted to just US$ 168 million in 1964, soared to US$ 432 million in 1967, reaching US$ 869 million in the phase of the "economic miracle" in 1971 and US$ 4.6 billion in 1973. With respect to the origin of FDI, U.S. investments exceeded those from Western Europe, while their destinations remained the same as in the Kubitschek era: consumer durables and capital goods in heavy industry. The difference between the two cycles - those of the Target Plan and the "miracle" - was that during the former, FDI served to create new productive capacity (greenfield investments), while during the latter, it was primarily the transfer of assets (takeovers) that resulted in an intense denationalization of the Brazilian economy (Campos 2009). The gross external debt rose from US$ 3.2 billion in 1964 to US$4 billion in 1966, and from there to US$14.8 billion in 1973 (Campos 2009). Thus, Brazil's dependence on imperialism towards the end of the 1960s vastly exceeded that of the Vargas era.

CONCLUSION

In this paper, several hypothesis have been proposed for understanding the limitations and capacities of Brazilian governments in relation to the actions of established multinational firms, focusing on some of the regulatory frameworks between 1951 and 1967: i) the pursuit of industrialization and modernization of patterns of consumption provided continuity to the strategies of all the Brazilian governments of the period, and was used to justify the various forms of association with international capital to achieve capitalist development; ii) the various forms of association with international capital, which were evident in a variety of economic policies aimed at promoting industrialization, characterized by discontinuities in how they conceived of the appropriate division of tasks between the state, Brazilian private firms, and multinational firms; iii) finally, the way that the Brazilian state used internationalization to leverage capitalist development - by attempting to institutionally disciple international capital in accordance with the country's general policies - resulted in substantial ruptures over the course of the period.

Industrialization was always the overarching goal of all governments of the period. All heads of state, from Getúlio to Castelo, without exception, shared the principal objective of maintaining development grounded in the logic of capitalist accumulation, in association with the attributes of modernity that could be made available from the capitalist core. Thus, by identifying the history of industry in Brazil with the need to modernize Brazilian society, none of these governments thought it possible to progress without some kind of cooperation with multinational firms. This was because all of them, without distinction, sought in different ways to internationalize the economy as a means of internalizing the benefits of technological progress that core economies could share.

In terms of economic policy, the capitalist development strategy of the second Vargas administration sought to establish the hegemony of the state-led industrialization process. This conception of the establishment of industry in the country resulted in a division of development activities between state, domestic private, and foreign capital, in which leadership would be exercised only through a state monopoly. In this case, international capital could only compete in areas of accumulation in the Brazilian economy if it accepted state influence in determining the type of industrial expansion to be pursued.

The Kubitschek government maintained the same direction in economic policy as Vargas, which sought to attract foreign capital through state planning and steer it towards sectors demarcated according to industrialization needs. Meanwhile, Juscelino did not question which type of international capital would be the best for carrying out his plan for the division of tasks. Thus, he preferred to take advantage of the favorable international environment at the time to launch the Target Plan as a means of aligning his expansionist economic policy with direct investment flows and autonomous foreign capital that was seeking out new frontiers for expansion.

Juscelino Kubitschek's and Getúlio Vargas' economic policies, based on state planning and thus on intervention in the national economy, complemented one another. The two governments saw state resources as an opportunity for Brazil to achieve capitalist maturity, and also understood the need to associate with international capital to accomplish this goal. Though what fundamentally sets apart Vargas and Kubitschek, and thus constitutes an inflection, are their different ways of subordinating international capital to the wider interests of industrialization. This takes us back to the first question posed in the introduction to this paper: Did association with international capital constitute a break with the pattern of capitalist development proposed by the second Vargas administration?

The answer is yes. Because, despite both governments seeking to ally themselves with international capital in their economic policies based on state planning with a view to implementing industrial capitalism in Brazil, the Kubitschek government had no intention of squeezing it into the same molds as Vargas attempted. Thus, the rupture between Kubitschek and Vargas can be seen as follows: i) the division of tasks that Kubitschek proposed between multinational and state-owned firms anticipated a degree of orientation toward specific sectors of the Target Plan, in which the cooperation of the various fractions of capital to achieve industrialization would not necessarily be determined by a hegemony. In the Vargas government, on the other hand, the notion of hierarchization of tasks translated into the leadership of state-owned firms in the development process, in which multinational firms would be incontestably obligated to conform to their role and to the national objectives imposed; ii) though the economic policy of the Kubitschek government still privileged state planning of the economy, it did not discriminate regarding the strategic importance of the types of capital necessary for the effectiveness of the Target Plan; Vargas's priority was to attract capital in the form of loans, even if he did consider direct investment as a reasonable option for development; iii) nonetheless, even if the entry of FDI had been consolidated during the Vargas government – it was not, due to the adverse international environment - that government's approach to disciplining it would have marked a contrast to the Kubitschek administration. This was because Juscelino, by dispensing with any attempt to harmonize planned state actions with the pace of accumulation of the multinationals, and thus rejecting the regulatory regime implemented by Vargas (such as, for example, the CIFER, which, as we have seen, was revoked through Instruction 113 by the Café Filho government), did not succeed in maintaining the autonomy of the Brazilian state in the face of the destabilizing influence of internationalized accumulation. In this regard, the economy became a hostage to the most dynamic sector which, for the above-mentioned technological and oligopolistic reasons, was occupied by international capital, and thus had to submit to the rate of accumulation of the foreign subsidiaries.

The crisis at the start of the 1960s, which spanned the governments of Jânio Quadros and João Goulart, led to paths that differed from those that their economic policies suggested in relation to the type of industrialization in which the national economy would be rooted. Jânio, in a problematic fashion, attempted to save industrial accumulation and the balance of external accounts by submitting to the orthodox orientations of the international agencies. João Goulart, taking the opposite approach but with the same ends - that is, a return to the levels of industrial development seen in the years of the Kubitschek government - sought to resuscitate the conciliatory strategy of the second Vargas government, as well as resurrecting the regulatory regime aimed at disciplining international capital that Café Filho had revoked, by improving controls on the inflow of resources, and on their outflow in the form of profits, royalty, and dividend remissions (Law N° 4,131).

Goulart's strategy to seek the independence of the internal decision-making centers from international capital, like Vargas', ended in failure. Instead, in addition to a political crisis, the industrialization of the Brazilian economy reached a new level of external dependency following the establishment of the military dictatorship. This prompts the need to return to the second question posed in the introduction to this paper: What were the main changes in relation to international capital following the economic reforms implemented by the military regime that came to power in 1964?

To answer this question, it is necessary to revisit the three levels of analysis cited at the beginning: i) the inflection of the military-led political regime did not mean an abandonment of continuity (which always existed since Vargas) in the pursuit of Brazilian industrialization in capitalist terms and in association with international capital, at the same time, guaranteeing high levels of consumption; ii) this marked a rupture with the development strategy pursued by other governments; and thus iii) an essential distinction in the course of the Brazilian economy in the second half of the 1960s was the unfettered subordination to international capital, not only through the regulatory regime aimed at disciplining the international capital that Vargas established, Café Filho eliminated, and Goulhart tried to rescue, but through the abandonment of an economic policy that from the times of Vargas and Kubitschek had sought to impose a degree of autonomy in relation to the boundless needs of extensive capital accumulation.

Therefore, the financial reforms that the Castelo Branco implemented in Brazil, while preserving the line of continuity in industrialization, subjugated national interests to the demands of international capital. This was achieved through the liberalization of the control regime on international capital, by way of the modification of Law N° 4,131, Instruction N° 289, and other provisions. In this way, the creation of financial mechanisms that integrated the domestic market into the global circuits of financial accumulation meant a qualitative change in the capacity of the domestic decision-making centers to condition the actions of international capital in Brazil.

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