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## Economic debates under authoritarian regimes: The case of the income distribution controversy in Brazil in the 1970s

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ECONOMIC DEBATES UNDER AUTHORITARIAN REGIMES: THE  
CASE OF THE INCOME DISTRIBUTION CONTROVERSY IN  
BRAZIL IN THE 1970s

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*Economic debates under authoritarian regimes: the case of the income distribution controversy in Brazil in the 1970s*

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**Abstract.** The paper investigates the political and economic contexts of the controversy about the causes of the significant increase of income concentration in Brazil during the 1960s. That was the most important economic debate that took place under the military dictatorship that ran the country from 1964 to 1985. The perceived sharp increase in income inequality posed a challenge to the economic legitimation of the military regime, which had by the early 1970s achieved high rates of economic growth accompanied by falling inflation. We discuss the reasons behind the relatively open economic debate during a period of political repression, as well as its international dimension as reflected in the role played by institutions such as the World Bank.

**Key words.** Authoritarianism, income distribution, debate, censorship, Brazil

**JEL codes.** B20, D30, N16

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## 1. Introduction

In 1960 the Brazilian government carried out a social and economic census, which collected, for the first time, information about the income of the interviewees. Ten years later, another census took place, which also gathered information about personal income. In mid-1971, the Brazilian government began releasing preliminary results from the 1970 census. Social scientists would finally have robust data to analyze Brazilian income behavior over a time series. Rodolfo Hoffmann (1971) and João Carlos Duarte (1971) – consolidated in Hoffmann & Duarte (1972) – were the first Brazilian scholars who discussed the data. The subject was also investigated around the same time by the American economist Albert Fishlow (1972). The numbers showed a worsening of income distribution in Brazil between 1960 and 1970. Fishlow, Hoffmann and Duarte believed that this was not a “natural” phenomenon, but the consequence of economic and social policies – particularly minimum wage squeeze, together with stimulus to capital-intensive projects and production of durable consumption goods through credit and tax subsidies to capital investment – implemented by the Brazilian military rule after the 1964 military coup.

In April 1972, at a speech at the UNCTAD meetings in Santiago, Robert McNamara, President of the World Bank, using information provided by Fishlow (1972), singled out Brazil as the main example of a country incapable of transforming high GDP growth rates in robust improvements in the level of well-being of the poorest fraction of its population. McNamara's (1981, chap. 9) speech attracted worldwide interest and was instrumental in igniting the Brazilian controversy over income concentration, which became the most debated economic issue in the country during the following years.

Our goal is to reconstruct the public and academic debates on the theme, notably between 1971 and 1975. In order to construct a narrative, the archives of newspapers and magazines from Brazil and abroad are extensively used. We also interviewed the protagonists of the 1970s distribution controversy: Antonio Delfim Netto, Carlos Geraldo Langoni, Albert Fishlow, Rodolfo Hoffmann, Edmar Bacha and Pedro Malan. Despite the authoritarian environment, even the critics of the regime agreed that there was some degree of freedom to discuss the issue. Hoffmann stated in correspondence with the authors in 25 January 2019 that the Brazilian government “did not get to the point of massacring every researcher...who criticized the regime”, but it would impose some obstacles for those who were unpleasant to it.

The apparent paradox of a relatively open economic debate that challenged economic policy, amidst a period of political repression, is solved if some factors are taken into account. McNamara's criticism had the character of an institutional appraisal from the World Bank, one of the main institutions of the Bretton Woods system, from which Brazil was a major client. It was the kind of criticism that Brazilian policymakers could not simply ignore or silence. In addition, Brazil was going through its fifth

year of economic “miracle” in 1972, with average annual rates of economic growth around 11%. The Brazilian military government was aware that its legitimacy both at home and abroad depended on the impressive performance of the economy. Hence, pro-government economists and officials reacted strongly to the charge that the economic welfare of the poorest parts of the population had deteriorated (see Skidmore 1988, pp. 143-44; Bethell and Castro 2008, p. 198). Moreover, as expressed by Fishlow in conversation with the authors in 12 December 2018, Delfim Netto and other government officials thought they had the best side of the argument, as represented by Langoni’s (1972, 1973) attempted demonstration that increasing inequality was the market (temporary) effect of economic growth under conditions of scarcity of skilled labor.

Indeed, the regime’s policymakers – Roberto Campos, Octávio Bulhões, Delfim Netto, Mário Henrique Simonsen and João Paulo dos Reis Velloso – were also scholars who valued economic discussion. Campos had a master’s degree in economics from George Washington University (1947); Velloso got a similar degree from Yale (1964). Simonsen was a leading professor at FGV-Rio (Fundação Getúlio Vargas) during the 1960s and 1970s. Delfim Netto started his career as a professor at USP (Universidade de São Paulo) upon writing a doctoral thesis in 1958, and kept close ties with the university, having a group of young protégées known as the “Delfim boys”, which at some point included Langoni. The other protagonists in the controversy were young economists who had recently obtained their PhDs from prestigious American universities or finished graduate studies in Brazil. Edmar Bacha got his PhD from Yale (1968); Carlos Langoni was the first Brazilian to obtain a PhD in economics from Chicago (1970); Pedro Malan went to Berkeley (Fishlow was his advisor) and finished his PhD in 1973. They were part of the first big wave of Brazilian economists who obtained post-grad titles abroad, and they all worked at universities or government research and policy agencies like IPEA (Institute of Applied Economic Research). As Edmar Bacha told us in correspondence of 7 December 2018: “my PhD protected me”. Hoffmann submitted in 1971 his professorship thesis (“tese de livre docência”).

Analytical surveys of the controversy may be found in Bacha & Taylor (1978), Malan (1979), Ramos and Reis (1991) and Hoffmann (2018), with attention to the empirical relation between growth and distribution – the famous “Kuznets Curve”, as it has been called since the mid 1970s. Our objective is not to assess the debates, but to discuss their limits and circumstances under a military dictatorship. More recently, two doctoral dissertations by Souza (2016) and Morgan (2018) have provided new insights about the long-run dynamics of income distribution in Brazil. Sections 5.2.3 of Morgan (2018) and 2.6 of Souza (2016) partially overlap with the present paper, with their concern with political aspects of the controversy. Lopes (1973) provided a contemporary perspective on how the restrictions imposed on open demands by social groups (particularly workers) involved in the income distribution process turned the discussion into a “private debate” between economic experts, which then became “public” in a limited controlled way to the extension that it was reported on the press, reverberated in the parliament or

attracted larger intellectual groups and students in the meetings of SBPC (Brazilian Society for the Advancement of Science).

Brazilian military rule was a dictatorship of sorts, distinct from post-1973 Chile and post-1976 Argentina. Brazilian military regarded themselves as “democrats” and, in order to maintain a positive image abroad, tried to avoid the establishment of an overt military dictatorship. Hence, some elements of representative democracy were kept, such as political parties. However, the attempt to keep “democratic respectability” gave way, in December 1968, to the Institutional Act no. 5 (AI-5), which suspended the rule of law and *habeas corpus*, sharpened censorship and torture (Bethell and Castro 2008, pp. 172-73, 195). AI-5 remained in force for 10 years, including the period of the distribution controversy.

## **2. “The economy is doing well, but the people are still doing poorly”**

In March 1970, the then President, General Emílio G. Médici, stated that

Despite this six years of revolutionary effort, when we look at the reality of the living conditions of the great majority of Brazilian people, we come to the pungent conclusion that the economy may be doing well, but the majority of the people are still doing poorly. (Médici 1970, 5)

A severe drought was hitting Brazil’s northeast, the poorest area of the country. A multitude of starving peasants agglomerated in small towns squares, threatening to loot public depots and private-owned stores in search for food. Local governments tried to avoid violence offering small daily rations of manioc flour and brown sugar to the peasants. In a country with 95.3 million people, 67.9 % of Brazilians were classified as “poor”. That same year, ECLAC disclosed a study showing that Brazil’s Gini index (0.55) was the highest in the region (ECLAC-ILPES, 1970). The president’s confession, nonetheless, was in contrast with the pride and confidence of the economic team<sup>1</sup>, led by Delfim Netto (Minister of Finance) and Reis Velloso (Minister of Economic Planning). They had solid reasons for that. In 1971, Brazilian GDP had grown 11.3 %.

In March 1964, when the military coup overthrew President João Goulart’s leftwing government<sup>2</sup>, the economic situation in Brazil was distressing. In 1963, inflation rates were approaching 100 percent a year, while GDP grew only 0.6 %. The bad economic situation was used by the “Revolution” – term used by the 1964 coup supporters – as a justification for the movement. The rhetoric of the “revolutionaries” always referred to the necessity of restoring “economic and financial order in Brazil” (Brasil 1964).

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<sup>1</sup> See Simonsen (1972,47) and Campos (1972a)

<sup>2</sup> See Skidmore (1989, chapter 1)

During Marshall Humberto Castello Branco term (1964-1967), Octávio Gouveia de Bulhões (Minister of Finance) and Roberto Campos (Minister of Economic Planning) implemented the Government Economic Action Plan (PAEG in Portuguese). The plan included short-term measures seeking to stabilize the economy, as well as structural reforms whose objective was to modernize Brazilian economic institutions (see Skidmore 1989, 31-9; Luna & Klein 2014, 191-9). Brazilian economic performance during that period, however, was mediocre, with GDP growing at an annual rate below the 1948-1962 average.

With the inauguration of General Arthur da Costa e Silva's (1967-1969) term, Antonio Delfim Netto became Finance Minister<sup>3</sup>, and in 1968 the so-called Brazil's economic "miracle" began. Between 1968 and 1973, the average GDP annual growth was above 11%. This outstanding economic performance reinforced the "revolutionary" narrative: an authoritarian government, above populist political interests, was necessary to impose sacrifices on the society, in order to create the conditions for economic development<sup>4</sup>. The "revolutionaries" could proudly say that they were right, after all.

General Emílio G. Médici (1969-1974) ruled Brazil during the period of increasing authoritarianism, also known as the "lead years" (*anos de chumbo*). Thanks to economic growth and censorship, Médici became a relatively popular president<sup>5</sup>, while the "Brazilian military regime" became "the standard bearer of those who insisted that only a strong, heavy-handed government could produce the conditions necessary for economic development"<sup>6</sup>. The "Brazilian model" was "viewed with eager interest by other developing countries" (Fishlow 1973, 475). The country served as an example for the authoritarian regimes that would be soon implemented in Chile (1973), Uruguay (1973) and Argentina (1976). American President Richard Nixon famously stated in 1972: "We know that as Brazil goes, so will go the rest of the Latin-American continent" (NYT 1972a, 30).

In 1965 Roberto Campos created IPEA<sup>7</sup>, indicating João Paulo dos Reis Velloso to direct the new institute. As recalled by Velloso, in an interview in D'Araujo, Farias and Hippolito (2005, pp. 23-26), IPEA was a sort of economic "think tank" inside the government, with significant degree of freedom despite occasional pressure from the military. That same year, IPEA signed a cooperation agreement with the University of Berkeley; a first group of American economists was sent to Brazil straightaway in 1965. After spending short periods in Brazil between 1965 and 1967, Fishlow became the leader of the group, a position he held until 1968, when the agreement ended, by the initiative of Berkeley, dissatisfied with Brazilian political conditions after AI-5.

Fishlow kept visiting and studying Brazil after 1968. He and one of his students, named Oye Astra Meesook, whose 1972 PhD thesis was entitled "Income distribution in Brazil", decided to use Brazilian

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<sup>3</sup> See Skidmore (1989, 66-70)

<sup>4</sup> See Campos (1972a)

<sup>5</sup> See NYT (1971, 24)

<sup>6</sup> NYT "Colombia nudging Brazil in economic leadership", September 4, 1972, p.21

<sup>7</sup> The first name of the institution was EPEA – with "E" standing for "escritório" (Bureau) – but it soon changed to the IPEA.

census data in order to investigate income distribution. In December 1971, at the meetings of the American Economic Association, Fishlow presented the first results of that research. His paper was debated at a session chaired by Hollis Chenery, who in 1972 would become the World Bank Vice-President for development policy.

McNamara was interested in questions of poverty and income concentration, and established that the World Bank's lending policy should ameliorate the living condition of the poorest fractions of underdeveloped countries' populations. However, in 1971, one main obstacle was the absence of data on income distribution in such countries (McNamara 1991, 82-3). In the face of such scarcity, Fishlow's research became particularly relevant. Having a high quality study for Brazil – a poor country that was experiencing an economic “miracle” and was also one of World Bank's biggest clients – was very useful. That is why Chenery took Fishlow to a meeting with McNamara shortly after the 1971 AEA conference (Fishlow in D'Araújo 2005, 54). Fishlow's statistical analysis impressed McNamara, “tipping the scales on a long-run debate” at the World Bank over the “seriousness of Brazil's distributive deficiencies and encouraging McNamara to take a tougher line, including holding up a loan” (Kapur et al 1997, p. 240).

In March 1972 the *American Economic Review* published Fishlow's paper. Fishlow (1972, 392) claimed that “by American standards of poverty, virtually the entire population [of Brazil] would classify as such”. Using a sort of Brazilian measure for poverty – i.e., the minimum wage in the Northeast region as the “lower limit of acceptable income” – he found out that 31% of the population lived below that limit in 1970. These extremely poor families were found mainly in the country's low-productivity rural regions. Not only were poverty and hardship widespread, but the data also showed that income concentration had worsened over the decade “The upper 3.2 percent of the labor force commands 33.1 percent of the income in 1970, compared to about 27 percent in 1960” (ibid, 399).

What bothered the Brazilian government the most was not the fact that Fishlow was showing that inequality had worsened, but the reasons he presented to explain it.

The increased inequality thus measures the failure of the conventional monetary and fiscal instruments applied during the Castello Branco administration. In a larger sense, however, the result was accurately indicative of priorities: destruction of the urban proletariat as a political threat, and reestablishment of an economic order geared to private capital accumulation. (Fishlow 1972, 400)

Delfim, in correspondence with the authors on 27 November 2018, revealed that “the problem with Fishlow” was his perceived “disloyalty”. He “had access to data provided by the government”, thus he should have, at least, submitted his results to an analysis, so that some sort of replication could be



“published along with his article”. Roberto Campos, the former Minister of Economic Planning, shared that feeling:

I was angry with Fishlow because he was part of the Howard Ellis's mission from the University of Berkeley that had been hired to give me technical assistance in the Economic Planning Ministry. Instead of formulating corrective recommendations and discussing them with me at that time, he made his academic critique years later. Those critiques fed the left-wing literature, which started to talk about "wage squeeze" and "distributive injustice." It even came to the absurd claim that there was a deliberate intention of the Castello Branco government to annihilate the unions in order to reduce workers' participation in national output (Campos in Biderman, Cozac and Rego 1996, 45-6)

Hoffmann & Duarte (1972) obtained results close to Fishlow's. One of their most impressive conclusions was that "50% of the paid population" in Brazil had a monthly average income so low that one "can consider them outside organized consumer markets". Moreover, not only had an increase of income concentration occurred, but also “per capita income of this [poorest] part of the population may have suffered some reduction”, and “in the subsequent three deciles, average incomes have had negligible increases”. (Hoffmann & Duarte 1972, 58 and 60).

If the criticism towards the "Brazilian model" had been restricted to an academic publication, probably its impact on the national political debate would have been less profound. Things changed on April 14, 1972, when Robert McNamara said in his UNCTAD speech:

In the last decade Brazil's GNP per capita, in real terms, grew by 2.5% per year, and yet the share of the national income received by the poorest 40% of the population declined from 10 in 1960 to 8% in 1970, whereas the share of the richest 5% grew from 29% to 39% during the same period. In GNP terms, the country did well. The very rich did very well. But throughout the decade the poorest 40% of the population benefitted only marginally. (McNamara [1972] 1981, 174)

Shortly after that speech, Delfim Netto visited McNamara at the World Bank headquarters in Washington. As McNamara vividly recalled in an interview years later,

So Delfim Netto came up here and just gave me hell. The first time he gave me hell because the figures were wrong. Preparing for this meeting I checked back as to the origins of the figures: I learned they were basically Al Fishlow's, that they were based on tapes that he obtained from the Brazilian government ... The second time he came, argued

“Well, that’s what you’d expect, that they were – the income distribution is skewed because at this stage in our development income is a function of education. You can’t expect to educate all people overnight, so you have skewing”. I said, ”Hell, you ought to look at Sri Lanka, whatever. That’s not an answer, clearly” ... The third time he came in he said, “Okay, A, you’re right, the income is skewed; B, it’s not solely a function of education; C, I would agree, you know, it’s mispricing of capital and subsidized interest and all the rest of the stuff.” (McNamara 1991, p. 83)

Troubled by foreign critiques, the government decided to counterattack.

### 3. “Let the cake grow before sharing it”

In March, shortly before McNamara’s speech, Simonsen published an article in the newspaper *O Globo*. Simonsen (1972a, 4) referred to Hoffmann (1971), Duarte (1971) and ECLAC-ILPES (1970). He admitted that “statistical evidence, although precarious” suggested a worsening in income distribution. In a book published few months later, Simonsen reproduced much of what he had said in that article, but using a more aggressive rhetoric against the critics. After making some caveats about the quality of the 1970 census, he appealed to a somewhat exotic hypothesis to debunk the results. He affirmed, for instance, that in 1960 the level of tax evasion was bigger than in 1970. Thus, the interviewed population in 1960 use to report an underestimated level of income, in order to make it compatible with what they declared on their income taxes. Consequently – wrote Simonsen (1972b, 50) – “the simple fact that the richer classes declare their income with more trustworthiness in 1970... could generate an illusion of an increase in concentration indexes”.

Because data was not good, Simonsen (1972b, 50) wrote that “the debate on the increase of income concentration from 1960 to 1970 can only be sustained with a fair dose of statistical dishonesty”. Moreover, he called Hoffmann (1971) and Duarte (1971) “crooked” (*levianos* in Portuguese), an embarrassing use of *ad hominem* argument. Although he was the intellectual creator of the wage readjustment formula implemented in 1965, Simonsen admitted that it had provoked “a decrease in real wages”, but that trend would have been reverted after 1968.

Simonsen (1972a; 1972b) insisted in the idea that all classes had improved their levels of well-being.<sup>8</sup> “The participation of the poorest” in total national income, “although it has fallen, now corresponds to a significantly bigger *cake*”. He believed that it would be possible to improve, in the short

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<sup>8</sup> However, infant mortality rates increased steadily every year from 1965 to 1973 in the city of São Paulo, illustrating the perverse effects of lower real minimum wages on welfare (Bacha 1977, p. 64).

run, income distribution through a more generous wage adjustment. This way, “the poorest classes would increase their share of the *cake*, but the price would be stagnation, or at least, a braking in the *cake*’s growth” (Simonsen 1972a, 4). In a poor country like Brazil, it would mean “giving up wealth creation in favor of the distribution of poverty”. Simonsen (1972b, 64) repeated that argument: “when the *cake* is small, it is necessary to repeat the old cliché: ‘it has no use to share poverty before creating wealth’”.

The *cake* metaphor was widely used in Brazil. Still today, many people remember the motto “let the cake grow before sharing it” (*primeiro deixar o bolo crescer para depois distribuir*) as the official distributive doctrine during the military regime. The phrase is commonly credited to Delfim Netto, something he fiercely denies. He told us in correspondence of 27 November 2018 he believes “the phrase was stupid”, as it could only be applied to a socialist regime in which the “capital goods industry grows without concomitant development of the consumption goods sector”. He attributed the phrase to “an invention from the natural and understandable [political] opposition”. Even though Delfim never used the cake metaphor – we could not find it in any archives – he occasionally espoused a similar belief. In 1973, for instance, he stated: “a poor country cannot...better distribute an income that it does not have ... the basic problem is to grow and then distribute the income off a larger production” (Delfim Netto, 1973, 22).

The *Jornal do Brasil* (“JB” henceforth) attacked McNamara in an editorial: his “concerns about the income distribution issue in developing countries is the hidden face of his birth control thesis”<sup>9</sup>. Delfim also used similar words to attack him: “Mr. McNamara has already said unacceptable things about Brazil, as was the case of the growth of Brazilian population” (Delfim Netto 1972, 15). Roberto Campos did not deny the poor living conditions of many Brazilians, or that income concentration was significant. However, he believed “this injustice is characteristic of periods of intense capital accumulation”. He also defined the critics as “left-wing intellectuals that consider obscene Brazil’s disinhibition in practicing a capitalistic model of development” (Campos 1972b).

Campos described “foreign judgment” as “hasty and unfair”. Foreigners would perceive the worsening of income distribution as a serious phenomenon, since in Brazil “it was somewhat restricted... two of the mechanisms of redistributionist” pressure common “in western societies – the electoral and trade-union pressures” (Campos 1972b). However, he believed “consented authoritarianism” was unavoidable, since democracy in the country would inexorably degenerate into economic crises and populism (Campos 1972c). According to Campos “the unpleasant truth is that the objectives of social justice and economic development are to a certain point conflicting in the short run”, and that “the acceptance of a high level of income concentration could be the most rational policy for an underdeveloped country, needy of savings accumulation for investments” (Campos 1972b). The “enemy” of the Brazilian growth strategy was exactly “distributionist populism” (Campos 1972c, 50).

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<sup>9</sup> See McNamara (1983)

Delfim Netto partially accepted McNamara's critiques, saying "bad income distribution" was "a fact", and Brazil had had it "for the last four centuries" (Delfim Netto 1972, 6). However, he defended the regime by saying that inequality in Brazil was similar to what prevailed "in the USA during the 1930s" or in other developed countries. He also insisted that the Gini index revealed nothing about welfare, since everybody was getting better, despite the increase in inequality. Campos, Simonsen, and Delfim Netto all agreed that income concentration was a natural market outcome and that any attempt (besides those already implemented by the government through its social policy; see Skidmore 1988, p. 144) to "artificially" distribute income would harm economic growth, leaving only poverty to be shared. Other authors close to the government, such as Kingston & Kingston (1972, 71-2) also posed the trade-off in those terms: "concentration or low average income". That was an obvious example of the "false dilemma fallacy".

A "senior officer" from Brazil defined the country in 1973 as "an *economic* dictatorship with the support of the military" (NYT 1973, 8). The economic technocracy had decided that "the priority" was economic growth. "Growth for its own sake, growth as a panacea for all ills", while "distributionism has become an enemy of the State", as described Fishlow (NYT 1974, 37). The reactions perpetrated by policy makers were unsatisfactory. Disqualifying the censuses data, the statistical tools used or even offending and questioning the character of the critics were fragile rhetorical devices. "The government realized that it was necessary to have an academic counterattack, (...); Delfim understood everything quickly" (Langoni 2019, 52).

Langoni's 1970 Chicago thesis, entitled "A Study of Economic Growth: The Brazilian Case", was heavily influenced by Theodore W. Schultz's theories about human capital. The most striking result he found was that the average return rate of investing in education in Brazil was 28%, almost two times the rate observed in fixed capital investment. Back in Brazil, Langoni lectured at two of the most influential schools of economics in the country, responsible for educating the elite of economic bureaucracy during the military regime: FGV-Rio and USP. In São Paulo, he attended regular meetings promoted by Delfim Netto with young professors from USP. According to him, "Delfim was still more an academic than a politician" (Langoni 2019, 48).

When Fishlow's paper appeared, he [Delfim] realized that it was serious and deserved a qualified discussion. It was not only a question of defending the government's policy. It was necessary to deepen the debate. Therefore, the USP staff asked me to prepare a commentary on Fishlow's study... At the meeting, I made this connection between these two themes [education and income distribution]. Delfim liked it very much and proposed: "Let's do something serious. Langoni, could you do a research on income distribution? We will support you..." The Ministry of Finance formally requested a study from [USP], and I was in charge of doing it. (Langoni 2019, 48-52)

Shortly after, in June 1972, the weekly magazine *VEJA* published the first results of Langoni's research. One of them, quite relevant for the government's narrative, was that "in none of the [income] brackets, an income decrease was observed - that is, everyone has increased their income, except the illiterate who remained where they were in 1960" (VEJA 1972, 68).

The magazine also featured a short text by Albert Fishlow. In the introduction to the article, the publication warned its readers that "VEJA considers little realistic many of Fishlow's theses" (VEJA 1970, 70). As the press was under censorship, it is difficult to know to what extent such a warning reflected the thinking of the magazine or censors of the dictatorship. In the face of poverty and starvation that existed in Brazil, Fishlow believed that for those people, "the aid should not be postponed into a remote future" (Fishlow in VEJA 1972, 71). In a subtle critique of Brazil's regime, he stated:

It is never too much to recall that the dichotomy between political and economic decisions of a technical nature is false. The objectives and instruments of any economic policy are invariably subject to value judgments. Such values have important implications in defining which groups benefit relatively more than others in the process. (Fishlow in VEJA 1972, 71)

VEJA also conducted an interview with Delfim Netto. The Finance Minister raised doubts both about the quality of the censuses data and the Gini index itself. "It is clear that the ideal of distribution... is that everyone receives the same wage. This is the ideal of the Gini coefficient, not mine. That should raise a suspicion about this coefficient" (Delfim Netto in VEJA 1972, 72). Using socialist countries as examples, he claimed that "it takes a severe dictatorship to distribute income quickly" (ibid, 74). Delfim also stated that it would only be possible to distribute income if "the Brazilian society decided to reduce the growth of its economy" (ibid). Asked by the journalist how he knew Brazilian citizens preferred economic growth to income distribution, Delfim presented an *anedoctal evidence*: "this is easy to know, anyone can discover it with their personal contacts... it is evident that Brazilian society as whole made an option for development" (ibid, 74)

A few month after that VEJA report, Langoni published a paper in USP's academic journal, which is a short earlier version of his 1973 book. The impressive pace with which Langoni finished his research was due not only to his capacities, but also to government's assistance. Langoni (1972, p. 5) acknowledged support from two analysts from SEPRO, Brazil's federal data processing service. The Brazilian government also granted Langoni access to privileged microdata, not available to other

researchers<sup>10</sup>. The general perception among oppositionists was that Langoni's work – a “study ordered by the Finance Ministry” as VEJA classified it – was an official academic response from government to its critics.

In November 1972, Langoni (1972b) published a newspaper article – entitled “After the boom, distribution will come” – summarizing his findings. In the short introduction to this text, an anonymous author stated that “following the phase of accelerate growth”, Brazil would reach “a phase in which the growth of per capita income would be associated with lower levels of income concentration”. In the preface to Langoni's book, Delfim Netto stated that the question of income distribution had become one of “the most controversial issues” in Brazil, exactly “at the moment when the success of our model of economic development implemented in 1964” showed its accuracy. Delfim recognized that “the publication” of the census “allowed us to verify an increase in income inequality between 1960 and 1970” (Delfim Netto, in Langoni 1973a, 13). In a criticism addressed to Fishlow (1972), Delfim Netto claimed that

Some people of little imagination, with more ideology than theory, tried to pin the blame for the economic policies implemented during the second half of the 1960s with the major responsibility for what has happened. Others... even suggest a tradeoff between a few percentage points of economic growth for proportional reductions in concentration indexes, a confidence trick (*conto do vigário*) that ends by leaving the country sharing poverty in a more equitable way [...]. Langoni proves that the observed increase in inequality is a direct consequence of the market disequilibrium typical of the process of economic development. (Delfim Netto, in Langoni 1973a, 13)

Langoni (1973a, 78) exempted wage policy from any influence, claiming that it is “important to recognize that the minimum wage has been declining in real terms since 1961, and that the policy of wage contention initiated in 1965 and 1966, was an appendix to the anti-inflationary policy”. Moreover, he claimed that “the short term negative consequences” of wage compression had been “compensated by the benefits of the restart of economic growth since 1966”. In addition, Langoni (1973a, 15) insisted that “there is a set of forces working in the direction of *increasing* the level of inequality in an economy in which the level of *per capita* income is still relatively low, but where growth rates are extremely high” – a Kuznets's curve-like reasoning.

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<sup>10</sup> See Morgan (2018, 142); Veja (1972, 68). In fact, Fishlow had had access to microdata as well, granted to him by J.P. Velloso. Langoni also used income tax returns as a source. In correspondence of 4 February 2019, Hoffmann pointed out that only powerful computers – such as those used by Langoni and Fishlow at SERPRO and Berkeley University respectively – were able to process microdata at the time.

Even though Kuznets's papers on the relation between per capita income level and inequality are from the 1950s, the first paper to use the term "Kuznets curve" according to *Jstor Database* is Pyatt (1977)<sup>11</sup>. In a newspaper article, from December 1973, Langoni cites Paukert (1973), whose survey for 56 countries had shown that the relation between per capita income and Gini index behaves as a parabola, with the maximum concentration being in the range from 300 to 500 dollars (1970 values). According to Langoni: "the experience from those countries is irrefutable evidence that the increase in inequality is an unavoidable consequence of the process of economic development". Since those countries had adopted different economic (and wage policies), those who blamed the post-1964 economic policy as the main cause of the increase in inequality were simply wrong (Langoni 1973b, 18).

The Brazilian government explicitly treated Langoni (1973a) as an official response<sup>12</sup>. As a consequence, some tried to detract Langoni's research, treating it as a piece of propaganda instead of scientific work. Fernando Henrique Cardoso – co-founder in 1969 of the Centro Brasileiro de Análise e Planejamento (CEBRAP) – for instance, without referring explicitly to Langoni, criticized the "reduced credibility" of those "*status quo* technocratic apologists", who tried to persuade "the public opinion", made use of "exoteric" mathematical language, and worked to justify current "government and the dominant order" (Cardoso 1975, 9-10) – more of the *ad hominem* strategy. Cardoso also suggested that the sophisticated econometric instrument used by Langoni was only a smokescreen, witchcraft to distract the masses from the debate and to please the government. However, Cardoso realized that there were some issues that demanded attention, such as what he called the "spurious" statistical relation between education and income distribution.

#### 4. The Critics

Most criticism of Langoni's (1973) ideas dealt with the following issues:

(i) Like Simonsen, Langoni was a mere apologist of the military regime, who used statistical tools to deceive people in order to make them believe that income concentration was a "natural" result, and that only economic growth could provide a proper – and also "natural" – income distribution scheme (Cardoso 1975, 9-10; Serra 1973, 134; Wells 1974, 24). It was like Langoni was exempting the military regime from any responsibility.

(ii) He simply ignored explanatory hypotheses other than human capital. For instance, he did not even consider the possibility that wage readjustment formula could have had any impact (Wells 1974,

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<sup>11</sup> Abramovitz (1986, 243) cites Bacha (1979) as a pioneer in the "Kuznets curve" empirical literature.

<sup>12</sup> Simonsen (1973, 43), for instance, also praised Langoni's book in a review.

30). Even Simonsen admitted that it was “likely” that the wage policy had caused such result, as Fishlow (1974, 165) pointed out. Moreover, his model suffered from some kind of omitted variable bias.

(iii) There was also criticism about causality. Langoni argued that education determined productivity, which, in turn, determined the remuneration of individuals. Critics called attention to the influence of family income on of an individual’s years of schooling. Fishlow (1972, 398) had already mentioned caveats regarding education as an explanatory factor. Stating that "it is good to remember not only how much of inequality is explained by education, but also how little [...] the... assumption that inequality is directly affected by the rate of return and number of years of schooling alone is a long leap of faith."

(iv) Langoni had privileged access to data. Deprived of this, other researchers were not able to replicate his results or even to develop a more robust critique of his analysis (Hoffmann 1973, 9; Malan & Wells 1973, 1104).

(v) The international evidence that income inequality would decline as income per capita increased was fragile; moreover, Langoni wrongly denied any links between personal and functional income distributions, as well as the role of assets ownership (Fishlow 1974).

In 1972, the weekly *Opinião*, which had an editorial line of opposition to the government, printed an anonymous article about interpretations of the economic "miracle" and income concentration. When analyzing preliminary Langoni’s results published by *VEJA*, the author stated:

[Langoni's] reasoning recalls Simonsen's explanation that there was concentration of income because of the 'exuberance of profits' of the richer classes. In both cases it would be fair to ask whether it was not exactly the opposite that happened ... Are the two economists not calling causes the consequences of the Brazilian economic model? [...] Worse than that, are Langoni and Simonsen not treating public opinion as being naive, ready to accept any sophism? [...] Is this contempt not accompanied by the intention of throwing sand in the eyes of those who have them open, so that the 'miracle' is not demystified? (*Opinião* 1972, 14)

The publication also reproduced an excerpt attributed to Langoni, which was a response to the criticism presented in point (iii). Langoni said: "Many people believe that there is a vicious circle between income level and educational opportunity; that is, the social situation of the individual would be the factor that determines his possibility of access to higher levels of education. There is no empirical evidence that this is true" (Langoni in *Opinião* 1972,14). Hoffmann (1973, 10) pointed out as a “remarkable characteristic” of Langoni’s work “the complete absence of any analysis of wage policy as one of the causes of the increase in concentration throughout the decade”. Consequently, in the absence of “political variables” in



Langoni's model, "a fair share of the government's actions is 'explained' by the variable education. (Something one can obtain by using a lot of econometrics!)"

In August 1973, a conference celebrating the 21 years of creation of Brazil's state-owned National Bank of Development (BNDE) brought to FGV-Rio some world-famous economists, like Raúl Prebisch, Gunnar Myrdal, Hollis Chenery, and Nicholas Georgescu-Roegen. Brazilian former and current policymakers – like Simonsen, Velloso, Campos, Gudin – also attended the meeting (see Chenery et al 1974). The conference provided further evidence of the discussion of Brazilian growth and income distribution issues in international forums.

In his lecture, Myrdal pointed out that "there are people who think it necessary to have a high national income so that a more equitable [income] distribution can be generated, but I disagree with that; the distribution can be made at any stage". The Swedish economist even talked about politics: "a political regime will be ... more healthy and stable, the greater ... the participation of the people and the society as a whole in the elaboration and attainment of the economic project" (Myrdal 1973b, 20). Myrdal's theses were the opposite of Brazil's regime ideologues. In a similar vein, Hollis Chenery claimed in his lecture that many of Brazil's problems had their origin in its unequal income distribution, and argued that it was possible to adopt income distribution policy without hurting economic growth.

In November 1973 the first Annual Conference of ANPEC (National Association of Centers for Graduate Economic Studies) took place – that is still the most important economic gathering in Brazil. The founding of ANPEC reflected the expansion of economic research by economic PhDs in the country, as well as the internationalization of Brazilian economics and the role of government agencies in training and employing economists during the military rule (see Loureiro 1996). The 1973 ANPEC conference devoted a session to "income distribution" issues. Some of the texts were later collected in Tolipan & Tinelli (1975), which gathered authors critical of Langoni's thesis, as well as translation of Fishlow (1972) – as Langoni said in conversation with the authors in 18 January 2019, he was not invited to participate in that collection, even though its title was "the *controversy* over income distribution." Belluzo (1975) and Tavares (1975) are good examples of the critical theoretical literature. They were both from Unicamp (Universidade de Campinas), which used heterodox economic approaches to discuss Brazilian growth and distribution patterns. Indeed, the contemporary "Cambridge Controversy" in the theory of capital, with its dispute between neoclassical marginal productivity theory and the neo-Ricardian surplus approach (see Harcourt 1972), provided part of the theoretical background for the Brazilian debate.

In its December 1973 issue, the journal *Pesquisa e Planejamento Econômico* (PPE), an important IPEA outlet, published a review of Langoni's (1973) book, written by Pedro Malan and John Wells. The tone used by the authors is very critical, as one can see in its first paragraph:

A year has passed since the limited and confidential circulation of Prof. Langoni's work, until its presentation to 'the general public' as a book... Throughout that year the book has become a 'classic'; that is, a work that (almost) everybody has heard of and (almost) nobody has read, because (almost) everybody is satisfied with the interpretations that suit their idiosyncrasies. (Malan & Wells 1973, 1103)

Malan & Wells (1983, 1104) emphasized the fact that "Langoni's access to individual data from the 1970 census allowed him – differently from other authors – to describe the personal income profile for 1970, without the necessity of any adjustment". In line with Hoffmann (1973), the authors are also stupefied that "Langoni simply ignores, in a deliberate way, the existence of alternative interpretations to his own on the causes of the increase of inequality, particularly those that emphasized the conduct of economic policy throughout the decade". Moreover, Langoni (1973, 78) would have a priori excluded that possibility, when affirming that "the short run negative consequences" of PAEG's anti-inflationary policies would have been "compensated by the benefits of the restart of economic growth from 1966 on".

In Langoni's model, the income difference among individuals is explained by five variables: education level, age (as proxy for experience), gender, job and place of residence. Those variables explain 51% of the variance in personal incomes in 1960, and 59% in 1970. Malan & Wells (1973, 1112-4) believed the model is "unsatisfactory", since its "variables leave a substantial fraction of the difference in incomes variance 'unexplained'". Thus, the "variables used not only have... a reduced explicative power, but it is likely that they are masking the real explicative variables". The authors also claim that they "do not share Langoni's optimism", about the "transitory and self-correcting character of the inequality increase"; because "the experience of any capitalist country clearly indicates that there is no intrinsic tendency of the system to *automatically* distribute wealth, income, or opportunities" (ibidem, 1118-9).

Malan & Wells (1973, 1120) believed that Langoni's model was more "a *justification* of what effectively happened", than "a scientific attempt to explain the *causes* of what happened". According to the authors, it was necessary to understand the increase in inequality "not by the alleged operation of impersonal market forces, but by the actions of important agents in the economic, social, and political processes developed in the 60s". (ibid, 1122)

In reaction to the review, PPE published a reply from Langoni. According to the account of one of the participants, Langoni would have demanded that his reply be published without a rejoinder. PPE's editor published a special issue to accommodate Langoni's text. In the face of such interference, some members of the editorial advisory board resigned from their positions, including Edmar Bacha, as he told us in correspondence of 6 December 2018. PPE unilaterally decided that the debate was over. Malan, in

correspondence with the authors, on the other hand, said he did not understand this episode as an example of censorship<sup>13</sup>. The debate would continue in other journals, with Malan (1974a) and Wells (1974).

In his reply, Langoni (1974, 168) stated the explanatory power of his model was “entirely satisfactory”, citing analogous researchers, such as Griliches & Manson (1972), whose model explained less than 30 % of personal income variance. This would invalidate “one of the main critiques” from Malan & Wells (1973). According to Langoni, this and other critiques of his econometric model would only show that those critics “simply did not comprehend the methodology used” (ibid, 171). In a further and public reply, Malan (1974b, 78) said it was “ridiculous to answer this assertive”, which was used to make him and Wells look “incompetent”. In relation to what Malan & Wells (1973) defined as “faith”, Langoni (1974, 77) claimed that “there is extensive international evidence in the works of Kuznets, T. P. Schultz, Lydall, Kravis e Chiswick, endorsing the model’s prediction, that, in the long run, there is a tendency to reduce inequality levels”.

Wells (1974, 24-5) retorted that Langoni (1973) was simply providing “an ideological justification for the existent level of inequality, instead of presenting a scientific explanation of what happened” – as if “income distribution was due to supernatural forces”, free from “social choice” considerations. Malan (1974a) observed that the debate was “restricted to a few authors and a meager audience”, and that there was a simplistic division between a “scientific” position on one side, and a “political” one, on the other. The “regime” saw Langoni as scientific, while its critics were political and blinded by ideologies. The “opposition”, on the other hand, saw Langoni as a supporter of the then current economic policy.

In 1975, Langoni published a new book, aiming to reach a broader audience, since it did not rely on econometric models like his 1973 work. Langoni (1976, 132) reproduces Paukert’s (1973) Kuznets curve (which Langoni called “Paukert curve”), and asserted: “there is a clear tendency of reduction of inequality with economic growth”. After the first oil shock in 1973, Brazil reduced the velocity of its economic growth, but during the 1970’s the average GDP growth rate was 8.7 %. Nonetheless, the 1980 census would show a further worsening in income distribution, with Gini index increasing from 0.561 in 1970 to 0.592, despite a significant reduction of poverty. The long run, unfortunately, was still a little further away.

Bacha’s (1974a) term *Belindia*, coined in a contribution to *Opinião*, became an influential description of the Brazilian economy and a powerful criticism of economic policy under the military rule. Brazil was perceived as the combination of a small rich *Belgium* surrounded by a large poor *India*. In Bacha’s fable, the “King of Belindia” is bewildered at a visiting economist’s revelation that the rate of growth would be low if the adopted weighting scheme was poor-based and democratic-based, instead of rich-based (see also Taylor and Bacha 1976 for an analytical take). Bacha’s (1974b) own explanation of

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<sup>13</sup> Malan also mentioned this episode in D’Araújo (2005, 63-4)

income concentration was based on the perceived wage squeeze together with the notion that income differentials reflected firms' organizational hierarchy and profit rates instead of skills, as indicated by sample data (see also Bacha 2018, 332-34). From a statistical or econometric perspective, the 1970s income distribution debate has been seen as inconclusive. The American economist Samuel Morley (1982) provided what may be regarded as the last (but debatable) installment of that controversy. A member of the original Berkeley 1965-67 mission to Brazil, his conclusions differed from Fishlow's. Morley argued that Brazilian trickled-down economic growth was accompanied by larger social mobility and narrowing of wage differentials, especially after the end of the "miracle" period. The main drawback of the growth strategy, Morley (1982, p. 292) claimed, was political, in the sense that democracy was sacrificed to the growth imperative.

Paul Samuelson, who was close to Robert McNamara, described the Brazilian military regime as a "fascist" dictatorship that imposed hardship on trade unions, public intellectuals and the free press, and unpleasantly enough was able to increase dramatically the rate of economic growth (Samuelson 1973, p. 871). That passage was removed from the Brazilian 1976 translation, after pressure from some Brazilian economists (E. Gudim and R. Campos) and the Brazilian publisher in correspondence with Samuelson (see Gaspari 2003, pp. 264-68). However, Samuelson (1980, p. 816) would again refer to Brazil (together with Chile) as an illustration of "capitalism fascism" featuring "superlative" growth accompanied by "unusual disparity" in income distribution.

## 5. Conclusion

It is tempting to imagine that either a country is a democracy in which there is absolute freedom of opinion, or it is a dictatorship where no disagreement is allowed. In fact, things are usually more complex. The Brazilian dictatorship maintained a veneer of democracy, with a functioning Congress (although emptied of powers) and an authorized opposition party. Nevertheless, like all dictatorships, it censored the press, tortured and killed opponents, persecuted disaffected people, and practiced legislative casuistry (Nicolau 2012, 105).

Censorship was a reality.<sup>14</sup> For instance, the well-known Brazilian economist Celso Furtado had a paper about the influence of race on income distribution, submitted to *Opinião* in 1972, censored (Furtado 2014, pp. 513-18). Newspapers and magazines that were critical of the government would often suffer serious consequences. *Correio da Manhã* supported the 1964 coup. Nonetheless, because of its criticism against the regime, its owner Niomar Bittencourt was arrested in 1969. Its newsroom suffered a terrorist

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<sup>14</sup> Although not as widespread as one might expect. Delfim Netto told us in a dialectical way that "There was no real censorship in the economic area, because the military hard line hated the ruling 'liberal' and 'pro-market' economic policy ... The more intense the criticism [of economic policy] the larger the loss of prestige of policy makers".

bombing. Persecution and the absence of money from government ads caused its bankruptcy in 1974. *Opinião*, founded in 1972, was also harassed by censorship, which made it financially infeasible, leading to its closure in 1977. *Jornal do Brasil*, *O Estado de S. Paulo*, *Veja*, and many other outlets, suffered from censorship. Moreover, they also implemented self-censorship policies, in order to keep operating without major problems. It is also important to remember that in Brazil in 1970 almost 33 per cent of the population above 15 years of age was completely illiterate. Thus, just a fraction of its population kept informed through newspapers and magazines. The political debate was also limited. In 1969, 79 federal deputies – including even members of the ruling party - were abruptly removed from their position. Senator Franco Montoro and Congressman Ulysses Guimarães stood out for criticizing and questioning the government about the causes of income concentration. In correspondence with the authors (6 December 2018), Bacha recalled how Senator Filinto Müller, leader of the government, surprisingly asked him to explain the causes of income concentration.

Although many social scientists and economists were arrested – including economists Jesus Soares Pereira in 1967 and Maria da Conceição Tavares in 1975, both ECLAC's employees; and Francisco de Oliveira and Paul Singer in 1974-75, both members of CEBRAP – had to flee the country (Celso Furtado and José Serra, both in 1964) or lost their jobs (Paul Singer and Fernando Henrique Cardoso, in the aftermath of AI-5) – there was some degree of freedom of expression in the economic debate. However, public displays of criticism were often repressed, as it happened when Conceição Tavares and Fishlow were prevented from traveling to Brasilia for the opening ceremony of the new graduate economic course at Universidade de Brasilia in 1973 (conversation with Fishlow, 12 December 2018). Nevertheless, economists were generally seen as "technicians," who were not directly addressing the legitimacy of the dictatorial regime, but dealing with econometric procedures, Gini index, Lorenz curves, etc., even if critically. Indeed, both Langoni (2019) and Hoffmann (2018) agree that, since the usual channels of political expression were closed or restricted, academic economic debates in general – and of income distribution in particular – in journals, books and conferences became an important instrument to articulate criticism of government policy. Surely, the international dimension of the Brazilian distribution controversy played a key role in the process. By 1974, when the second National Development Plan (II PND) came out, the view that distribution policies should be implemented together with (and not as an alternative to) economic growth gained assent, reflecting a shift associated with the intense debates of previous years.

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