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CONTENTS

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The Brazilian economy: options for the eighties*

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The discussion of the options open to the Brazilian economy for the 1980s will only be useful if it manages to break through the hidebound technocratic conservatism which reduces everything to a question of "competence" in managing short-term economic policy. Today as yesterday, the best remedies for this disease are a historical perspective, a critical evaluation of the changing international situation and, no less important, the deliberate return of economics to its original calling, namely, political economy.

This article adopts the above approach and, is organized as follows: the opening section is an introduction which merely attemps to sketch out the problem of the discontinuity in the performance of the Brazilian economy in 1974. The second section deals, in general terms, with events since 1974, and emphasizes the salient problems of political economy in that period. The third section analyses the more likely options and puts forward some general policies suggestions underlying the argument currently raging on this question in Brazil. Finally, the fourth section presents the main points raised in the article.

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I

From 1974 onwards, the disequilibrium in the current account of the balance of payments and the change in the rates of inflation have stood at the centre of the argument about Brazilian economic policy.[1] It may be worth repeating that these 'problems':

(a) are not new (on the contrary, they constantly recur in the Brazilian experience of growth with diversification of the structure of production);

(b) are not the only ones (in fact, in the economic and social field there are deeper problems than managing the balance of payments and controlling inflation); and

(c) reflect something more important than mere economic policy errors or institutional shortcomings of the decision-making process.

Indeed, it is precisely the additional elements which should be brought to bear in an analysis of the present situation and its prospects. The kind of 'analysis' which reduces everything to a problem of greater or less 'efficiency' in the management of economic policy has practically nothing to say about prospects or options, except that they depend on suitable policies, which, it must be admitted, is begging such questions as: 'suitable for what?' or better, perhaps, 'suitable for whom?' In the absence of an open political process which takes for granted the fact that there are different ways of answering these questions and allows them to be expressed in the search for political compromises, there arises the technocratic illusion of a single 'rational' solution, a 'technique' dissociated from the social fabric which it reflects and on which it acts. Of course, this is not to deny the importance of the management of economic policy, but merely to draw attention to the fact that, besides not being neutral from the standpoint of its distributive effects, it functions within the limits and possibilities offered by more basic determinants which are often hidden in short-term analyses, whose time-horizon is rarely more than the brief and misleading period of

[1]This section principally draws on P. Malan and J. A. da Luz, "O desequilibrio do Balanco de Pegamentos: Retrospecto e Perspectivas", in Dionísio Dias Carneiro (ed.), *Brasil: Dilemas de Política Económica*, Rio de Janeiro, Ed. Campus, 1977.

one year and which generally deal only with traditional indicators of economic activity: growth rates by sectors and of the different components of total demand, rates of inflation and the short-term balance-of-payments situation.

This article adopts a broader perspective on the structure of Brazilian economic growth in the near future, recognizing that it can and should be influenced by an economic policy deliberately tending to change gradually the structure of medium-term *supply*, so that Brazil can tackle what we see as the main challenge of the 1980s: the problem of the distribution of the benefits of technical progress and the burning questions of the satisfaction of the basic needs of that large sector, representing one-third of the Brazilian population, both rural and urban, barely surviving in conditions of the most wretched poverty.

Any discussion of the prospects or options of growth and structural diversification of the Brazilian economy between now and the beginning of the 1980s should try to single out the limitations and possibilities of meaningful economic policy options which not only envisage a longer time span but also do not deal exclusively with the traditional indicators. To this end, it is necessary to undertake a brief interpretation of the process which led to the present situation, emphasizing the following points: (a) some of the cyclical features of recent development; (b) the structure of supply in the Brazilian economy in its present stage of capital formation; and (c) the effects of its links with the world economy over the last decade.

The above analysis has been made in a number of recent documents and publications. For the present, we need only summarize the main points for our discussion, before proceeding to the analysis of the problem of long- options.

Between 1968 and 1973, Government economic policy was basically aimed at maximizing the growth rate of the product in the short run, with only two restrictions: that the rate of inflation should not rise and that, as a minimum, the balance-of-payments deficit on current account should be covered through a net inflow on the capital account. Expressed in the language of linear programming, the 'problem' had apparently been solved through the 'proper' management of economic policy, thus ensuring the political legitimacy of the Government and postponing to some future time the awkward questions relating to various repercussions in terms of redistribution and the social cost of the style of development adopted. In fact, it is now becoming increasingly clear that the exceptional results achieved by the Brazilian economy between 1968 and 1973, defined in terms of the traditional indicators: real growth rate of the product of nearly 10%, with no increase in inflation and a balance-of-payments surplus (since the inflow of external resources on the capital account covered the financing requirements for the chronic current account deficit and led to the growth of reserves and foreign indebtedness), were not due solely to a 'rational and pragmatic' economic policy designed to maximize the short-term growth rate by providing incentives for 'materialistic' private investors and urban consumers. Recent studies have shown that just as important as economic policy, or more so, was the *combination* of an upswing in the economic cycle (due to endogenous causes) *plus* an unusually favourable period in the development of the international economy, from the standpoint both of trade in goods and services and of flows of risk and loan capital.[2]

With regard to the problem of the endogenous cycle, recent studies on the growth of the potential and real product in Brazil (Lemgruber, Bacha, Contador, Bonelli-Malan), although differing in concepts and methods, have shed light on two points worth emphasizing: (a) the growth rate of the potential product in Brazil over the last three decades has reached an average of 7% annually in real terms, an extremely high historical rate from

[2]For a more extensive treatment of these points and a presentation of the salient data, see, for example, P. Malan and R. Bonelli, "The Brazilian Economy in the Mid-Seventies: Old and New Developments" and E. Bacha, "Issues and Evidence on Recent Brazilian Economic Growth", in *World Development*, Oxford, vol. 5, N.os 1/2, 1977, Pergamon Press. See also R. Bonelli and P. Malan, "Os Limites do Possível: Notas sobre Balanço de Pagamentos e Indústria na segunda metade dos anos 70", in *Pequisa e Planejamento Economico*, Rio de Janeiro, August 1976.

the standpoint of international patterns that reflects the vigorous process of capital formation in post-war Brazil; (b) at the beginning of the 1960s, the real product had grown close to the potential product —which amounts to a relative maximum use of capacity— and was furthest from it in 1967, the period of greatest relative idleness in the economy (and industry); (c) the "miraculously" high growth rates recorded in the period between 1968 and 1973, in the order of 10% per year, thus partly corresponded to a cyclical upswing in the economy initially based on existing productive capacity; (d) in 1972 and 1973 the real product was once again close to the level of the potential product, and this was partly visible in inflationary pressures and the balance-of-payments disequilibrium resulting from a policy of higher public and private spending on consumption and investment, well above domestic production capacity; (e) since then, the gap has been widening in such a way that the prospects for the near future depend essentially on the hypotheses formulated about how it will develop. Obviously, the existence of idle capacity is not *per se* a reason for believing that a suitable stimulation of total demand will suffice for supply to react. Given an unbalanced and heavily concentrated economic structure like Brazil's, which still depends to a great extent on imports of capital goods and basic inputs, conventional analysis at the aggregate level obscures as much as it reveals.

With respect to the international situation, the above-mentioned studies, *inter alia,* show to what extent the extraordinary performance of the Brazilian economy depended on the unusual growth of the world economy from the late 1960s until 1973. While it is true that between 1967 and 1973 Brazilian exports grew at an annual average rate of over 25%, it is likewise true that during that period *world* exports grew by almost 20% annually and that since the 1920s Brazil had not registered such high and sustained growth in its import capacity (150% between 1967 and 1973). As far as international capital flows are concerned, International reserves, which rose at an annual average rate of 2.7% between 1949 and 1969, increased at the extraordinary high annual average rate of 24% between 1969 and 1974, which explains the ease with which Brazil was able to apply a particularly vigorous policy of foreign borrowing during this period.[3]

Thus the considerable rise in oil prices which occurred in 1973 was not the only salient feature of the early 1970s. Other major events were the breakdown of the Bretton Woods arrangements, which govern the capitalist world from 1945 to 1971, and the synchronized boom and recession in the developed economies in 1972-1973 and 1974-1975, respectively. The outlook for the initial of the last quarter of the present century *is not* one of resumed, prolonged and sustained growth as experienced by the major capitalist economies since the late 1940s, particularly those devastated by the war. It is true that the United States is spearheading the expansion, with a real growth rate of about 5% in 1976; however, it should be recalled that since in the two year period 1974-1975 the real product of the United States dropped by about 5%, the growth of 1976 barely brought about a return to 1973 levels. Inflation, previously considered one of the characteristics of exotic and ill-managed Latin American economies, is now approaching double figures and has aroused controversy and unease in the advanced countries, showing that expansionary policies must be applied cautiously and highlighting the importance of "market imperfections" (oligopolistic structures and trade union power) which underlie inflation.

Against this background, it is odd that the reasons to which the worsening situation of the Brazilian economy since 1974 has been attributed have emphasized almost exclusively the oil problem.

True enough, Brazil only produces about 20% of its apparent consumption. It is likewise true that the rise in oil prices considerably aggravated this problem through its effects on the terms of trade and on disposable income. ***But what is more important is that the oil crisis***

[3]See J. Wells, "Eurodolares, Dívida Externa e o Milagre Brasileiro" in *Estudos Cebrap,* São Paulo, N.º 6, October-December 1973, and J. Wells and J. Sampaio, "Endividamento Externo..., uma nota para discussao", *ibid.*

demonstrated quite clearly the extremely high social costs implicit in a pattern of intensive use of resources not produced on a large scale within the country, thus raising serious long-term problems which go far beyond the issue of the management of the balance of payments. In our opinion, however, it is naive, to say the least, to believe that Brazil could have continued its 'economic miracle' until the 1980s, had it not been for the decision of the oil-exporting countries...

It would be out of place to pursue this question to any greater length. Let it suffice to point out that this kind of 'interpretation' completely hides the fact that the period stretching from the late 1960s to 1973 was extremely unusual from the standpoint of the international economy[4] (an aspect which *cannot be overlooked* in the analysis of the 'success' of the greater openness of the Brazilian economy during the period, in terms both of trade and of international capital flows) *and* bearing in mind various cyclical events of an endogenous nature which must be placed in a historical context, particularly when attempting to redefine basic priorities for economic policy. The following section attempts to explain why such a redefinition is necessary.

II

Between 1974 and 1977, the Brazilian economy recorded an accumulated deficit on current account of over 24 billion dollars (about 10 billion in the form of accumulated deficit on the trade balance and between 7 to 8 billion as payment of interest on the foreign debt). These 24 billion dollars had to be financed through the capital account (and the loss of reserves in 1974 and 1975), which raised the external debt from 12.6 billion dollars at 31 December 1973 to roughly 31 billion dollars at the end of 1977, thus posing serious problems for the future which are discussed in the relevant section of this article.

What must be pointed out here is that current account deficits of this magnitude (almost 6% of the gross domestic product, on average) for four years running reflect, simultaneously:

(a) a *level* of public and private expenditure on consumption and investment much above the domestic production capacity (at a given price level); and, what is more important,

(b) a *structure* of expenditure and, consequently, an income distribution which cannot be maintained with the present level of the product.

Conventional theory states that, in principle, the 'problem' indicated in point (a) can and should be solved by controlling the level of total demand through credit and fiscal policies.[5] However, total demand is made of a number of components (private consumption, public consumption, private investment, public investment, exports), so that controlling its level cannot be divorced from changes in its structure. Consequently, the fundamental question is that indicated in point (b). This highlights the shortcomings of the traditional mechanisms and the relationship between the apparently technical questions of the management of the balance of payments (and control of inflation) and the basically political questions of the distribution of income.[6]

In order to correct the disequilibrium, the *real* rate of growth of income of one social group must fall in relation to that of others.

[4]See, for example, N. Kaldor "Inflation and Recession in the World Economy", *Economic Journal,* December, 1976; R. Triffin, "International Monetary Collapse and Reconstruction", *Journal of International Economics,* September 1972; R. Mundell, "The new inflation and flexible exchange rates" in M. Monti (ed.), *The new inflation and monetary policy,* London, MacMillan, 1976; and OECD, *Economic Outlook,* Nos. 10-20 (December 1971-December 1976).

[5]See T. Swan, "Longer Run Problems of the Balance of Payments" in R. Caves and H. Johnson (eds.), *AEA Readings in International Economics,* Homewood, Ill., R.D. Irwin, 1968, p. 460.

[6]See R. Cooper "Currency Devaluation in Developing Countries", *Essays in International Finance,* N.º 86, Princeton, 1971, p. 26.

Meanwhile, if those who benefit from the disequilibrium insist on maintaining the same relative rate of growth of real income, if those who do not benefit refuse to accept a drop in relative real income as a mechanism of adjustment, and if all have sufficient influence to express this fact in nominal terms, the natural consequence is inflation, as that eminent professor Octavio Gouveia de Bulhoes pointed out almost 30 years ago when he stated that "monetary problems are, *par excellence*, problems of formation and distribution of income".[7]

If this fact, which far oversteps purely economic bounds, is not recognized explicitly, the balance-of-payments disequilibrium and changes in the rate of inflation will continue to be the two most salient 'technical problems' of the Brazilian economy in the late 1970s and early 1980s. Together with the more deep-seated concern for the growth rate of the gross domestic product, these three 'problems' will tend to relegate to a more secondary or long-term sphere other questions which are perhaps more fundamental, such as the structure of urban and rural employment, the reduction of poverty and the problems of redistribution.

There are apparently good reasons for this: given the growth rate and age structure of its population, Brazilian society needs relatively high growth rates to minimize its tensions and latent conflicts, thus maintaining the idea of an expanding, non-zero-sum game in which everyone, *without exception*, must profit through employment, wages, subsidies, credit, profits, quasi-rents and capital gains. It is a recognized fact that much of the political legitimacy of some governments depends basically on the overall performance of the economy. Until recently, the Brazilian governments were quite successful in their attempts to convince *their* pertinent public opinion that the growth in the concentration of income in the 1960s was the natural, but merely temporary, consequence of the operation of market forces during the process of accelerated growth. The slowing of growth at a time when the government is attempting to provide a limited opportunity for the institutional expression of some conflicts increases the area of uncertainty which cannot fail to have an effect on the analysis of future prospects.

The enormous difficulty which Brazilian society is having in accepting a prolonged slow-down as a means of restoring balance-of-payments equilibrium and reducing inflation shifts the discussion from the problems of controlling the *level* of expenditure (public and private, on consumption and investment), which should remain high, to the problems of changes in its *composition*. This raises the basic problem of the need to define *priorities*, since the period of euphoria has ended in which it was believed that all activities could be financed at once, forgetting that the question is not so much one of the obtention of financial resources but of *real* resources which have to be imported if they are unavailable locally.

The attempt to continue investing in ambitious infrastructure projects (energy, transport and communications), increase social investment (sanitation, education, health) and at the same time 'carry out import substitution in the capital goods and basic inputs sectors' raises serious problems of competition between the public and private sectors for the real and financial resources, problems which lie at the heart of the recent controversy over 'state ownership'. Althouth the main limitation on growth, now and in the near future, is an external one, there is also an internal limitation connected not only with the *level* of domestic saving but also with the process of tapping it (compulsorily and voluntarily), and of managing and allocating it in accordance with 'non-market' criteria. Due to their size, the large public and private enterprises also need domestic financing to cover their internal costs, which in the last analysis limits financing (and increases its cost) for the less modern sectors of the economy which are less oligopolistic than the modern ones, and more subject to liquidity squeezes. This is not to suggest that total domestic saving is insufficient to finance a specific level of investment. In fact, in our compartmentalized financial system, saving is "more than sufficient" for some ends and "less

[7]*A Margem de um Relatório*, Rio de Janeiro, Edicoes Financeiras, 1950, p. 34.

than sufficient" for others. It would appear that the solution to this dilemma would involve either increasing the already very large share of the public sector financial institutions in the tapping, management and allocation of financial resources, or else a major institutional change in the private financial system.

Consequently, the options outlined in government plans, declarations of intent and activities still face major problems which must be solved in a process which, in the final analysis, is far more political than technical. Ironic as it may seem, in its attempt to avoid the political responsibility accompanying an explicit definition of priorities, Brazil may perhaps not be advancing along the lines suggested by some, consisting in a revision of the basic lines of the "model" by placing greater emphasis on the domestic market, national entrepreneurs and mass consumption, but instead be progressing further along the two basic lines which have characterized the "model" since the war: higher public investment and increasing manipulation of incentives designed to raise the private profitability of the modern sectors, in which foreign capital occupies a predominant position thanks to its control over the key variable, technology. In the absence of significant political changes, and without any sign of them in the offing, the progressive 'internationalization' of the Brazilian economy with its corresponding forms of consumption and distribution, structure of the product and other less tangible features, is a fact with which an increasingly large number of Brazilians will have to learn to live —at least in the near future.

It should be pointed out that the kind of analysis we advocate *is not* a speculation about the possible magnitudes of the growth rates of the gross domestic product and its components over the next ten years. It is even possible that the Brazilian economy will continue growing at an *annual average* long-term rate close to the (high) historical rate, given the rate of gross capital formation by the government and the private sector (foreign and national), various growth prospects in the national economy *and* the fact that Brazilian society practically needs an economic policy aimed primarily at growth as a form of political legitimation of a 'national project'. The problem is rather to analyse some of the long-term consequences and social, political and human costs openly or tacitly involved in a specific type of growth, whose content has given rise —rightly— to arguments which apparently will not die down over the next few years. Quite the contrary. In this connexion, it is worth quoting a paragraph from a recent publication dealing with Argentina: "Furthermore, the use of force instead of compromise to impose policies is almost bound to polarize sectoral clashes and the struggle over income shares into extremist political ideologies. This outcome can only be avoided by broadening effective political and economic participation which, even if carried out by a benign one-party of military dictatorship, requires the strengthening of mediative institutions capable of resolving interest group conflicts. The search for mediative policy alternatives is therefore likely to continue at least on the part of those who do not see any possibility for the immanent appeareance of a philosopher king or for the introduction of a social system that completely sublimates human conflict."[8]

Of course, these ideas are not new. They are incorporated in the political practice of the socially and culturally more advanced societies, with which Brazil hopes to catch up in 'economic' terms. The remainder of this article consists of an analysis of this possibility and an outline of an alternative which necessarily touches on question connected with the profile of supply and the selective control of demand, *after* long-term *social* priorities have been defined from the political standpoint.

[8] R. D. Mallon and J. Sourrouille, *Economic Policy-making in a Conflict Society: The Argentine Case*, Harvard University Press, 1975, p. 163.

III

Our starting point is a simple fact: it is increasingly clear to the more keen-sighted observers that the exaggerated euphoria of the period 1968-1973, partially expressed in the second national development plan, must be abandoned and that the shortage must be clearly recognized of *real* resources with which simultaneously to attain high growth rates of the gross domestic product, stabilize the rate of inflation, achieve surpluses (which are now *necessary*) on the trade balance, reverse the concentration of income and wealth, reduce rural and urban poverty, reduce regional imbalances and mitigate the worsening of living conditions in the major urban centres.

It must be admitted that the conservative viewpoint has always been aware of the so-called "problem of scarcity", and has made skillful political use of this awareness, when expressing it, in the following ways:

(a) by establishing the first three 'objectives' (gross domestic product, inflation and balance of payments) as permanent priorities which must be made compatible from the 'technical' standpoint; and

(b) by viewing the other 'objectives' and 'social' problems which may eventually be solved in the long term through a slow, sure and steady process, for which the population is asked —or forced— to be patient.

Although hitherto apparently successful (in convincing the public at which it is aimed), this distinction is not legitimate, since it does not seem to be easily compatible with relatively open political systems, involves an indefinite time horizon (although suggesting that it will not be very long) and assumes a great capacity for co-opting social groups through the gradual spread of a *specific pattern of consumption.*

As recent studies have shown, this possibility of a gradual spread of 'modern' consumption patterns does in fact exist.[9] Finally, during the last decade real disposable income more than doubled, relative prices —and financing— developed in such a way as to favour consumption of so-called modern goods, and, last but not least, the demonstration effect seems to have played an important role in forming the 'tastes and preferences' of the relatively higher-income urban consumers. For optimists, this process could and should continue until there is a genuine mass consumption of durable goods whose paradigm, as is often mentioned, is the affluent society of the United States. It would be out of place to discuss here to what extent such expectations are optimistic and the length of the implicit time horizon and even the feasibility of the process. What must be pointed out is that the spectacular rise in oil prices, far more than creating a problem of balance-of-payments adjustment in the short and medium term, called into question the basis of a 'model' of capital formation largely aimed at reproducing consumption patterns of economies where per capita income is several times higher than in Brazil, which have a different social infrastructure and a different level of State property and —above all— which do not have the enournous social flaws which make pariahs of almost 30 million Brazilians.

At present in Brazil, there is broad and growing recognition of the fact that it has become more difficult to 'sell' politically the conservative model outlined above, without a closed authoritarian political system of indefinite duration. The awareness of the difficulties and historical importance of today's decisions has not yet been expressed in a coherent set of concrete proposals which could constitute a politically viable alternative for what is currently being done (which, it may be said in passing, contains a great deal that we consider correct in terms of the direction, ranking and more exact definition of priorities). This is to some extent comprehensible: as we suggested at the beginning of this article, there are no single technical solutions for such complex problems. Consequently, what follows is merely an attempt to contribute to a broader discussion, by putting forward some suggestions about the *general* policy lines to serve as a

[9]See J. Wells, *Growth and Fluctuations in the Brazilian Manufacturing Sector During the 1960s and Early 1970s*, particularly chapter 3 (doctoral thesis for Cambridge University, United Kingdom, 1977). See also P. Malan and J. Wells "Furtado e a análise do modelo brasileiro" in

basis for the (necessary) effort to change the structure of Brazilian *economic growth* in the medium and long term.

Any analysis of this question must necessarily deal with the following points:

(1) The competition for real and financial resources between the public and private sectors and, particularly, the question of the supply of public goods and services *vis-à-vis* the supply of private goods and services. In our opinion, the Government has placed itself too much on the *defensive* in this respect and has tended rather to allay the fears of the private sector as concerns the alleged nationalization of the economy than to define clearly its own priorities in this field;

(2) The role played by the large public and private enterprises, which in Brazil today is much the same as the discussion of the function of foreign and associated national capital in the Brazilian economy. With respect to the *large enterprises*, the famous trilateral approach of government rhetoric should be evaluated carefully and critically along the lines of an objective sectoral analysis.

When studying the apparently technical measures which must be taken to find a long-term solution to the present disequilibrium, it is of the utmost importance to bear in mind these two key problems. Those measures include: (a) control of the growth rate of total expenditure: (b) the changing of relative prices so as to stimulate substitution not only in consumption but also in production; (c) selective control of demand; and (d) selective control of supply. Each of these is analysed below.

(a) *Control of the growth rate of total spending*

The time is definitely past when it might be expected that the economy would continue growing in line with the growth of its potential product simply by controlling total demand. Given the heterogeneity of the various sub-markets of goods and labour, this approach tends to create a situation of excess demand (bottlenecks) in a number of sectors and markets and excess supply in other sectors and markets which, in conditions of downward price rigidity, leads to an acceleration of inflation long before full capacity is reached. In these circumstances, the reduction of the growth rate of the level of total spending may further worsen the situation by leading to a disastrous combination of 'stagflation'. In addition, the Government does not effectively control *total* spending but only some of its principal components: public consumtion and investment and, more indirectly, private consumption and investment. The decisions concerning the desired growth of each spending component and, above all, the composition of consumption and investment are much more political than technical, but from the technical standpoint they involve much greater selectivity than traditional policies (monetary, credit and fiscal) in controlling the growth rate of total spending. In the eyes of less alert observes, this is precisely what appears to be an undesirable degree of intervention by the public sector in the economy. In our opinion, this intervention is inevitable and should take the forms discussed in the following points.

(b) *Changes in relative prices*

At first sight, it might seem odd to include deliberate changes in relative prices (and thus in relative remuneration) as one of the broad lines of economic policy. In the last analysis, these changes should be determined purely by the 'market', as the economists would say, if there exists great mobility of factors. A general policy suggestion would be to seek ways of increasing that mobility. Meanwhile, it must be recognized that in Brazil the past experience of growth with structural diversification has always gone hand in hand with transfers of real resources based on the inequality of access to scarce resources (particularly credit and foreign exchange) which primarily benefits the public sector *and* the large enterprises (particularly foreign enterprises and national ones

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Pesquisa e Planejamento Economico, the Journal of the Institute for Economic and Social Planning (IPEA), Rio de Janeiro, December 1972.

connected with the commercial banks).[10]

As a result, in Brazil the modification of relative remuneration takes the form of selectivity in the allocation and in the forms of access to these scarce resources, which is exactly what the National Economic Development Bank, for example, has been doing in trying to stimulate import substitution in the capital goods and basic inputs sector. However, this selectivity could also be applied to the definition of conditions of access to scarce resources in order to provide *disincentives* for certain economic activities both in production and consumption. In fact, what is being discussed today is the need for selective control over demand *and* supply along the lines suggested below.

(c) *Selective control of demand*

One of the central problems currently facing the Brazilian economy is that of maintaining a relative control, in the short and medium term, over the real level of total spending and at the same time shifting *internal and external* demand towards goods produced in the country. This shift can be carried out, for example, by a *real* devaluation of the exchange rate or import restrictions,[11] but in any event it depends on the elasticity of substitution of consumption and on the elasticity of supply of the domestic sectors producing international goods (which are exportable and can compete with imports). At present, and in the immediate future, this latter category of goods *must* receive priority attention since in the next few years Brazil needs to generate a surplus on its *trade* balance. In other words, the *natural* solution (i.e., from the standpoint of the internal logic of the system) in this situation is gradually to step up the allocation of real resources to the international sector of the economy.

This gives rise to a conflict of tremendous importance in the long term. Almost all the so-called social sectors (education, health, sanitation, housing for low income families, nutrition, etc.) belong to the category of non-international goods and services, whose production and consumption, particularly in the case of public goods, must be stimulated. However, these activities compete for financial and real resources with the international activities. When 'market' considerations alone prevail, the latter enjoy a comparative advantage in this conflict, since technical progress is biased towards them and in addition the central government pays more attention to them. However, a long-term approach would suggest far greater concern for the productivity of non-international activities, including non-exportable food crops, public services and the social infrastructure.[12]

Thus the problem is not purely one of the structure of demand. As is well known, the latter depends on the level of distribution of income and wealth, the structure of relative prices, what have come to be called the 'tastes and preferences' of the 'sovereign' consumer and, last but not least, the availability of goods and services as expressed in a given structure of supply. For those who do not believe that consumers, voting with their money freely determine this structure, this is precisely where the basic problems lie, from the standpoint of a long-term attempt to accelerate the

[10]As a perspicacious observer points out "... if you do not have a capital market, a (long-term) loan market, and you want capital formation, you have to have some kind of internal mechanism that assures the large firms growing profits ... The absence of the capital market is a barrier to entry except by foreign firms. The large firms that do exist derive their profits to a large extent from favoured access to the underpriced and scarce resources, and their entrepreneurship is devoted mostly to increasing their share of the scarce resources". E. Despres, "Stabilization and Monetary Policy in Less Developed Countries", in J. Markham and G. Papanek (eds). *Industrial Organization and Economic Development*, Boston, Houghton Mifflin, 1970, p. 408.

[11]In the first case (devaluation) both external and internal demand are affected; in the second (import restrictions), only the domestic demand for imports is shifted towards goods produced within the country which can compete with imports or towards exclusively domestic goods and services if domestic supply is elastic in the short term and the goods are substitutes (although not perfect).

[12]In what has become a classic article, W. Baumol shows that in a two-sector economy, one of which faces limitations from the standpoint of technical progress, and where both are faced with equally rising costs, the sector where the growth of productivity is limited is doomed to deteriorate —unless the demand for its products is income elastic and/or price inelastic. The alert observer will notice the analogy with what is pointed out above.

process of bringing supply into line with the demand profile which would *result* from a firm commitment to redistribution.

(d) *The selective control of supply*

A recent study on the choice of technology in Brazil,[13] concludes a major piece of empirical research with the following observation: "...once the composition of output is determined, certain employment [and distribution] patterns are implied. To increase employment [and improve distribution] one must start one step back, in the choice of products. Here large improvements in labour absorption should be achievable by government inducements to produce labour-intensive products, rather than to produce any particular product in a labour-intensive manner... Looking back at Brazil's industrialization drive ... poor employment results during the period probably should not be blamed on the fact that many of the leading firms are foreign, but rather on what those foreign firms were producing".

However, thinking along these lines involves a great deal more than merely stimulating immediately the growth of capacity in the sectors which may become future bottlenecks, by applying a 'demand forecast' policy. The aim now is to change the composition of output in the Brazilian economy. In the agricultural sector, greater attention should be paid to the types of food which are more important for consumption by low-income families, and in industry, to the obtention of *products* which use labour-intensive technology, and in the tertiary sector, a (non-regressive) supply of basic public services and social infrastructure.

Since these changes in the composition of the product must go much further than what the private sector would 'naturally' carry out in obeying market signals as expressed in changes in relative prices, this suggestion implies continued broad government intervention in the economy, which is at present a source of concern to many people.

Some people believe that the Brazilian public sector simply does not have the co-ordinating capacity to undertake this difficult job, since it is a centralizing agent from the standpoint of the extraction of resources, but decentralizing and contradictory from the standpoint of its fragmentary execution of policies.

There is much truth in this argument, but the possibility of a greater centralization of power as an alternative solution, should not be denied —nor, for that matter, suggested. The broad need for intervention must be recognized, but without ceasing to insist on the need to multiply the controls exercised by civil society —and not merely the business world— over the State apparatus. It is on this that the possibility of having alternative options for the 1980s depends.

IV

This article has attempted to show that, as regards the structure of growth of the Brazilian economy, the options open for the 1980s have a more probable direction, or better, a line of least resistence which is rooted in the characteristics of development over the last two or three decades *and* in the present political process of identifying the most pressing economic and social problems. In practice, although not in rhetoric, this most probable direction, as identified in the article, tends permanently to postpone for some far-off future a number of basic questions which, in our opinion, represent the great challenge which Brazilian society will have to tackle in the 1980s: the redistribution of wealth and income, the reduction of urban and rural poverty and the satisfaction of the basic needs of that large sector —almost one-third— of the Brazilian population currently surviving with life styles which are not compatible with human dignity.

[13] S. A. Morley and G. W. Smith, "The Choice of Technology: Multinational Firms in Brazil", *Economic Development and Cultural Change*, Vol. 25, N.º 2, January 1977, p. 262.

We emphasize that the possibilities of answering this challenge depend not so much on the creative social imagination of the technobureaucracy (if it has one) as on a more open political process in which it is possible to articulate, mobilize and express conflicting interests, particularly those of the population which is currently excluded. In the absence of such a process, it would be difficult to suppose that supply can be restructured (in the sense described in this article), as would be necessary in order to tackle this challenge properly, and not postpone it as in the past. It is extremely important to note, however, that the need to think of options like those sketched out here for discussion purposes cannot be justified in purely 'economic' terms. The point in question *is not* the capacity of growth of the gross domestic product of the Brazilian economy, but its *composition* and above all its compatibility with an open political system, something which would appear to be difficult to reconcile with the structure of growth in recent years.