Ibero-Americana, Nordic Journal of Latin American Studies
Vol. X: 1-2, 1981, pp. 5-17

THE BRAZILIAN ECONOMY: ITS DIRECTION IN THE 80's

*PEDRO SAMPAIO MALAN**

This paper seeks to contribute to the discussion of the direction of the Brazilian economy in the 1980's. I am convinced that this discussion will be fruitful only if it succeeds in overcoming the conservative, technocratic attitude that reduces everything to the question of "competence" in the conduct of short-term economic policy. The best antidotes to such an attitude are, as always, historical perspective, a critical understanding of the changing international situation, and, not least, the return of economic "science" to its original calling - political economy. Keeping this in mind, the paper is organized in the following manner: Part I is introductory, seeking merely to touch upon the question of the discontinuities of the Brazilian economy until 1974. Part II treats post-1974 events in general terms, highlighting the political-economic problems of the period. Part III discusses the most probable directions of the economy and offers some general policy suggestions generally overlooked during the present debate in Brazil. Part IV presents final thoughts, drawing upon the essential arguments of the paper.

I

The balance of payments and inflation are the two themes which have dominated economic policy debate in Brazil since 1974[1]. It cannot be overemphasized that these two "problems": a) are not new (in fact, they are recurrent within the Brazilian experience of growth with product structure diversification), b) are not singular (on the contrary, the administration of the balance of payments and control

* Research Institute of IPEA and Department of Economics, The Catholic University of Rio de Janeiro. The opinions expressed herein are those of the author.

[1] This section draws heavily upon P. Malan and J.A. de Luz, "O Desequilibrio do Balanço de Pagamentos: Restropectivo e Perspectivas", in Dionisio Dias Carneiro (ed.) *Brasil: Dilemas de Politica Economica* (Rio de Janeiro, Editora Campus, 1977).

doi:https://doi.org/10.16993/ibero.298

of inflation are by no means the most substantive social-economic problems), c) reflect something more important than policy oversigths or institutional inadequacies in the decision-making process.

It is precisely this "something more important" that we wish to isolate in order to analyze the present situation. The kind of "analysis" which reduces everything to a question of more or less "efficiency" in carrying out economic policy has practically nothing to say about prospects and alternatives, unless it is to point out that these depend upon adequate policies. But this begs the question, for we must ask, "adequate for what?". Or, perhaps more to the point, "adequate for whom?". The technocratic illusion of a single, "rational" solution, applying techniques unrelated to the social fabric which it reflects and upon which it acts, flourishes in the absence of an open political process which accepts divergent answers to the above questions and which permits an open search for solutions through political compromise. This is not to deny the importance of the conduct of economic policy; rather, we wish to emphasize the fact that policy-making is not neutral in its distributive implications and that its limits and possibilities are determinated by non-economic forces. Such forces are rarely mentioned in analyses of current economic trends. These rarely look farther than one year ahead and generally deal only with standard economic indicators: sectoral growth rates, agregate demand components, inflation rates, and the short-term balance of payments situation.

Here, we intend to take a broader view of the short-term growth structure of the Brazilian economy. We recognize that it can -an should be- influenced by an economic policy which seeks to alter the medium-term supply structure. It is through such a policy that Brazil can confront its most important challenge of the 1980's: distributing the fruits of technological progress, and meeting the basic needs of the one-third of the Brazilian population which remains on the edge of survival.

Any discussion concerning the prospects and/or alternatives for growth and structural diversification of the Brazilian economy from the present to the early 1980's must seek to outline the limits and possibilities of real economic policy options. These options should look beyond the short-term and should not be limited to the conventional economic indicators. This requires a brief analysis of the process which brought the economy to its present state, emphasizing: a) the cyclical nature of recent development, b) the supply structure of the Brazilian economy in its present stage of capital accumulation and c) the implications of interaction with the world economy during the last decade. Such an analysis is being carried out, and has appeared in recent publications. Here we shall merely summarize its most essential aspects, and apply them to our present purpose before going on to the questions of long-term policy alternatives.

Between 1968 and 1973,Brazilian economic policy was aimed primarily at maximizing the short-term GNP growth rate. This policy was subject to only two limitations: the desires to stabilize the inflation rate and to cover the current balance of payments deficit through net inflow of capital. In the jargon of programming, the "problem" would apparently be solved through an "adequate" economic policy which would assure the political legitimacy of the government and leave to the future the touchy questions of the redistributive implications and the social cost of this development policy. In fact, it is increasingly evident that the impressive performance of the Brazilian economy between 1968 - 73 (as defined by conventional indicators) requires some qualification. The real annual growth rate of nearly 10%, the stabilized inflation rate, the balance of payments surplus, were not due merely to a "rational and pragmatic" economic policy which sougth to maximize short-term growth and to stimulate the "animal spirits" of private investors and urban consumers. Recent studies show that perhaps more important than the policy itself was the coincidence of an upward swing in the growth cycle (an endogenous factor) with an extremely favorable period for the international economy -not only in terms of the production of goods and services, but also regarding the availability of risk capital and loans[2].

As for the domestic economic cycle, in spite of differing concepts and methods, recent studies of real and potential output (Lemgruber, Bacha, Contador, Bonelli-Malan) have noted several phenomena that require emphasis: a) The potential and real output growth rate in Brazil during the last three decades has been on the order of 7% per annum in real terms.This is extremely high by international standards and reflects the intense capital-accumulation process in post-war Brazil; b) Real and potential output were almost equal at the beginning of the 60's -which reflects a maximum relative capacity utilization- and were further apart in 1967, marking a period of greater relative idle capacity in the economy; c) The "miraculous" 10% annual GNP growth rates of 1968-73 correspond, in part,to a phase of cyclic economic recovery,aided by an in-place productive capacity; d) In 1972-73, real output again approached its maximum potential. This was manifested in part by inflationary pressures and a trade imbalance resulting from increased public and private spending and from consumption and investment far beyond domestic productive capacity; e) The gap has increased since 1972-73; therefore, short-term economic projections depend heavily upon the predictions one makes regarding its development. Clearly, the existence of idle capacity per se provides no assurance that an adequate stimulus to aggregate demand will produce a response on the supply side. An unbalanced and concentrated economic structure such as that of Brazil, still depends heavily on imported capital and basic inputs. Thus, conventional aggregate analysis hides as much as it reveals.

As for the international situation, the studies cited above,as well as others, clarify the degree to which Brazil's exceptional economic performance depended upon the unusual developments in the interna-

---

2 For an elaboration of these points and presentation of relevant data, see, for exemple, 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", both in *World Development*, vol. 5, nos. 1-2, 1977. See also R. Bonelli and P. Malan, "Os Limites do Possivel: Notas sobre Balanço de Pagamentos e Industria na Segunda Metade dos Anos 70", *Pesquisa e Planejamento Economico*, August 1976.

tional economy from the end of the 60's until 1973. While it is true that Brazilian exports grew at an annual rate above 25% between 1967 and 1973, total world exports increased by almost 20% per year during the same period. Brazil had not experienced such high and sustained growth in its import capacity (150% between 1967 and '73) since the 1920's. Total international reserves, which had grown at an average yearly rate of 2.7% from 1949 to 1969, showed a surprising 24% annual growth rate between 1969 an 1974. This phenomenon explains the facility that Brazil experienced in carrying out its foreign indebtedness policy during this time.[3] The beginning of the 1970's, however, was marked by more than the substantial increase in petroleum prices in 1973. It also saw the collapse of the Bretton Woods Agreement, and the 1972-73 "boom" and 1974-75 recession of the world economy.

Prospects for the first years of the final decade of this century are not for a repetition of the prolonged and sustained growth rates exhibited by the major capitalist economies since the end of the 1940's. It is true that the United States have been in the forefront of expansion, growing at a real rate of 5% in 1976. It should be remembered, however, that since its 1974-74 growth was down by 5%, the 1976 growth rate did little more than return the situation to what it was in 1973. Inflation, once considered a characteristic of the exotic and badly-administered Latin American economies, is currently approaching double-digit levels in the U.S. This causes controversy and perplexity in the advanced countries, counsels caution in expansionist policies, and demonstrates the importance of the "market imperfections" (oligopolistic and labor union influences) that are the causal factors of the inflation.

Given these facts, it is curious that explanations for the deteriorations of the state of the Brazilian economy have almost exclusively emphasized the petroleum problem. It is true that Brazil produces only 20% of its oil consumption. It is also true that the rise in prices seriously aggravated deterioration through its impact on terms of trade and disposable income. More important, however, the oil crisis clearly demonstrated the extremely high social cost resulting from a pattern of production and consumption based upon a product that must be imported. The crisis provoked serious long-term questions that go far beyond that of the administration of the balance of payments. In any case, it appears naive to think that, had it not been for the OPEC decisions, Brazil could have maintained its "economic miracle" into the 80's. We will no elaborate the point here, but merely note that such an "interpretation" completely obscures the fact that the late 60's-1973 period was very peculiar for the international economy[4]. This peculiarity cannot be overlooked in an

---

[3] See J. Wells, "Eurodolares, Divida Externa e o Milagro Brasileiro" in *Estudos Cebrap No. 6*, Oct-Dec 1973, and J. Wells and J. Sampaio, "Endividamento Externo...", *ibid.*

[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, and R. Mundell, "The New Inflation and Flexible Exchange Rates" in M. Monti, (ed.), *The New Inflation and Monetary Policy* (London: The Mac Millan Press, 1976) and *OECD Economic Outlook*, nos. 10 (December 1971) and 20 (December 1976).

analysis of the "success" of the Brazilian economy during the period. Such a view also fails to consider international economic cycles, an historical factor that must be considered, especially when one seeks to redefine basic economic policy priorities. The following section attempts to explain why this redefinition is necessary.

II

Between 1971 and 1977, the Brazilian economy experienced an accumulated current accounts deficit of more than 24 billion dollars. Of this total, approximately 10 billion was for the trade balance deficit and 7-8 billion for interest payments 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), bringing the external debt from 12.6 billion in December 1973 to something near 31 billion at the end of 1977. This created serious problems for the future; they will be discussed later in this paper.

Here it should be pointed out that current accounts deficits of this size (an average of almost 6% of GNP) over four consecutive years, indicate:

a) a level of public and private spending for comsumption and investment far above domestic productive capacity (at a given price level) and, more important,

b) a composition of expenditures and hence, distribution of income, that is unsustainable at the present level of production.

Conventional theory suggests that the problem of a) can and should be solved by credit and fiscal policies which would control aggregate demand.[5] Aggregate demand contains, however, various components -private and public consumption, private and public investments, exports. Control of its level, therefore, cannot be separated from changes in its composition. The fundamental question, however,is that stated in item b) above. It is here that the deficiencies of conventional policy instruments become evident. And it is here that the relationships between apparently technical questions (balance of payments and inflation) and the essentially political question of income distribution become clear.[6]

The correction of imbalance requires that the real income growth rate of some group within society decline relative to other groups. If those who benefit from the imbalance insist that their incomes accompany the aggregate growth rate, and if those who do not benefit refuse to accept a decline in their relative income, and if all have enough influence to express their wishes, the natural result is inflation. This fact was recognized three decades ago by Professor

---

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

[6] See R. Cooper, "Currency Devaluation in Developing Countries", in *Essays in International Finance* no. 86, Princeton, 1971, p. 26.

Octavio Gouveia de Bulhoes: "Monetary problems are, in essence, problems of income formation and distribution."[7]

In the absence of an explicit recognition of the above fact, the disequilibrium in the balance of payments and variations in the rate of inflation will continue to be the two most visible "technical problems" for the Brazilian economy at the end of the 70's and beginning of the 80's. When added to the more permanent concern with the GNP growth rate, these three problems tend to displace more fundamental questions, such as the urban and rural employment structure, the reduction of misery, and other redistributive issues, for the latter are seen as relatively secondary or of concern only in the long-term.

Apparently, there are reasons for this attitude: Brazilian society, given its demographic growth and the age-structure of its population, requires relatively high economic growth rates in order to minimize its tensions and latent conflicts. It seeks to maintain the notion of a non-zero-sum game wherein everyone without exception must profit through jobs, salaries, subsidies, credits, profits, and capital gains. It is well-known that much of the political legitimacy of certain governments depends basically on the aggregate performance of the economy. Until recently, Brazilian governments have been fairly succesful in their efforts to convince their relevant publics that the observed increase in income concentration during the 60's was a natural (and temporary) result of market forces during the process of rapid economic growth. The present decline in growth at a time when the government is allowing a slight possibility for institutionalized expression of conflicts increases uncertainty and has important implications for the analysis which follows.

The Brazilian society's great difficulty in accepting a prolonged economic slow-down in order to stabilize the balance of payments and to reduce inflation shifts the debate from problems of controlling expenditure levels -which must remain high- toward problems of changing the composition of expenditures. It is here that we confront the fundamental problem: the definition of priorities. Gone is the euphoric time when it was thought possible to finance all things simutaneously, while forgetting that the problem lies not so much in obtaining financing, but real resources that are either produced domestically or imported.

The attempt to continue investing in ambitious infra-structure projects (energy, transport and comunications), to increase social investments (sanitation, education and health), and to simultaneously "substitute imports of capital goods and basic inputs" creates serious problems of competition for financial resources between the public and private sectors. This competition is at the root of the recent debate over the growth of State enterprises.Although the principal growth restraint -now and in the near future- is external, there is an internal restraint associated not so much with the level

---

7 *A Margem de um Relatorio*.(Rio de Janeiro, Ediçoes Financeiras, 1950), p. 34.

of domestic saving, but rather with its accumulation (compulsory and voluntary), management, and allocation following "non-market" criteria. The scale of financing required by huge public and private enterprises restricts (or raises the costs for) the financing of the less modern, less oligopolistic, more "liquidity-crisis prone" sectors. This is not to suggest that aggregate domestic saving is insufficient to finance a given level of investment. The fact is that, within our "compartmentalized" financial system savings are "more than enough" for some purposes and "less sufficient" for others. The resolution of this dilemma would apparently require either an increase in the already high level of State financing, or marked institutional changes in the private financial system.

The options embodied in government plans, declarations, and actions face serious difficulties which will have to be resolved through a process more political than technical. Although some observers have made "dark" predictions that the post-coup economic "model" may shift toward a greater emphasis on the internal market, domestically-owned business and mass-comsuption, this seems unlikely. In attempting to avoid the political onus involved in an explicit definition of priorities, Brazil may be heading, ironically, not toward basic changes in its model, but rather toward a strengthening of that model's two basic features: increasing State investment and growing manipulation of incentives aimed at raising private profit in the advanced sectors of the economy. Because it controls the crucial "technology" variable, foreign capital predominates in these "advanced" sectors. In the absence of political changes that appear unlikely, the prospect is for the increasing "internationalization" of the Brazilian economy. Such a prospect, with everything it implies in terms of consumption patterns, product composition, and other less tangible characteristics, appears to be one which a growing number of Brazilians will have to live with -at least in the near future.

It should be made clear that we do not intend to speculate here on the probable magnitude of GNP growth over the next decade. It is entirely possible that the Brazilian economy will continue to grow at an average annual rate close to its (high) historical level. This is possible, given the rhythm of government and private-sector capital formation, given certain assumptions about the international economy, and given the near-necessity in Brazil to have an economic policy directed basically toward growth to give political legitimation to the "national effort". We intend, however, to discuss some of the long-term implications and some of the social, political, and human costs involved in a particular kind of growth. This growth has generated a great deal of legitimate controversy. And the debate will, if anything, increase in the coming years. To cite a recent study on Argentina:

> "...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... 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 appearance of a philosopher king, or for the introduction of a social system that completely sublimates human conflict".[8]

Obviously, these ideas are not new. In fact, they are entrenched in the political practice of the more socially and culturally advanced societies -the very countries that Brazil hopes to equal in economic terms.

The remaining part of these notes is devoted to a discussion of this possibility, and to the sketching out of an alternative. The latter touches upon questions regarding the supply profile and the selective control of demand after the long-term social priorities have been politically defined.

III

We start from a simple fact: it has become more and more evident to unbiased observers that the excessive euphoria of the 68/73 period -expressed in part by the Second National Development Program- has to be abandoned. We must explicitly recognize that the scarcity of real resources does not allow us to simultaneously: attain high GNP growth rates, stabilize inflation, obtain (now necessary) surpluses in the trade balance, distribute income and wealth more equally, reduce rural and urban poverty, reduce regional inequalities, and improve the deteriorating living conditions in our major cities.

The conservative viewpoint, to give it its due, has always recognized the so-called "scarcity problem", and has used it ably. Politically, it has expressed this attitude through: a) choosing three basic "objectives" (GNP,inflation, and the balance of payments) as permanent priority goals to be made "technically" compatible, and b) treating all other objectives as "social problems" to be solved in the long-term through a slow, sure, and gradual process. For this they ask for -or impose- patience.

Although it has thus-far succeeded in convincing the public to which it is directed, the above distinction is not legitimate. It is not easily reconciled with a relatively open political system. It posits an indefinite time-frame (although implying that it will not take too long) and assumes a high capacity for social co-optation through the progressive expansion of certain comsumption patterns.

Recent studies have shown that the possibility of a growing

---

[8] R.D. Mallon and J. Sourrouille, *Economic Policymaking in a Conflict Society: The Argentine Case*. (Cambridge, Massachusetts, Harvard University Press, 1975), p. 163.

diffusion of "modern" consumption patterns does exist[9]. After all, real disposable income has more than doubled in the last decade, relative prices and financing moved in the direction of stimulating the consumption of so-called "modern" goods, and last but not least, the demonstration effects seems to have played an important role in shaping the "tastes and preferences" of urban,middle-class consumers. The optimists believe that this process can and should continue. They look forward to an eventual mass-comsumption society on the lines of the "opulent" American modell. We will not discuss here the extreme optimism of this expectation, the extended time-frame implicit in it, or even its feasability. The important thing to note is that the dramatic rise in oil prices did more than merely create a short to mid-term balance of payments problem;it called into question the very bases of a capital accumulation model designed to reproduce consumption levels of economies much different from that of Brazil. They are countries with per capita incomes several times higher than ours; they have different social structures, other budgetary restraints, and most important, they lack the social maladies that make pariahs of 30 million Brazilians.

There now exists a relatively broad and growing recognition of this fact: in the absence of a long-term prospect for a closed, authoritarian political system, it has become more difficult to "sell the conservative model". The recognition of the difficulties and the historic importance of current decisions has not, however, produced a coherent, well defined and politically viable alternative program. Although efforts have been made in this direction, the government has not clearly defined the problems, not has it established priorities. This is understandable. As we suggested in the introduction,there are no technical recipes for the solution of such complex problems. What follows seeks only to contribute to a more wide-ranging debate. We will present some suggestions in regard to the general lines of policy that should be kept in mind in the effort to make medium and long-term changes in the growth structure of the Brazilian economy.

Any discussion of this topic must necessarily confront the questions of:

1) The competition between the public and private sectors for financing -particularly the issue of the supply of goods and services between them. It seems to us that the governmental position on this question has been excessively defensive. It has sought to placate private sector concerns regarding governmental control of the economy and has not clearly defined priorities in this area.

2) The role of large State and private companies. In Brazil, this problem is often confused with that of the role of foreign capital and joint-ventures. As for the future creation of large firms, government rhetoric has proposed a one-third share for foreign capital,

---

[9] See J. Wells, *Growth and Fluctuations in the Brazilian Manufacturing Sector During the 1960's and Early 1970's*. Thesis submitted to Cambridge University 1977, especially chapter 3. See also P. Malan and J. Wells, "Furtado e a Analise do Modelo Brasileiro", *Pesquisa e Planejamento Economico*, December 1972.

State enterprise, and private domestic capital. This should be submitted to an objective, sectoral analysis.

One must keep these two key questions in mind during the current discussion of the "technical" long-term measures to be taken in solving present economic imbalance. These measures include: a) the control of the growth rate of aggregate expenditures,b) the manipulation of relative prices in order to stimulate changes in both consumption and production patterns, c) the selective control of demand, and d) the selective control of supply. We shall examine each of these items in turn.

a) Control of the growth rate of aggregate spending

The expectation no longer exists that merely by controlling aggregate demand, one can maintain economic growth rates in line with growth potential. Given the heterogeneity of the various sub-markets for goods and labor, such an attempt creates excess demand in some sectors and markets, along with excess suply in others. Where prices are downwardly inelastic, inflation is accelerated well before full production capacity is attained. Under these conditions, reducing the growth rate of aggregate spending may worsen the situation, and produce the disastrous combination of inflation and low growth rates. Futhermore, the government <u>does not</u> effectively control <u>aggregate</u> spending. It can only control some of the principal components: public-sector consumption and investment and, less directly, private consumption and investment. Decisions regarding the desired expenditure growth of each component, and importantly, regarding the composition of consumption and investment, are much more <u>political</u> than technical. But even from a technical standpoint, the decisions involve much more selectivity than that required by conventional monetary, credit and fiscal policies used to control the aggregate growth rate of expenditures. This fact has escaped some observers, who complain of undue State intervention in the economy. In our view, such intervention is inevitable, and should assume the forms discussed below.

b) Manipulation of relative prices

At first glance, it may seem strange to consider the deliberate manipulation of relative prices (and therefore, relative income shares) as one of the general lines of economic policy. After all, prices will be determined by the "market" if, the economists tells us, there is sufficient factor mobility. A <u>general</u> policy suggestion would be to seek ways to increase such mobility. Nevertheless, it is important to recognize that in Brazil, growth with structural diversification has historically been associated with real resource transfers. These transfers have been based upon the unequal access to scarce resources, particularly credit and foreign exchange. This has benefited the public sector and large foreign and national firms, particularly those associated with commercial banks[10].

In Brazil, the manipulation of relative shares takes the form of selectivity in their concession and in the access to scarce resources. This is what the National Economic Development Bank has been doing in its attempt to stimulate import substitution in capital goods and basic inputs. But it is possible to view the control of access to scarce resources as a means of discouraging certain activities, in both production and consumption. After all, what is in question is the need to selectively control both demand and supply. The next two sections treat this problem.

c) Selective control of demand

One of the principal problems confronting the Brazilian economy is the maintenance of control of aggregate spending over the short and medium-terms, and, simultaneously, the attempt to shift internal and external demand toward domestically produced goods. This demand shift can be accomplished by a real devaluation of the exchange rate or through import restrictions[11]. In any case, it depends upon the consumption substitution elasticities and supply elasticities within the domestic sectors which produce exports and compete with imports. At present and in the near future, this later category must receive high priority, given the fact that Brazil has to achieve trade balance surpluses in the coming years. In other words, the "natural" solution (in terms of the internal logic of the system) is the progressive allocation of resources from the margin into the "international" sector of the economy.

It is at this point that one notes a fundamental conflict that is of utmost importance for the long-term. Practically all of the so-called social sectors (education, health, sanitation, low-income housing, nutrition,etc.) fall into the category of non-international goods and services. Although it is necessary to stimulate production of these goods, they inevitably compete with the international sector for real and financial resources. If "market factors" are allowed to prevail, the international sectors has a competitive advantage in this competition.It is the area that receives the most attention from the government, for it is associated with technological progress. A

---

10 In the words of an astute observer, "...if you do not have a capital market, a (long-term) loan market, and you want capital accumulation, 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 large extent from favored 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. Papenek (eds.), *Industrial Organization and Economic Development* (New York, Houghton Mifflin, 1970), p. 408.

11 In the first case (devaluation), both internal and external demand are affected; in the second (import restrictions) only internal demand is shifted, from imports to domestic goods competitive with imports, or to purely domestic goods and services if domestic supply is elastic in the short-run and if the goods are substitutable- if only imperfectly.

long-term view, however, would suggest a greater preoccupation with productivity in the non-international activities, with public services, non-exportable foodstuffs and with social infrastructure[12].

The question is not merely one of demand structure. We know that this is a function of income levels, income distribution, the relative price structure,the preferences of the "sovereign" consumer, and last but not least, the availability of goods and services as expressed in a given price structure. Those who do not believe that consumers freely determine this structure say that the fundamental problems lie in seeking to carry out a long-term redistributive commitment. The supply and demand profiles should be matched keeping this goal in mind.

d) Selective control of supply

A recent study of technology choices in Brazil concluded with the following observation:

> "...once the composition of output is determined, certain employment (and distribution) patterns are implied. To increase employment (and income distribution)one must start one step back, in the choice of products. Here large improvements in labor absorption shoud be achievable by government inducements to produce labor-intensive products, rather than to produce any particular product in a labor-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 were foreign, but rather on what those foreign firms were producing".[13]

Thus, to think in these terms involves much more than merely stimulating production in sectors that are probable future bottlenecks; it involves inducing "product-mix" changes in the Brazilian economy. For the agricultural sector, this means giving more attention to food production for low-income families; for industry, manufacturing <u>products</u> that permit labor-intensive techniques; and in the service sector,it means the provision of basic public services and social infrastructure.

Since the above changes in the product-mix go far beyond that which would be accomplished "naturally" by the private sector (using market

---

[12] In a now-classic article, W. Baumol showed that in a two-sector economy wherein one sector faces limitations in its technical progress and both confront equally rising costs, the sector that has its productivity growth restrained is fated to decline — unless the demand for its product is income-elastic and/or price-inelastic. The analogy with what we state above will not escape the attentive observer. See W. Baumol, "The Macroeconomics of Unbalanced Growth", *American Economic Review*, June 1967, pp. 415-426.

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

indicators expressed by changes in relative prices), implicit in this suggestion is a continuing and large-scale government participation in the economy.

Some would say that the Brazilian public sector simply is not sufficiently co-ordinated to carry out such a task. It is said that this sector is too centralizing from a resource-extraction perspective, and decentralizing and contradictory in its fragmented execution of policy. There is much truth in this allegation. But one must not deny the possibility, nor suggest more centralization of power as an alternative. The necessity for intervention must be recognized; we should also insist, however, on the need to increase societal control over the State apparatus. It is on this that alternative directions in the 1980's depend.

IV

In terms of growth structure, the most probable direction, or better, the line of least resistence for the Brazilian economy, is rooted in developments during the last two or three decades <u>and</u> in the present political process of identifying the most important economic and social problems. As we have shown, this direction tends in practice, if not in rhetoric, to put off certain fundamental questions, leaving them to be resolved in the future.These questions, in our view, constitute the major challenge facing Brazilian society in the 1980's:redistribution of wealth and income, reduction of urban and rural poverty, and attending to the basic needs of the one-third of Brazilians who today live below standards compatible with human dignity.

We insist on this fact: the possibility of meeting this challenge depends less on the creative social imagination of technocrats (if indeed, such an imagination exists) than on a more open political process that permits the articulation, mobilization, and expression of conflicting interests. Without this process, it is difficult to believe that supply restructuring necessary to confront, rather than put-off the challenge, will take place. It is extremely important to note, however, that the arguments for alternatives expressed here, cannot be justified in purely "economic" terms. We do not question the growth capacity of the Brazilian gross national product. Rather, we question its present <u>composition</u> and,principally,its compatibility with an open political system.

(Translated from Portuguese by William Gallaher)