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**Re-Evaluation of the Past and Discussion of the  
Future: A Perspective centred on Economic  
Growth**

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## RE-EVALUATION OF THE PAST AND DISCUSSION OF THE FUTURE. A PERSPECTIVE CENTRED ON ECONOMIC GROWTH\*

Antonio Barros de Castro\*\*

### Introduction.

After twenty years of stagnation of per capita income, the possible return of growth has heated up the debate about the historic future possibilities of the Brazilian economy. The discussion, however, immediately ran into problems of economic science itself.

In fact, the central preoccupation of economics has crystallised around the formalised representation of how markets, operating freely and unhindered, generate equilibrium. In this perspective, economic growth is a consequence of the decisions of individuals to expand their businesses through opportunities revealed by markets. The rapid growth of certain countries, and the stagnation of others, are usually seen as exceptional situations which do not deserve the attention of economic theory - and which, moreover, will disappear as the result of 'cleansing action' and the normalisation of competition.

Despite this olympic distancing from the central current of economics<sup>1</sup>, episodes of rapid growth have been continually registered - and, in fact,

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<sup>1</sup>Models of growth became an obsession in MIT in the 1960s. However, in addition to having an extremely low capacity to explain the actual empirically observed growth (leaving residues of around 65-75%), such models were of absolutely no use for the studies of comparative experiences (a question which Robert Solow referred to as a job for "unemployed sociologists"). Actual contemporary models of endogenous growth, even when enriched by ideas coming from development theory, continue to ignore themes essential to the distinction between rapid growth and the frustration of growth. (Nelson, Richard, *Cambridge Journal of Economics*, Vol. 22, Number 4 July 1998).

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multiplied during the second half of the twentieth century. With a bit of effort, we may classify them into three types:

1. Economies with abundant natural resources, suddenly open to economic exploitation. In this type of experience what is necessary, above everything else, is that markets are not hindered, so that resources can be moved en masse towards the new opportunities - and that rapid growth materialises. In short, what is being dealt with is an (extreme) case of comparative advantages suddenly unveiled and exploited. One of the most notable advantages is the growth of Argentina between 1870-1914. This is, *a rigor*, the only case which may be found sheltered in conventional economic theory - it is useful to emphasise that here rapid growth results from something inherent or intrinsic to economies: their endowment of factors. In the other two types, to be described below, the conditions which result in rapid growth have to be in some way constructed for this growth to occur.

2. Economies in which the construction of a modern economic structure is a result of a project carried out through State policies. This involves, ultimately, the transplant of solutions arrived at in the more advanced countries (catch-up). Bismarck's Germany; Meiji Japan; Brazil (until 1980), Korea, as well as post World War Two Italy and France are examples of this case. In this type of experience, the analysis cannot advance if the institutions, - and the actors, in their singularity - are not taken into account. In such conditions, the unease of the most zealous practitioners of economic science in relation to these experiences is not surprising. As Paul Baran observed in the 1950s, Japan used to be described in the economic media by the analogy of the beetle which, in accordance with the laws of aerodynamics should not be able to fly, but actually

can. This type of experience has come to be commonly referred to as a "miracle"<sup>2</sup>.

3. Economies in which a group of enterprises develop organisationally superior solutions, and through these acquire a strong expansive impulse, both directly and indirectly transmitted to the economy as a whole. Thus, the US supplanted England at the end of the nineteenth century, as shown by Alfred Chandler<sup>3</sup>, through the superiority of the corporations which led its industry. Another important example is supplied by Japan, beginning in the middle of the 1970s. What is important in this last case is the emergence of enterprises which, amongst other innovating changes: "maintained long-term relations with their suppliers, shared technical and cost information with them, and involved them as much in product development as in production"<sup>4</sup>. This new type of enterprise revealed itself to be capable of incessantly innovating and offering quality products at highly competitive prices.

Having briefly pointed out the paths to rapid growth, I will now add some observations in order to, later, fit Brazilian industrialisation into the typology that has just been presented.

The unease of economic theory with catch-up experiences comes from, above all, the primordial political nature of its basic impulse. In the case of rapid growth through organisational mutations (carried out by enterprises), this embarrassment originates in the universal and atemporal pretensions of

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<sup>2</sup>Japan is particularly disconcerting because, strongly to the contrary of what would be expected, neither the overcoming of traditionalism, the flourishing of individualism, nor the accentuation of social mobility are found there. For this reason, perhaps, in that country a drastic (and potentially fatal) reduction of social cohesion, which made other experiences unviable (such as, for example, Iran), has not occurred.

<sup>3</sup>Chandler, Alfred (1977): *Scale and Scope The Dynamics of Industrial Capitalism*, Cambridge, Ma, Harvard University Press.

<sup>4</sup>Ghemawat, Pankaj (1999): *Strategy and the Business Landscape*, Addison Wesley Longman, New York, p. 96.

economic science. More concretely, there is an apparently insurmountable reluctance to admit that the enterprise actor - or any other actor - changes with time<sup>5</sup>.

None of the identified paths towards rapid growth should be considered as indefinitely sustainable. To the contrary, it is reasonable to think of each type (of rapid growth) corresponding to a form of exhaustion. Nonetheless, nothing impedes a nation successfully passing from one type of growth to another. Thus, for example, it is possible to show that the US moved from rapid growth propelled by abundant and attractive natural resources, to that led by the superior quality of its leading enterprises. Japan, in its turn, passed from catch-up to the third type of growth<sup>6</sup>. However, Argentina and Brazil, both exceptions, obviously, in relation to growth based on natural resources and catch-up respectively, (a theme to be explored below), did not know how to reinvent rapid growth<sup>7</sup>.

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<sup>5</sup> Obviously, it is not being suggested here that microeconomics, as such, does not renovate itself. Rather, what is being affirmed is that any characteristic, in being perceived, tends to be conceived as a theoretical (and definite) advance. Applicable as much to the present as to the past or future, it is worth noting. Thus, for example, the phenomenon of moral hazards, having been incorporated, becomes understood as being present at all times and in all experiences.

<sup>6</sup> It has been observed that several of the new methods of enterprise-enterprise and enterprise-worker relationships developed in Japan have rapidly diffused in the United States - which, combined with the leadership of the technological revolution centred on information, has decidedly contributed to the vigour presented by contemporary North American growth.

<sup>7</sup> The experience of Taiwan represents, perhaps more than any other case, an example of the utilisation of the three types of rapid growth. The intensive use of cheap labour for the export of traditional manufacturing sustained the first phase; catch-up was practised intensely from 1960 to the end of the 1980s; and from then on numerous progressive enterprises have stood out through their capacity to incessantly renew themselves.

## Brazil and Catch-Up 1930-80

The fifty year period focused on here, is usually referred to as that of the operation of the Model of Import Substitution. This denomination puts the Brazilian experience in the same group as the other Latin American economies, especially medium and large sized ones. Furthermore, the consensus is that this type of experience presents an initial phase in which growth is vigorous (and "easy"), but later it exhausts itself.

During the operation of this model, an increasing number of criticisms were raised throughout Latin American, pointing to its limitations and forecasting its exhaustion<sup>8</sup>. In relation to the legacy it left, numerous authors have highlighted, in addition to its exhaustion (and the necessity for the creation of new bases for growth), an inefficient industrial structure and an increase in distributive inequality. Moreover, the list of sins attributed to import-substitution industrialisation has grown with time - so much that the legacy of this historic stage has come to be looked at as something entirely negative and outdated.

In what follows, I seek to make it obvious that, in the Brazilian case, this diagnostic can be challenged head on.

I) Table 1 shows that the period corresponding to the substitution of imports had a radically different significance in Argentina and Brazil. Whilst in Argentina per capita income was reduced from two-thirds (66%) of North-American to a little less than half (45%), in the case of Brazil the enormous distance between the per capita income of the country and that of North America was substantially

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<sup>8</sup>Hirschman, Albert: "The Rise and Decline of Development Economics" in *Essays in Trespassing: Economics to Politics and Beyond*. Cambridge University Press, 1981.

reduced during the same period. In other words, in Argentina a severe relative decline (of per capita income) was observed, while in the Brazilian case there was an authentic jump (in relative terms). The contrast is so great between what happened in both economies, that any generalisation about the significance of the import-substitution model for Brazil and Argentina must be doubted. To be more precise, what the table below concretely suggests is that, while the "primary export model" was a great success in Argentina, - and a clear failure in Brazil - the opposite can be said about industrialisation.

TABLE 1: Per Capita Income relative to the US (US = 100)

1990 Dollars

Year	US	Brazil	Argentina
1930	100	37	66
1980	100	29	45
1998	100	22	36

\* Data calculated by Geary Kharis, cited in Cunha, P.G. (1999): "The Brazilian Socio-Economic Crisis: The International Scenario of National Development", São Paulo, mimeo, 1999.

II) Mere economic growth is not seen nowadays as proof of the success of an experience. Looking at the question from other angles is considered indispensable, especially the evaluation of the degree, or intensity, in which the growth is translated into the social well being of the population. In what follows, I will present some evidence related to the critical question of the incidence of

poverty. Poverty is understood here as a situation in which family per capita income is insufficient for the basic necessities<sup>9</sup>.

Between 1970 and 1980, when industrialisation reached its most intense phase - and the policies orientated towards it were most aggressive - the incidence of poverty was dramatically reduced in Brazil. As Table 2 shows below, the indicator of poverty suffered an extraordinary reduction of 33 points in just ten years.

Table 2 – Brazil: percentage incidence of poverty, 1970-97 (selected years)

1970	1980	1983	1985	1986	1987	1990	1993	1995	1997
68,3	35,3	41,2	35,0	23,7	28,3	30,2	30,4	20,6	20,9

Source: IBGE. *Census of 1970 and 1980 and PNDS. Special Tables, according to Cavalcanti and Rocha, op.cit*

It is useful to emphasise that in the so-called "decade of reforms" (the 1990s), the percentage incidence of poverty also suffered a considerable reduction. However, this involved a fall of just nine points. More importantly, the reduction verified in the 1970s does not appear to have been the result of any singular episode - possibly tending instead to distribute itself throughout the period. The reduction (three times less) verified in the 1990s however, occurred strictly in the changeover from high inflation (1993) to relative stability (1995).

<sup>9</sup>Albuquerque, Roberto Cavalcanti and Rocha, Sonia: "About Poverty Reduction Strategies", in *Poverty, Citizenship and Security*. orgs. Velloso, João Paulo and Albuquerque, Roberto Cavalcanti, Editora José Olympio, Rio de Janeiro, 2000.

It is thereby suggested that the advance which occurred in the 1970s was inherent to the historic process then unfolding<sup>10</sup>. In the experience of the 1990s, however, the improvement is strongly associated with a single transformation: stability. This suspicion is confirmed by the fact that a fall of similar magnitude was verified during the Cruzado Plan (1986) - and this largely disappeared after the failure of the plan.

The Golden Age of Industrialisation was therefore, in addition, a phase of vigorous improvement of the living conditions of the poorest part of the population. This, however, does not signify that the distance between rich and poor was reduced during this period. But, it does signify that the proportion of poor in the population was being rapidly reduced - to the contrary of deeply held beliefs.

III - In relation to the third and last consideration it is useful to highlight the fact that the productivity of labour increased at an extremely high rate (around 6% a year) during the golden phase of industrialisation. Once again, this can be contrasted with the presented situation. It is true that during the 1990s labour productivity rapidly increased - at a rate of between 5% (according to the National Accounts) and 8% (according to the index of physical production of IBGE-PIM)<sup>11</sup> a year. There is, nonetheless, a profound contrast. In the

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<sup>10</sup>More precisely, and as clearly suggested by Pastore and Valle Silva, the retraction of poverty verified in the golden epoch of industrialisation is intimately associated with urbanisation - and more concretely with the move en masse, in the course of a generation, from the position of rural manual worker to that of (unqualified) manual urban worker. Pastore, José and Valle Silva, Nelson (2000): "Social Mobility in Brazil", Makron Books of Brazil, 2000.

<sup>11</sup>Bonelli, R and Fonseca, R. Gains: *Production and Efficiency: New Results for the Brazilian Economy*, IPEA/CNI, 1998, Mimeo. A wide-ranging discussion of the ideas and the evidence concerning the phenomenon of increased productivity can be found in Carvalho, Paulo Gonzaga Mibelli: *The Causes of the Rise of Productivity in Brazilian Industry*, Doctoral Thesis, Economics Institute of the Federal University of Rio de Janeiro (UFRJ), 2000.

culminating phase of industrialisation, employment grew at approximately 4.5% a year, while during the 1990s, industry laid-off massively. It is not necessary to emphasise that the a rapid increase in both production and employment (only possible with an extremely rapid elevation of production) is a type of ideal, which allows the combination of salary increases with the raising of competitiveness and the multiplication of employment.

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By ignoring this evidence the general tendency, first by some parts of the left and later under the neo-liberal hegemony, has been to see Brazilian industrialisation as a mere re-working of the failed model of import substitution. My own vision is completely opposed to this. Import substitution is only concerned with one aspect of industrialisation - and only goes beyond the stage which CEPAL has traditionally referred to as "easy", when pushed by public policies and institutions of great strength<sup>12</sup>. In Brazil this process was completed, successfully, around 1980<sup>13</sup>.

While the real side of the economy emerged renewed, the macroeconomic fragility of the country would, however, be shown to be dramatically heightened. Various attempts at stabilisation dragged the economy through a stunning

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<sup>12</sup>An attempt to re-interpret Brazilian industrialisation as a successful case was made in Castro, Antonio Barros: "Renegade Development: Rise and Demise of State-Led Industrialization in Brazil" in *Democracy: Markets and Structural Reform in Latin America*, eds Smith et al. North-South Center, 1994. Peter Evans in *Embedded Autonomy: States & Industrial Autonomy*, Princeton University Press, 1995, elaborated some of the themes indispensable to the discussion of the Brazilian experience of industrialisation.

<sup>13</sup>Castro, A. B. and Souza, F. R. P., *The Forced March of the Brazilian Economy*, Paz e Terra, 1985.

succession of shocks, which only ended with the success obtained under the Real Plan.

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### The Hegemonic Paradigm in the 1990s and Its (Rapid) Erosion

According to the hegemonic vision throughout the 1990s, the critical situation of the Brazilian economy was seen as a consequence of the errors and vices of the past. By the past was meant, somewhat indefinitely, both the so-called lost decade (the 1980s) and the golden age of industrialisation. More concretely, the inefficiency of the state, economic closing, hyperinflation and technological backwardness (Collor's "carriages"), were seen as the inherent traits of the import substitution model<sup>14</sup>. Faced with such characteristics, only the adoption of structural reforms could enable the country to get back in step with modernity.

With the generalised retreat of political interference in markets, and the advance of the international integration of markets - as well as the great agility achieved through the information revolution - markets have become much less inhibited, and, importantly, much better, in their operation. Therefore, one should not expect the occurrence of economic crises coming from the international market. Moreover, in the way that they appear, the managers of

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<sup>14</sup>The most arduous defence of these ideas in Brazil is that of Gustavo Franco, principal formulator of the economic policy of the country until the end of 1998. In this respect, see "The External Insertion and Development", a 1996 text, published by the *Political Economic Review* (*Revista de Economia Política*), vol. 18, July/September 1998.

economic politics know how to deal with them - whether through the increasing of reforms, or through monetary policies orientated, essentially, towards the recuperation of confidence. It is useful to remember, in regard to this proposition, that at the beginning of the 1990s, phenomena such as "herd behaviour" were practically ignored - or even referred to as the idiosyncrasies of a long superseded past<sup>15</sup>.

With the reforms, the country is surrendering, still somewhat reluctantly, to a set of rules already adopted in other places - and the rationality that is imbedded in these rules. In this sense, what is happening, in Brazil as well, is a process of convergence which is tending to make the Brazilian environment similar to that found in other countries (and in the actual international market). Therefore, the country is stopping to be structurally or behaviourally different - and remains distinctive only because of the archaic remnants and injustice inherited from the past.

Having accepted the previous ideas, it is still necessary to insist that the crises which might occur will be attributed to the deformations and idiosyncrasies of the actual countries involved. This happened with the Mexican crisis of 1994. In the cases of Thailand, Indonesia and Korea, *ad-hoc* explanations of the difficulties encountered in 1997 were also advanced. The rapid succession of crises in such markedly different contexts soon provoked, however, the demoralisation of the practise of creating a different explanation for each collapse. In addition, the suspicion that redemption through liberalising reforms contained serious problems also increased for this reason.

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<sup>15</sup>For a critical overview of this picture see "How Washington Worsened Asia's crash. The Confidence Game". Krugman, Paul, *New Republic*, May 1998.

In the case of Brazil, various factors have contributed to the erosion of the belief in the new paradigm of modernity.

First, the lacklustre results in terms of growth and the marked instability in the activity level between 1994-98. In addition, the incessant worsening of the macroeconomic picture, whether seen through the prism of the balance of payments, or under the fiscal lens. Finally, the inability to avoid devaluation, as seen in January 1999, after years of preaching that currency depreciation was a typical expedient measure of a long buried past. Undoubtedly, however, the erosion of new ideas was facilitated by the fact that, at a late stage of the adoption of the reforms, the Brazilian economy experienced the first difficulties associated with these, when, in other countries, the intensification of financial speculation and instability was already evident.

Devaluation: the rupture which gave way to continuity

As shown in diagram III below, Brazilian devaluation was, in comparative historical terms, a great success.

DIAGRAM 3: The Impact of Devaluation (T = Year of Devaluation)

In the following, I will highlight some of the structural and behavioural characteristics of the Brazilian economy, which clearly contributed to the success of the mega-devaluation of 1999<sup>16</sup>. The following observations certainly do not intend to offer a interpretation of the success obtained from this. Rather, they

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<sup>16</sup>In relation to the effects of devaluation on inflation see Goldfain, Ilan and Werlang, Sérgio, "The Pass-through from Depreciation to Inflation: a panel study", Mimeo, PUC, Department of Economics, Rio de Janeiro, 2000.

aim, instead, to call attention to the importance of certain characteristics, arising in the past, which have contributed to the originality of the episode - diverging sharply from the forecasts of known analysts and of the actual government. Moreover, through these I will introduce elements which will be looked at again in the final considerations on possible growth strategies.

Despite having increased sharply between 1990 and 1998 (jumping from 5.9% to 19.3% in the case of industry)<sup>17</sup> the coefficient of imports in the economy continues to be relatively low. In practice this signifies that in many cases enterprises considered the possibility of absorbing most of the increase of costs derived from devaluation. The dense layer of domestic production also allowed the possibility of depending on, throughout the productive chain - but especially in the final stages -, local suppliers eager to recuperate and/or increase their market share. In the particular case of workers' consumption, the relative lack of importance of imported goods (accidentally) came to be added to the decline of the dollar quotations of various export goods. These facts, which were decidedly reinforced by the retraction of the market caused by the alteration of the exchange rate, without a doubt contributed to the banishment of the spectre of re-indexation of salaries in the post-devaluation period - despite the fact that the memory of inflation, supposedly, remained quite alive<sup>18</sup>.

A second important characteristic that should be emphasised is the relative immunity that appeared in relation to the drastic increase of interest rates. To understand this, the low debt coefficient of enterprises and banks has to be taken

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<sup>17</sup>The data refers to the coefficient Imports/Apparent Consumption. See Moreira, Mauricio Mesquita, "Brazilian Industry in the 1990s. What can be said now", in *The Brazilian Economy in the 1990s*, orgs Giambiagi, Fabio and Moreira, Mauricio Mesquita, BNDES, 1999.

<sup>18</sup>Non-indexation was also accidentally favoured by the fact that the Brazilian economy never reached a high level of dolarisation. Even when, with hyper-inflation practically installed, indexation became "forward looking", the reference indices continued to be locally defined.

into account before anything else. In addition, in the economy, there is an unusual familiarity with sudden changes of scenario - including, sometimes even dramatically, for the worse. In this picture, not only do the reactions to stratospheric interest rates tend to be quick, but earnings from these tend to be considered by many as income.

We are therefore faced with characteristics and behavioural patterns inherited from the past. In relation to industrial chains, what calls attention is that industrialisation through import substitution left highly integrated structures. On the other hand, there is a resilience which developed in the turbulent environment characteristics of high inflation - where, moreover, the activism of monetary policies is causing convulsions<sup>19</sup>.

However, some properties developed during the actual "reform decade" need to be added to these traits.

Starting at the beginning of the 1990s industry entered into a process of restructuration which gained momentum on the eve of devaluation (1997-98)<sup>20</sup>. As a consequence of this, even when the macroeconomic disequilibria were clearly deteriorating, a broad group of enterprises had, to a large measure, adapted to the opening and to the exchange rate operating in the economy. Amongst nationally owned enterprises, the adaptation often consisted of strategies of "entrenchment"<sup>21</sup>, aiming to hold on to sustainable positions in the

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<sup>19</sup>Perhaps it can even be affirmed that the drastic alterations in the scenario - and especially in the variation of real interest rates - have (already) exacerbated a "portfolio" vision on the part of the actual members of the real side of the economy.

<sup>20</sup>It appears that a relative consensus has been formed amongst those interested that, at the beginning (1991-5), restructuration was centred on the rationalisation and reorganisation of enterprises, basically through cuts. The "mini-cycle" of investment characteristic of the end of the decade only developed later. See Bieschosky, Ricardo et al: "The Formation of Capital in the Environment of the Brazilian Economic Reforms of the 1990s: a sectorial approach", in *Brazil a Decade of Transition*, org. Baumann, Renato, Editora Campus, Rio de Janeiro, 2000.

<sup>21</sup>See Castro, Antonio Barros: "Industry, Easy Growth and Possible Variation" in *The World Crisis and the New Agenda*, org. João Paulo dos Reis Velloso, José Olympio Editora, Rio de Janeiro, 1999.

domestic market (and sometimes in Mercosul). In relation to foreign enterprises it can also be affirmed that, as a rule, only the domestic market (possibly extended to the Southern Cone), was assigned to them by their parent companies.

Two important conclusions can be extracted from the foregoing.

First, it is correct to imply that the potential product was expanding, while the effective product was stagnant<sup>22</sup>. This, in turn, implies that the economy was subject to growing competitive pressure, originating in the domestic environment<sup>23</sup>. This fact, in addition, offers an explanation for the relative facility with which it was possible to devalue the exchange rate at levels only slightly above that of the inflation of 1997 and 1998.

The second conclusion derives from the fact that, having been prepared during the previous years (since 1994 in fact) for living with a highly valued real, the productive activities of tradable goods - except for highly indebted cases - were able to enjoy, following devaluation, a period of respite. The external market, which was initially quite adverse, and the inertia which needed to be overcome for the amplification and diversification of exports, nevertheless, introduced a significant discrepancy in the reaction of external sales to the economy. In the first trimester of 2000, meanwhile, exports at constant prices increased by 34.5% in comparison with the first trimester of 1997 (before the

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<sup>22</sup>A presentation or discussion of the reasons for the worsening of the macroeconomic picture does not fit in here, as there already exists an abundant literature about it. It is worth underlining the asymmetry between micro-macro movements. In this regard, see Castro, Antonio Barros: "The Capacity for Growth as a Problem", in *The Real, Growth and Reforms*, National Forum, org. João Paulo dos Reis Velloso, Rio de Janeiro, 1996.

<sup>23</sup>In relation to the phases of pre-devaluation exchange policy see Souza, Francisco Eduardo Pires: "The Exchange Policy of the Real Plan (1994-1998): Specificities of the Brazilian Anchor", in *Review of Contemporary Economics* (Revista de Economia Contemporânea), no. 5, Jan./June 1999.

eruption of the external crisis), leaving few doubts about the medium term potential reply.

We can now return to the question of adapting to the severe interest rates which followed devaluation.

In this country, as in other recent experiences, the government acts in a pro-cycle manner, by drastically raising the interest rates after the collapse of the exchange rate. In doing this, despite trying to protect the economy, it runs the risk, in the short term at least, of strongly contributing to the worsening of the situation.

We have already briefly highlighted a set of reasons for why enterprises were not seriously hurt by devaluation - and how, in many cases, they even acted as small containment dams against inflationary pressures. Now, it is necessary to refer, in an equally short manner, to the attitudes of consumers.

It could have been the case that consumers would have adopted a defensive attitude towards the situation, reducing their expectation in relation to their permanent incomes, restricting their own spending, thereby contributing decisively to the worsening of the picture. Everything suggests, however, that this did not occur. In other words, despite the severe restraining pressure from the government (and the extremely negative forecasts coming from diverse sources), the Brazilian citizen basically maintained his patterns of conduct unaltered. By not entering into line with the decisions of the government (and the action of speculators), he put up very strong resistance to the self-fulfilment of pessimistic prophecies.

In summary, what has just been said is, that for different reasons and to the contrary of what occurred in other experiences, the economic decisions of enterprises and consumers possibly softened the impact of devaluation on

inflation and the level of activity. To this can be added the fact that the (new) regime of floating exchange rates contributed to increasing the resilience of the economy. In addition, the abandonment of the fixed exchange rate fed the perception that the country would return to some level of autonomy in the determination of its luck<sup>24</sup>.

In some way it has been registered that devaluation and the new exchange regime have recreated, to a certain extent, a situation - traditional in the history of this country - in which the exchange rate defends the balance of payments, instead of disciplining, or punishing, domestic producers. Competitive pressure, nonetheless, is not lacking - coming as much from abroad as, importantly, from domestic producers themselves. Meanwhile interest rates have stopped being used to equilibrate the balance of payments - reopening the possibility that they will act to the benefit of domestic activity. The set of changes caused by devaluation, therefore, points towards the re-establishment of a certain degree of autonomy for decision making related to economic management. Or, at least, it frees economic policy from the imperative to act in a pro-cycle manner

These last considerations serve as a starting point for the consideration of (possible) growth strategies for the Brazilian case. Before this, however, it will be necessary to make a small digression on national strategies.

### A Short Digression on Growth Strategies

The capacity of the public powers to formulate and implement significant transformations of behaviour seen in the past (for better or for worse) has

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<sup>24</sup>This, however, must be understood in contrast to what happened in other contemporary experiences - and not *vis-à-vis* the past of the Brazilian economy itself.

virtually disappeared in Brazil. On the one hand, the complexity acquired by the Brazilian economy, the democratic maturation of the country (and consequently the proliferation of centres of decision-making) and the speed of the contemporary transformations themselves, strongly suggest that the accomplishment of plans centred on a single objective, as was the case in the past, is no longer either feasible or desirable. Moreover, the centralisation of decisions makes a lot of sense in relation to the construction of productive structures. However, once these are already largely created and operating, roles change and the actors involved multiply. It is the task of the public powers, in their various forms, to construct long-term visions, as well as to motivate and co-opt actors in such a way that they are incorporated into the general trend. It also should, whether by itself or in partnerships with private interests, concentrate efforts on a small number of large-scale tasks, which are unattractive to the private sphere, but considered to be of important public interest.

Admitting the preceding, it appears important to me to introduce some notes of caution.

It is no longer possible to ignore the fact that the less developed countries can grow for long periods at rates never reached by the countries situated inside the development frontier. After verifying the evidence, it makes sense to invert the conventional vision and to admit that, in the cases of the relatively less developed countries, slow growth is proof of the loss of opportunities and the wastage of potential. In order for this point to be sufficiently highlighted, it is useful to mention that the International Monetary Fund, in its most recent edition of growth scenarios, forecast an average rate of expansion of GDP of around 5.8% a year for the developing countries in the period between 2002 and 2004. The rate of growth of Brazil, one of the most cited "large emerging markets",

can, in principle, pass the average expected result. However, this can not easily be achieved in the absence of a long-term vision which would allow the decisions of enterprises to be more than merely reactive - and let the economy explore possible shortcuts in the assimilation of advances already widespread in the developed countries.

The second consideration is also related to the impossibility of orchestrating (using the old metaphor) economic decisions. As has already been highlighted, the advantages and gains of efficiency tend to come from greater consistency - but also, importantly, from greater motivation. In this sense, given that instances of power (states and municipalities) endowed with power of significant weight already exist in society, the co-ordination of decisions and the actual political energy put at the service of strategy, will depend on the capacity to select common objectives, thereby dividing functions and responsibilities.

Finally, attention can be called to the fact that the adoption of strategies aimed at mere economic growth is not what is being justified here. The lengthy stagnation from which we are escaping was, above all, a consequence of the extenuated 'stop and go' to which economic agents were submitted. What is being discussed is the possibility of rapid growth - the object of the final sections of this work.

#### On the New Strategies Available in the Post-Reform World.

In the present climate of the recognition of the subsistent (or even aggravated) difficulties in the world of liberalising reforms and globalisation, the

hypothesis of convergence towards a single type of economy is being superseded. In fact, whether rewarded by circumstances, as hostages of irreversible decisions, and/or really looking for new paths, different groups of countries have been trying the search for their own solutions and arrangements. In the following section, I try to characterise the situation, contrasting three patterns of conduct. The Brazilian case will be returned to later.

I - Strategies of total fusion in the international market (or in the leading economies).

In this first group the countries which have significantly advanced in the reforms, and in what we can call the internationalisation of domestic markets, can be found. Frustrated with the results achieved until the present, to a greater or lesser extent, but unable to visualise alternatives (or prisoners of extremely difficult to reverse changes), these countries are presently involved in a type of "forward flight". This trend can, or even tends to, culminate in the abandonment of the local currency.

In these countries economic policy is completely orientated towards the conquest of confidence - and, characteristically, can only operate in a pro-cycle manner. More concretely, faced with the possibility of adverse external trends, the local compensation of these is not even contemplated. Probably, the response will be new fiscal rectitude promoted through domestic policies.

Perceived and internalised by individual economic agents, this final property also causes them to act in a pro-cycle manner. This is especially the case for consumers through the prompt revision of (expected) permanent income. Without a doubt, the possibility exists that, faced with the spectacle of generalised self-restraint, the expectations of external financiers will improve. In this case - and given that external confidence is a really critical variable - the re-

evaluation of the overall picture can spread throughout the domestic sphere, making a (rapid) recuperation of the economy possible. The synchronisation of the conduct of so many social actors can, though, have extremely negative consequences. Moreover, it is difficult to imagine that this type of situation does not have disastrous consequences on social cohesion and political sustainability.

## II) Strategies of National (Re)Affirmation,

In contrast to the fusion strategy outlined above are the cases of countries like China and India. In these, the preservation of autonomy and national identity, if indeed they were ever doubted, are no longer questioned. It is important, meanwhile, to remember that in the case of such a vast, complex, and peculiar country as Russia, there was the illusion, in the beginning of the 1990s, that a undifferentiated fusion with the global market would be possible. The experiment was spectacularly disastrous. At the end of the decade of reforms, Russian per capita income had been reduced by half - whilst in China, where the reforms were openly conditioned by the local context, and the efforts aimed at the country's economic development were never abandoned, per capita income more than doubled<sup>25</sup>.

I do not intend to elaborate the aspects of the second type. Rather, it should remain evident that, in these countries the opening is controlled and privatisation has nothing to do with the 'big bang' attempted in Russia. In summary, we can affirm that this group of countries has also been trying to increase the weight of markets in the making of economic decisions. However, the changes are mediated by and filtered through local institutions, values, and

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<sup>25</sup>Stiglitz, Joseph, "Whither Reform?", Annual Bank Conference on Development Economics, World Bank, 1999.

objectives. Therefore, social cohesion has more chances of being preserved - and the global efficiency of changes has been shown to be quite satisfactory.

### III) "Reform of the Reforms" Strategies.

Between the two opposites which we have just outlined, are situated a (possibly) increasing number of experiences which, implicitly or explicitly, are occupied with what French Davies has called reform of the reforms<sup>26</sup>. Fundamentally, this type of posture signifies that, under the impact of serious crises, or frustrated by the inadequacy of the results obtained, different countries are trying to recuperate a certain level of autonomy in decision-making, including that which relates to economic growth<sup>27</sup>. I will briefly highlight two representative cases.

From 1976 until 1982, Chile carried to the extreme its pioneering experiment in pro-market reforms. The initial results of this experiment are well known: in 1982, the country entered a brutal crisis, which continued for approximately three years. In 1985 changes, which later would be referred to as the reform of the reforms, began to be introduced.

The specificity of the Chilean case developed after the dramatic downturn between 1982-85, consists of, above all, the rehabilitation of active macroeconomic policies. Basically, the new policies of macroeconomic

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<sup>26</sup>French Davis, Ricardo, *Macroeconomic Commerce and Finance to Reform the Reforms in Latin America*, (Macroeconomía Comercio y Finanzas para Reformar las Reformas en América Latina) McGraw Hill Interamericana, 1999.

<sup>27</sup>A provocative introduction to the theme of the preservation of national differences can be found in *National Diversity and Global Capitalism.*, eds Berger, Suzanne and Dore, Ronald, Cornell University Press, 1996.

management kept the economy on a sustainable course of growth, trying to avoid both over-heating and recession. In addition, the filtering/mediation of external impulses, by means of the control of entry of capital, was important to, and characteristic of, the Chilean experience.

However, the active policies implemented in Chile also went (moderately) in other directions. In fact, although not the strongest element in the Chilean experiment, policies aimed especially at the real side of the economy were also developed. In this respect, the operation by the public powers of the economic strategy for copper (which was never privatised), and, in addition, some small experiments of public-private articulation in setting up clusters (such as in the salmon industry), can be cited.

Looked at in perspective, what most calls attention in the Chilean experience is the reasonably successful efforts, by a small economy, to (partially) uncouple domestic macroeconomic policy from the timing and tremors of the international market. Recent difficulties suggest, however, that this is not enough to insulate the local economy<sup>28</sup> - but this does not signify that the relative autonomy of the country's economic policy has been put in question.

Another interesting example, which can be classified as an implicit intermediary strategy, can be found in Korea. In this country the adoption of its own policies - which profoundly changed the (initially accepted) IMF proposals - arose out of the threat of reproducing, to a greater scale, the downturn which Thailand and other south-east Asian countries were undergoing. It should be

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<sup>28</sup>The "repression" through which the Chilean economy has passed in recent decades makes it quite difficult to spare the country from the instability of external markets. In relation to the repression referred to, see Katz, Jorge, "Changes in the structure and behaviour of Latin American productive apparatus in the 1990s: after the "Washington consensus" what? (Cambios en la estructura y comportamiento del aparato productivo latinoamericano en los años 1990: después del "consenso de Washington", ¿qué?)", CEPAL, UNITED NATIONS, 2000.

does not signify that the role of public powers in sponsoring actions should be eliminated.

Finally, it is still more evident that the country does not avail of internationally renown enterprises which tend, spontaneously, to act as a basis for the micro-foundation of vigorous and sustained growth.

Given the unviability of each of the roads to rapid growth, we are confronted with a disturbing fact: Brazil possibly enjoys conditions which are extremely favourable for the combination of ingredients from all three paths. In other words, not being able to reproduce any of the three solutions, Brazil is clearly, I insist, a candidate to combine them. In addition, there are signs that it is already moving in this direction.

#### Brazil and the roads to rapid growth: possibilities.

The ingredient growth via exploitation of the comparative advantages associated with natural resources is widely present through the exploitation of the *cerrado* - and more especially the northern *cerrado*. This consists of an immense arc which extends from the west of Bahia to parts of southern Amazonia - passing through Tocantins, Mato Grosso, the south of Piauí and the south of Maranhão. The knowledge required for the exploitation of these lands, starting with the seminal contributions of Embrapa, is already quite developed. On the other hand, the fact that this vast frontier can produce products of low aggregate value does not signify that its contribution to growth should be underestimated. To understand this, it is enough to note that production costs are 30% to 40% lower than average - which allows the creation of substantial profits and the payment of attractive salaries. Undeniably, the infra-structural and

logistical problems are large - but their confrontation may be seen as another ingredient in the process of growth.

In relation to the catch-up component, various warnings have already been made. It can be perceived, meanwhile, that there is space for initiatives supported by the public powers, aimed at matching the more advanced countries. I will not try to specify these. Instead, I will just point out that the opportunities should be very carefully selected - rather than being attacked en masse, as in the classic catch-up cases. It is also convenient to remember that, again in contrast with the past, this involves supporting enterprises rather than projects - whose task it is to transplant solutions achieved in the developed economies. In addition, ideally at least, what is involved is not mere copying, but, on the contrary, attempting, simultaneously to this transplanting, to pursue differentiation.

It is necessary, however, to insist that we are not discussing, except in an extremely limited sense, the use of financial resources. For this and other reasons, it is also worth remembering that foreign enterprises, both individually and through joint ventures with national enterprises, can be of great importance in transferring absent areas of activity to the country. This has occurred in the past and could become an element of the policy for recuperation of the time lost during the last fifteen to twenty years.

Finally, the adoption, by local enterprises, of much more creative and daring strategies has to be seen as very important. Here, I refer, above all, to those enterprises which performed well in surviving the opening of the economy. As has already been mentioned, this can often cause the enterprise to entrench itself in products and markets where it can already draw on a reasonable amount of knowledge. It only remains to see to what extent they can take new and bigger risks, aimed at the future conquest of (new) positions. To move in this direction,

support of research and development activities by the public powers, greater integration between enterprises and universities, as well as other integral items from the agenda of technological policy, will be decisive.

The synergy between the three dimensions of growth discussed here is recognisably not strong. Neither can it be hoped that those interested in advances in each strategic area will try to join, or articulate, with the dominant interests in the other areas. In addition, as the return to centralism is out of the question, it has to be concluded that the previously outlined ingredients of growth have to be explicitly conceived as (three) separate and singular strategies of growth. Ideally, each one of these will have clearly defined objectives, and (flexible) means to achieve them - whilst admitting the possibility of improvisation.

Note on the relation between growth, distribution, and poverty.

The rapid and sustained growth which occurred in the past in Brazil, was capable of strongly reducing poverty, without, however, diminishing inequality. In other words, the supposition that growth leads to better distribution was shown to be mistaken - but the expansion of the economy was shown to be efficient in relation to the fact that it took millions of people out of misery.

At the present time, it is known that the drastic reduction of poverty verified at the climax of industrialisation occurred, fundamentally, because of the multiplication of unqualified urban occupations, both in industry and outside it. However, it is also known that the awaited re-dynamisation of industrial growth will not involve a significant expansion of employment positions occupied by the poor. A sustainable and expressive increase in unqualified non-industrial employment is also doubtful. In addition, the drastic shrinking that formal

employment is presently undergoing might result in new reductions of the average income of various types of work.

The preceding should not be understood as an indication, or proof, that growth is no longer of interest, even in relation to the reduction of poverty. What should remain clear is that it autonomises, as problems, not just inequality, but also poverty itself. In these conditions, the surviving (indirect) link between economic growth and the social problems referred to here, is basically reduced to the volume of resources collected by the public powers.

This judgement, however, should also not lead to the conclusion that growth itself has effectively been autonomised. Rapid growth at least - as should have been evident throughout the text - currently depends, crucially, on widely shared visions of the future, as well as on the mobilisation of numerous public and private actors. This, however, can not be achieved in profoundly divided societies suffering from permanent identity crises.

These final observations suggest that rapid growth not only allows, but in effect requires, a substantial improvement of the living conditions of the population. Not for the reasons previously advanced (the formation of the internal market, etc.), but for moral and political reasons - which are only indirectly economic.

**Diagram 3: The Impact of Devaluation (T = Year of Devaluation)**



