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in the Humanities & Social Sciences

Werner Baer. *The Brazilian Economy: Growth and Development.* Westport, Conn.: Praeger, 1995. $85.00 (cloth), ISBN 978-0-275-94509-1; $22.95 (paper), ISBN 978-0-275-94510-7.

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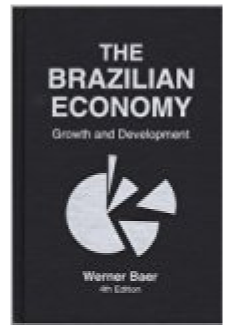
Published on H-LatAm (August, 1996)



Werner Baer's *The Brazilian Economy: Growth and Development* has become the standard reference on its subject. Its title is somewhat modest, since the book provides more than a description of growth and development of the Brazilian economy. Baer elucidates the structure of the economy, a complex task that no one with even a passing familiarity with the subject could under-appreciate. *The Brazilian Economy* confronts the complexity of its subject in a useful and organized manner. The author divides the book into two parts, presenting a chronological survey in Part I and current important themes in Part II. The book brings together much of Baer's prolific writings and incorporates the results of much Brazilian research.

In the fourth edition, issued in 1995, Baer extends the coverage through the mid-1990s and adds a thematic chapter on the environmental aspects of Brazilian development. In order to extend the material covered without expanding its length, the author has reformatted portions of the text. The chronological survey contains a new chapter in this edition. In the thematic section, chapters on trade and investment in previous editions have been combined; and a chapter specifically devoted to inflation and price indexing has been dropped. (Dropping the chapter on inflation, perhaps a regrettable necessity, is not the sacrifice it may seem, since the chronological section continually confronts the issue of price fluctuation.) The new edition also includes a discussion of recent privatization efforts in the chapter on the role of the state. Maintaining its firm empirical grounding, the text contains 119 descriptive tables, with five more in the Appendix (a slight consolidation from the 127 text tables of the third edition). Co-authors contribute to the two most recent chronological chapters, on the Cruzado Plan and the period of the Collor/Franco administrations, and the chapter on environmental aspects.

The major contribution of *The Brazilian Economy* is that it concentrates on economic structure. Its attention to economic policy concerns the effect of policy on structure. This focus contrasts with much of the literature on Brazil, which often confuses the study of economic policy with economic analysis. Reading the chapter on "Brazil's Extended Public Sector," one can appreciate the reasons for the frequent conflation. At times, this orientation away from political issues raises unanswered questions. For example, in chapters 5 through 7 (covering the 1960s through 1985) the strong focus on economic performance results in scant attention to the effects of authoritarian military regimes on the economy and economic management. Industrialization, participation in the international economy, and inflation are the focuses of the chronological survey. The survey becomes increasingly detailed, and the chapters longer, as the chronology advances. One reason for this is that systematically collected and published economic data for Brazil are available only from 1947. The two co-authored chapters, on the Cruzado Plan and afterward, have a stronger orientation toward examining policy, at the expense of economic structure.

The back cover of the paperback edition describes the book as "a historical, institutional and quantitative picture of Brazil's dynamic economic development." Its focus is institutional and quantitative. Despite the scarcity of empirical data, a historian might question the historical balance. After a very brief introductory chapter, the entire span of Brazilian economic history prior to the end of World War II is covered in two short chapters. Chapter 2 identifies the major topics of the pre-World War I commodity export economy, with its major "cycles" of sugar, minerals, and coffee and some other commodities from time to time. Historians will be surprised to find that, with the focusing on production, the possible effects of slavery on the economy receive little attention. Chapter 3 surveys industrialization prior to World War II. Baer concludes that early construction of some industrial manufacturing facilities was not sufficient to initiate a sustained process of industrialization. The limited industrial capacity did not lead to structural change. This may seem a dismissive interpretation of early industrial efforts; but at mid-twentieth century, Brazil indisputably remained an agricultural economy.

Economic "modernization" and industrialization began in earnest after World War II. Brazil's commodity exports exposed the country's continuing vulnerability to international economic cycles. Large-scale, state-encouraged industrialization seemed to offer an avenue for growth, modernization, and the ability to substitute imported manufactures with domestically produced goods. As Baer shows in chapter 4, the trade and exchange regulations that supported this approach had unintended consequences for inflation and sectoral income distribution by the early 1960s. The costs and effects of import- substituting efforts led to stagnation and increased intervention in the economy by the state. Chapter 5 addresses state policies designed to engineer growth. The boom from 1968 to 1974 (commonly known as the "Miracle") came about after four years of austere stabilization. The capital-intensive industrial sector, with heavy participation by state-owned companies, led the boom. The tension between attending to income distribution concerns and giving incentives to savings and capital investment generally was resolved in favor of investment. As the author identifies, one of the major results of this resolution was to structure the first wage and price indexing programs so that wages adjusted to price increases more slowly than other indexed prices.

The oil embargo of 1973 impolitely halted the boom. Baer focuses on the profound effects of the oil embargo on the Brazilian economy in chapter 6. By the early 1970s, committed to large-scale capital-intensive industrialization, the Brazilian economy was also reliant on imports of petroleum to support growth. Public sector ownership in specific capital- and energy-intensive industries (such as steel, fertilizers, petrochemical and nonferrous metals [see p. 91]) meant that government-owned companies felt the effects of oil price increases heavily. Anticipating a short-lived price shock, both public and private international borrowings expanded in order to maintain growth over what they expected to be a short disruption. In retrospect, this was a serious miscalculation and it increased international indebtedness beyond sustainable levels. By 1979, after the second round of oil price increases, balance of payments and inflation pressures induced stabilization policies. These policies did not work; and the debt crisis of the early 1980s ensued.

Chapter 7 explores the entrenched and accelerating inflation that plagued Brazil from the early 1970s through the next two decades. In this chapter, the author explores the persistence of inflation through periods of both growth and recession, and he presents competing explanations of the inflation from the perspectives of "orthodox monetarists" and "neostructuralists." Monetarists attribute Brazil's persistent inflation to money creation in excess of the volume justified by increased production. This view emphasizes the inappropriate use of monetary policy to finance government budget deficits as the major cause of inflation. Baer presents and concurs with the alternative, neostructuralist explanation of "inertial inflation" (p. 124). This explanation focuses on economic structure. It postulates that "techno-bureaucratic capitalism" substituted for freely operating markets. This created a system in which various groups (oligopolistic firms, labor, finance, and the state) competed for increased shares of the national product through government institutions, rather than through the market. Since on-going competition between interest groups occurred in bureaucratic settings, price mechanisms did not react as they would have in the free market. Contractionary policies led to an inflationary "fight for shares" among groups, rather than price declines. During the 1970s, although labor was not disadvantaged in the "fight for shares," as it had been previously, wage demands were not the most important contributor to inflation. While Brazil's innovative program of price indexing could absorb these shocks and pressures for some time, it also entailed increased government borrowing, which found its limits with the debt crises of the early 1980s.

Chapters 8 and 9 (co-authored with Paul Beckerman and Claudio Paiva, respectively) cover the efforts to tame inflation. The Cruzado Plan of 1986-1987 was a bold stabilization plan that tried to eliminate inflation without causing recession, by creating a "social consensus, which would stop the 'fight for shares' " (p. 172). While inflation declined for a while, relief was temporary. Of the many features that Baer and Beckerman identify as contributing to the plan's failure were the over-compensation of labor, continuation of budget deficit spending (though to a lesser extent than many analysts attribute), low real interest rates, maintenance of price controls longer than desirable, and undervalued currency. These factors kept aggregate demand higher than could support a decline in inflation and they resulted largely from political weakness. After the collapse of the Cruzado Plan, rapid and severe policy fluctuations, and ultimately strong moves toward economic liberalization, through 1993 contributed to economic stagnation and uncertainty. These are the subject of chapter 9. To some extent, the shift of emphasis in these chapters from economic structure to economic policy may reflect their joint authorship; it also reflects the role of the state in the economy and the primacy of government policy in order to effect stabilization. A brief epilogue to the book introduces the Real Plan of the Cardoso administration, which attempts to raise tax revenue, cut spending, and keep real interest rates and currency values high. Of course, the story is still unfolding.

In Part II, covering contemporary issues of importance to the Brazilian economy, Baer highlights some of the issues mentioned in the chronological survey, and he develops some additional themes. Looking at the external sector in chapter 10, the author examines the wealth generation of an "outward looking" economy, indebtedness and the tensions introduced by foreign capital and multinational corporations. Chapter 11 makes explicit one of the major underlying themes of the book. Here, Baer demonstrates that since the 1930s (and perhaps earlier) state economic management has substituted for a freely operating market system. An impressive variety of institutions accompanied and perpetuated the growth of state economic management. The state was also the monopolistic (or oligopolistic) producer of many capital goods, further contributing to its importance for the private sector. Public enterprises, however, have been a drain on state finances. Since the 1970s, they have often operated with losses and at low levels of productivity. Privatization of state-owned enterprises, begun during the Collor administration, serves two purposes. In addition to stemming the State's losses from these enterprises, the privatization program is also an attempt to diminish its economic role and to strengthen private market. However, the processes involved have introduced new complications.

The extreme disparity of wealth and standard of living levels between the northeast and the southeast are easy to demonstrate statistically. In chapter 12, Baer highlights the role of intensive industrialization policies in accentuating regional discrepancies in the late twentieth century. Industrialization policies favor the southeast, where manufacturing is widespread and most successful. Fiscal transfers to the northeast have only partially offset the imbalance, and they do not address structural issues that have prevented development. The nature of agricultural development has, if anything, further heightened these imbalances. Chapter 13 demonstrates that the role of agriculture has declined in the Brazilian economy, as industrialization proceeded. Agricultural development has favored large-scale, capital-intensive agro-industry. Rural farm workers have not benefited from either industrial or agricultural development. The new chapter 14, on the environment (co-authored with Charles Mueller), is timely. It very usefully highlights that environmental concerns extend beyond the deforestation of the Amazon. This chapter gives appropriate weight to the urban and industrial environmental issues that plague Brazilians.

Returning to the subject of industrialization, the text ends with an overview of structural changes in Brazilian industry, which are chronologically extended for the fourth edition. Baer finds, on average since the 1950s, that intermediary goods have accounted for an increasing share of total production. While this suggests a greater independence of the economy from international vagaries, Baer ends with the prognostication of increased internationalization in the future and the observation that wages have accounted for a declining proportion of final prices since the 1960s. This is a combination that leads one to speculate that the Brazilian economy retains many opportunities for disruption.

The author's analyses of specific issues are transparently even-handed. He clearly presents competing sides of policy and analytical debates. This helps the reader to make sense of complex debates. The litany of problems and policy failures may lead one to suspect that Baer supports the marketplace as the most effective solution to the many complicated structural imbalances of the Brazilian economy. In fact, the cumulative weight of his analysis is nuanced. He clearly believes that correcting the deeply embedded structural imbalances and creating the conditions for markets to function requires a strong role for government in economic management. The many policy failures reflect the difficulty of the task, not its undesirability.

Overall, the book reads as a very detailed economic survey. This works well for readers familiar with economic theory and terms and some familiarity with the Brazilian economy. Other readers may have to work to understand some fundamental underlying concepts, such as exchange fluctuations, demand structure, linkages, indexation, orthodoxy, heterodoxy, and neostructuralism. The text assumes that industrialization is necessary for "development." Making this assumption explicit and discussing its implications may help some readers.

The choice of thematic topics developed in Part II represents both important issues for the Brazilian economy and issues that the publicly available data address. The scarcity of reliable empirical support easily explains the relative lack of attention regarding two important and inter-related issues. The informal sector receives very little consideration. It is extremely difficult, if not impossible, to measure the informal sector. However, its role in the Brazilian economy, combined with long-term inertial inflation and sectoral distortions, is important. (And only slight experience in Brazil confirms that the informal sector is large.) A second issue that does not receive dedicated attention is the size distribution of income. The author routinely alludes to the distributional effects of structural features and policy efforts. However, specifically focusing on income distribution would have been desirable because of its well-known disparity and because of the insight that such attention could lend to the nature of Brazilian poverty.

Editorial attention could enhance the book's accessibility to non-specialists and its use as a reference document. The bibliography could be updated more systematically, especially with respect to new work covering the earlier time periods. Greater attention to thematic and stylistic conformity of the jointly authored chapters with the majority of the book may help to clarify some arguments. Institutional acronyms are not always defined when first used, and sometimes not at all. Similarly, individuals are often mentioned without establishing their positions. Finally, typographical errors, including some carried over from previous editions, are especially problematic in the tables.

This wish-list is minor in comparison to the benefits of *The Brazilian Economy*. A nuanced understanding of many aspects of the Brazilian economy and a strong appreciation for its complexities reward attentive reading. The book is required reading for Brazilianists; it offers the most comprehensive survey of the economy since World War II, in English or in Portuguese. The potential audience extends beyond its specific geographic focus. Because of the diversity of the problems and opportunities in Brazil, the book is also very useful for understanding the problems and debates that have been common in other Latin American and Third World countries.