A PRAGMATIC APPROACH TO STATE INTERVENTION:
THE BRAZILIAN CASE
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State intervention is certainly one of the more intensely debated economic and political subjects in this century. There are two reasons for this, one factual, the other ideological. As a matter of fact, state intervention in the economy is relevant for the simple reason that governments, all over the world, in rich and poor countries, in capitalist and statist or communist countries, are continuously intervening in the market. For ideological reasons state intervention is important because to favor or oppose some degree of state intervention is a basic criterion to distinguishing the right from the left, conservative from liberal, neoclassical or neoliberal economists from progressive or Keynesian economists.
In certain moments limited state intervention becomes a relatively acceptable practice. This clearly occurred in the 50s and 60s, when a Keynesian consensus prevailed; in others, as in the last twenty years, the conservative attack on state intervention becomes dominant. Whereas before the failures of the market were contrasted with the possibilities of policymaking and planning, now the inverse type of reasoning is the new truth of a "new right", whose ideas are based in economics and the market, rather than in political philosophy and ideas about tradition and hierarchy, that defined the "old right" (see Bosanquet, 1983: 1).

In macroeconomics the appearance of monetarism in the 60s and of the "new classical" school based on rational expectations in the 70s are the best symptoms of this conservative wave. Behind the rise of the new right we have the collapse of the Keynesian consensus, since the state became too big and standard Keynesian economic policies based on the assumption of chronic insufficiency of demand failed to cope with rising unemployment and increasing rates of inflation. In development economics, the failure of the "big push" industrialization theories, which were behind the dominant import substitution model of industrialization of the 50s and 60s, gave rise, in the 70s, to an export led, market oriented theory of growth, whose basic tenets were and continue to be privatization and trade liberalization. The fact that countries which adopted the export-led strategy, such as Korea and Taiwan, did so in combination with aggressive industrial policies rather than leaving the fate of the economy to the market, did not hinder the followers of the new credo to use these countries as examples of their ideas. Finally,
in comparative economics, the failure of statist economies to maintain the high rates of growth achieved in the 50s and the 60s, throughout the 70s and 80 served as a powerful ideological argument favoring neoliberal theory. The launching of perestroika was a particularly dramatic acknowledgement of this fact. The neoliberal rhetoric strategy was to to view support for limited state intervention in the same way as the extreme state control of the economy prevailing in the statist countries.

More recently this neoliberal wave is coming under attack. The insufficiencies of monetarism and rational expectations are becoming manifest. The status of state intervention in economic theory is again changing. The simplistic idea held by the new right that "the market is good, government bad" cannot be sustained in theoretical and practical grounds.

Changes in the way that market and state intervention are viewed are related to its recurrent successes and failures. As long as the practice of state intervention is being successful, those theories supporting limited intervention are in favor. Yet as soon as they stop working or prove disfunctional for some reason, the voices of conservative or neoliberals become louder. In another paper (1988) I discussed the cyclical and ever changing nature of state intervention. In this paper I will apply the theory to the Brazilian case. And, in addition, taking Asian economists as a reference point, I will argue in favor of a more pragmatic or dialectical approach to state intervention in market oriented economies.
1. The cyclical nature of state intervention

State intervention in modern times has assumed three forms, corresponding to three historical models of development: (1) the state as a substitute for the market in the coordination of the economy (statist or Soviet model); (2) the state as a decisive agent in promoting capital accumulation and technological development (the historical German and Japanese model of industrialization adopted in varying degrees by most developing countries in this century); (3) the state as macroeconomic policymaker, promoter of welfare, microeconomic regulator of the influence business enterprises have on the market and the environment, fiscal stimulator of technological growth geared toward international competitiveness, and bargaining agent for international trade on behalf of their respective countries (present OECD countries model). The first historical model of state intervention falls outside the scope of this paper. I will discuss state intervention in Brazil taking for granted that we are dealing with a capitalist, market oriented economic system.

My general contention is that some degree of state intervention is necessary to run capitalist countries. Without it economic growth and social well-being will suffer. The market is by far the best coordinator of the economy, and yet it is not able to allocate resources and guarantee growth in an optimal way. On the other hand, the market is a very poor institution for achieving income distribution. Thus, I believe that the neoliberal general attitude against state intervention is essentially ideological. This does not
mean, however, that their position is simply incorrect. On the contrary, their views may be quite functional. Their constant contention that state intervention, in trying to cope with the insufficiencies of market coordination of the economy, finally provokes worse distortions, should not be easily discarded.

In practical terms state intervention in a given sector of the economy tends initially to be effective, i.e., tends to correct the coordinative insufficiencies of the market, but, since public officials seldom know when to stop the intervention process, it eventually ends up being inefficient. Regulations become casuistic, the protection offered to certain industries ceases to be transitory as it should always be and tends to become permanent, state expenditures and state tax renunciations tend to increase at a higher rate than state revenues, public deficit and public debt increase, the threat of a fiscal crisis becomes increasingly present.

If state intervention was not necessary and efficient in its early stages, it would not occur with such frequency. It is always possible to explain state intervention as an irrational result of interest groups pressures striving for some kind of protection, but the resulting government policies are just one type of state intervention. Even if we acknowledge, following Mancur Olson's suggestion (1975, 1982), that in the production of public goods organizations which represent large groups are less effective than small interest groups, the fact is that most state regulations are

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1 - The classical analysis of the tendency of modern capitalist economies to fall into a fiscal crisis was made by James O'Connor (1973).
oriented to the general interest rather than to particular or sectorial ones. This was a clear advance of modern democracies that should not be dismissed by conservative thought.

To say that state interventions is, in principle, efficient or inefficient makes no sense. State intervention may be efficient or inefficient, necessary or unnecessary, should be reduced or increased, depending on each specific situation. In general terms, state intervention will be necessary and efficient in the initial phase of the intervention cycle, while excessive and inefficient in its final phase, after the state has become inflated and turned increasingly unable to act by the interests of external (lobbying) and internal (technobureaucratic) constituencies, that led the state to fiscal troubles if not to fiscal crisis.

2. The Brazilian case

In the Brazilian case the cyclical and changing character of state intervention is quite clear. In the past, from the 30s to the 70s, the state performed a decisive role in promoting economic growth; in the 80s, given the fiscal crisis, the state has lost its capacity to promote economic growth and has become a basic obstacle to it.2

Some economists and political scientists in Brazil, who previously supported state intervention for the protection of local

industry and the creation and development of state owned enterprises in those sectors where private capitalists were unable or unwilling to invest, today favor trade liberalization and privatization. This does not mean that they have become conservative. It only means that Brazil is in a different phase of the state intervention cycle - one where it is necessary to reduce, to streamline and tighten the state organization in order to overcome the fiscal crisis and create the conditions for a new stage of economic development. In this new phase the state will have a different but necessarily important economic role.

Between the 30s and the 70s the pattern of state intervention in Brazil was permanently changing, but was effective in promoting economic development. Data on the growth of GDP in this period demonstrate this quite clearly. In the 30s the state begins a long term and initially successful industrial policy of import substitution. In the 40s and the 50s state owned enterprises are established in the basic sectors of the economy: steel, oil, electrical power, transportation.

The 60s are a period of transition and fiscal adjustment, but the change in industrial policy is quite limited. The basic innovation of the technobureaucratic and authoritarian government then established is a clear export oriented policy. The objective is to export manufactured goods. But protection to local industry, a basic characteristic of import substitution industrialization, is maintained. And direct investment by the state is resumed, as it nationalizes the telephone industry and completes the nationalization of the electrical power industry.
Finally, the 70s are the years of the economic miracle (1968-1978) and the years of the II PND (Second National Plan of Development 1974-1979). This plan was characterized by the promotion of a new wave of import substitution in the basic sectors of the economy (steel, non-ferrous metals, oil, petrochemicals) under the direct control of state-owned enterprises, and also by the decision to promote full import substitution in the private, mostly nationally-owned, capital goods industry. The 70s are also the years Brazil acquires its great international debt and begins the process of state domestic debt.

During these fifty years we may distinguish two cycles. The first came to an end in the mid 60s, when the military government resulting from the 1964 military coup was able to overcome the fiscal crisis and the recession that followed the excesses of President Kubistchek's Plano de Metas. Between 1964 and 1967 the Brazilian state was submitted to a fiscal macroeconomic adjustment and to structural reforms (indexation system, tax reform, financial reform, housing financial system reform) that recovered the state capacity to promote forced savings and to channel them to direct state investments or to subsidized private investments. The second cycle is not yet complete, given that the country was not yet able to overcome the fiscal and economic crisis of the 80s.
3. The crisis of the 80s

The crisis of the 80s, defined by stagnation of per capita income and extraordinarily high rates of inflation, was the result of a series of errors made by the government, particularly at the end of the 70s, combined with adverse changes in the international economy (second oil shock, interest shock and recession in the U.S.) in 1979. Between 1967 (a date that could be chosen as the first year of the new expansion cycle) and 1973, state intervention was successful in promoting economic growth. The mistakes began in 1974 and became very serious in 1979.

In 1974, just after the 1973 oil shock that led most industrialized countries to make severe adjustment processes, the Brazilian government decided to engage in an ambitious program of economic development. My personal views about the II PND have changed overtime. I was initially critical of it due to its enormous ambition. I became favorable to it after Castro and Souza’s analysis (1985) demonstrating that this plan Brazil was effective in consolidating a strong industrial infrastructure and in warranting a structural trade surplus for the country. Recently I have again become more critical of this plan. The decision to grow by taking advantage of the enormous supply of foreign loans at very low interest rates was quite understandable, although risky. But the decision to use this money primarily for investment in capital-intensive import substitution industries was a mistake. As it was a

3 - I made two broad analysis of this crisis, one emphasizing its fiscal aspects and its foreign debt origins (1988c) and another which seeks to build a macroeconomic model out of it (1989).
mistake to maintain a high degree of protection to local industry. That was the moment to use the foreign loans to increase the international competitiveness of Brazilian industry. It was the time to move towards an export oriented and technology intensive model of growth, while beginning to gradually liberalize foreign trade.

At the same time Korea was making quite similar mistakes, getting externally indebted to invest in import substitution basic input industries (see Koo and Nan, 1989). But in that moment Korea was also oriented to exports and starting a process of trade liberalization that fostered its basically export-led industrialization model. And in 1979, precisely the year Brazil was engaging in a new — and short lived — populist "miracle", the Korean government was able to correct his industrial policy while promoting a rigorous fiscal adjustment.

In Brazil state intervention turned into a disaster in 1979, when the three external shock formerly referred to hit the fragile — because already highly indebted — Brazilian economy. At this time there was no other alternative for the Brazilian economy except to adjust. But the military government decided to do precisely the opposite. It held down the exchange rate, made the domestic interest rate negative, increased wages and consumption. The consequences of this populist yet conservative economic policy were disastrous. The foreign debt/export ratio, that in the beginning of 1979 had already reached a dangerous 2-to-1 relationship, two years later had increased to 3-to-1. In 1979 a strong adjustment policy would have compensated the indebtedment policies of the II PND. Two years later adjustment alone was not enough; it became self-defeating. Now
fiscal adjustment had to be combined with some form of debt reduction (see Bresser Pereira, 1988a and 1989).

After the populist policies of 1979-1980, the efforts to adjust the economy, from 1981 to 1984 and from 1987 up to the present, became ineffective. Their only consequence was to reduce the investment rate and to worsen the fiscal crisis. Between these two periods we had a new cycle of populist policies, beginning in 1985 with the New Republic and ending in 1986 with the disaster of the Cruzado Plan. 4.

4. Paralysis of the state

During the 80s the basic consequence of the economic crisis was the paralysis of the state with regard to long-term economic policy. With the fiscal crisis and its basic consequences – the acceleration of inflation and the stagnation of the economy – the state became increasingly unable to define long term objectives and implementing them. And nothing is more important for developing countries than an effective overall strategy of economic development.

Such a deep economic crisis as the crisis of the 80s is a clear signal that the old strategy of economic development is exhausted. The fiscal crisis is an indication that the model of state intervention in Brazil is exhausted as well. In other words, if crisis are always signals of illness and an opportunity for change, it is clear today in Brazil that the form of state intervention –

that was crucial to the extraordinary pace of Brazilian industrialization between the 30s' and the 70s' - must now undergo a complete overhaul.

This crisis is also a signal that, more than the model of state intervention, the model of society in Brazil is exhausted. Brazilian society is characterized by a very high degree of income concentration. While the country was developing quickly, income concentration was not a major problem. But once that development stopped, it became a major source of continuous and aggravating social conflict - a conflict that underlies the public deficit and the acceleration of inflation.

The translation into practical terms of the need for change in the development strategy or in the form of state intervention was reduced (particularly by World Bank economists), to the proposal of "structural reforms" that should be adopted by the developing countries. These reforms have a clear liberalizing intent. They are based in trade liberalization, deregulation and privatization. This is not the moment to discuss these proposals. Although sometimes exaggerated in their demand for reduced state regulation and not always considering the size of the countries, the general orientation of these proposals is correct. They correspond to a moment when state intervention, after a phase of excessive expansion, must now be reduced and its priorities changed.

The three basic strategies that the Brazilian state used for promoting industrialization were (1) trade protection, (2) subsidies

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5 - For a critique of the unrealistic nature of radical trade liberalization reforms sponsored by the World Bank see Jeffrey Sachs' (1987).
oriented either for import substitution or for export promotion, and
(3) state direct investments in public services and basic input
industries (electricity, oil, steel, communications, railroads). As
these strategies ceased to be functional in promoting economic
growth, an increasing consensus is being built for a new strategy
that should be based in three fundamental policies: (1) elimination
of subsidies, (2) trade liberalization in order to stimulate
international competitiveness, and (3) privatization that will help
to solve the fiscal crisis of the state.

Given the fact that Brazil is a large country, trade
liberalization will be necessarily limited in comparison with
smaller countries, but there is no doubt that a substantial degree
of liberalization will form an essential feature of any future
industrial policy. State owned enterprises had a decisive role in
the first phase of industrialization, but now, when efficiency
becomes crucial and when the state urgently needs financial
resources to balance its accounts, privatization is a natural
solution. The elimination of subsidies is essential to overcome the
fiscal crisis, but once stabilization is achieved a new industrial
policy where an export orientation is tied to direct and indirect
subsidies to technological development will be necessary.

An increasing consensus is being reached in Brazil in relation
to the need for these structural reforms. Yet they do not
materialize. Why? It is possible to enumerate several reasons: the

6 - It is relevant to note that one of the outstanding Brazilian
economists who helped to formulate the industrialization strategy
via protection and direct state investment, Ignácio Rangel, has been
speaking in favor of privatization of public services in order to
promote needed investments in this area since he wrote the
resistance of industrialists and old nationalists who are afraid to lose subsidies (tax renunciations) and administrative and tariff protection, the resistance of bureaucrats and of the traditional left who insist on defending state owned enterprises. But the fundamental reason why little or nothing has been achieved in this area is the paralysis of government due to the crisis. The government tries to establish a new long term industrial and development strategy, makes agreements with World Banks towards structural reforms, but the results are clearly unsatisfactory. Reforms are not finalized and put to work because one of the basic characteristics of an economic crisis and particularly of a fiscal crisis is the paralysis of economic policy.

A fiscal crisis means that the state has no funds to finance a new economic policy; the policymakers have neither the time nor the disposition to formulate and implement the new strategy. If, in addition to fiscal crisis there is also a social crisis due to excessive income concentration, the consequence is a legitimacy crisis which permanently threatens the political system and aggravates the state's paralysis.

5. Statist and neoliberal responses to the crisis

The question now, after almost ten years of economic stagnation and high rates of inflation, is how to get out of this crisis. Specifically what we are discussing in this paper is the role state intervention plays in overcoming the crisis and in resuming growth.
Neoliberals would respond to these two questions in a very simple manner. The crisis is to be overcome by fiscal adjustment. In order to have fiscal adjustment it will be necessary to privatize state owned enterprises and deregulate the economy, reducing the size of the state apparatus. The objective will be the minimal state, given that "the state serves a double role, that of enforcing constitutional order and that of providing public goods (Buchanan, 1974: IX). Given that they are conservative and generally unable to distinguish old time nationalism from the national interest, their understanding is that the foreign debt should be fully paid."

The response that statist or the old left would give is quite different. They would suggest that to overcome the fiscal crisis, it is necessary to increase taxes and reform the state organization and the state-owned enterprises, eliminating inefficiencies, fighting corruption, but not reducing the size of the state. On the contrary, it should be increased in order to resume growth and achieve a less unequal distribution of income than the one existing in Brazil. Reduction of the debt should be a condition of repayment.

7 - This approach is well represented in Brazil by the weekly columns that the former ministers Roberto Campos and Delfim Neto write, respectively in O Estado de S. Paulo and Folha de S. Paulo.
6. The pragmatic and dialectical approach

The response that pragmatic and dialectical economists would give is again different. By pragmatic I mean those economist-technocrats who work within the state organization and define economic policy in most countries today. They are not theoretical economists, nor are they ideological economists. They are practical economists, directly involved in government.

This economist-technocrats have existed for a long time. In Brazil, however, they have come under attack since the 70s. As a defense mechanism, they have tended to disguise themselves, to make their existence as unnoticed as possible. Thus I was surprised when I participated in an international seminar in Tokyo in the summer of 1989. In this seminar most of the Asian economist were members of their respective governments and defined themselves without embarrassment - on the contrary they seemed quite proud of it - as "pragmatic" economists to oppose to theoretical and ideological economists.

It is well known that the role of the state in the development of the East and Southeast Asian countries, starting with Japan, and then Korea, Taiwan, Singapore, Malasya, and more recently Thailand.

8 - It should be remembered that it is very difficult to distinguish theoretical from ideological economists.
9 - This attack on the technobureaucracy was part of the long Brazilian transition to democracy. The alliance between the bourgeoisie and the military and civilian technobureaucrats was first broken in Brazil in mid 70s. In my book, *O Colapso de uma Aliança de Classes* (1979) I analyzed this political process.
11 - Actually some were also very competent theoretical economists.
and Indonesia, was and continues to be very important. During the 80s, while the Latin American countries are stagnated, the East and Southeast Asian countries are booming. Whereas per capita income actually decreased in the Latin American countries in this decade, it grew about 4 per cent annually in these Asian countries.

One explanation for this difference in economic performance is that Asian pragmatic economists combine a very strong fiscal discipline with a high degree of state intervention. But their discourse carefully avoids reference to state intervention, while praising as much as they can theirs "market oriented economies". They do believe in a market oriented economy, but they also believe in and practice a permanent state intervention. A good example of this general attitude is expressed by Seiji Naya:

"The NIEs and the ASEAN-4 countries have largely allowed the market to work and have adopted a private sector approach to economic development... This does not mean that they are laissez-faire economies; in fact, governments intervene strongly... In East Asia there is a hierarchical relationship under which the government may directly influence the conduct of private enterprises for the benefit of the public good and in turn is expected to assist and protect them" (1989: 5 and 7).

This oriental economic pragmatism includes a certain degree of pragmatic dissimulation. The capitalist dominant class wants to hear that their economies are market-oriented and they say so. In Japan, for instance, government economists insist that the economic role of government is currently a very small one. Only after a lot of questioning will they admit that the Japanese state presently dispenses large sums of money to subsidize technological development. Rather than dissimulated, however, this attitude is
dialectical. They indeed believe in the benefits of a market oriented economy and, at the same time, they know very well that the state continues to play a decisive role in economic development and income distribution - income distribution, that by the way, is extremely less unequal in their countries than in Latin America.

The response that pragmatic and dialectical economists would give to the question of how to overcome the Brazilian economic crisis is quite clear. In the short run, given that the economic crisis is essentially a fiscal crisis, they would ask for fiscal discipline, for an effective fiscal adjustment that would eliminate the public deficit. However, given that the origin of the fiscal crisis is the foreign debt crisis and that it is practically impossible to eliminate the public deficit while honoring all interests related to this debt, they would demand debt reduction, that will be only achieved by a combination of negotiations and unilateral measures. In the medium term, they would privatize as many state-owned enterprises as possible and they would begin a process of trade liberalization. But their objective, in contrast with that of the neoliberals, would not be the "minimal state", but to reform the state so that it once again becomes capable of implementing effective economic policy.

The new strategy adopted by pragmatic economists would not be based on direct state investment, much less on protection to inefficient import substitution industries, but rather to support technological development for international competitiveness. On the other hand, they would support income distribution increasing expenditures in education and health in a decentralized way. It is
becoming increasingly clear that the high degree of income concentration which exists today in Brazil is a major obstacle to economic growth and price stability.

This approach to state intervention and to solving the Brazilian economic crisis is dialectical as well as pragmatic for two reasons: (1) because it simultaneously supports a strongly market oriented economy and state intervention in the critical areas that the market is unable to coordinate, and (2) because it acknowledges the cyclical nature of state intervention. Sometimes, as in the present moment, it is necessary to reduce the state and reshape it in order to render it more effective (able to implement policy) and efficient (implement these policies at a lower cost).

But what I am suggesting is a dialectical rather than a pragmatic approach to economics and to state intervention because, while rejecting the ideological pitch of neoliberal or statist economists, it argues in favor of economic theory and transparency of ideological influences. It rejects the dissimulation of state intervention as much as the radical affirmation or the radical negation of it which dominates statist and neoliberals' discourse.

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