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Article — Digitized Version

Brazilian future prospects

Intereconomics

Suggested Citation: Kerstenetzky, Isaac (1974) : Brazilian future prospects, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 09, Iss. 3, pp. 70-72, <https://doi.org/10.1007/BF02927350>

This Version is available at:

<https://hdl.handle.net/10419/138984>

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Brazilian Future Prospects

Interview with Professor Isaac Kerstenetzky, President of the Brazilian Institute of Geography and Statistics, Rio de Janeiro

IE: Professor Kerstenetzky, Milton Friedman said after a visit in Brazil that your country has great chances to become the third economic "miracle" after the Federal Republic of Germany and Japan since the last war. What are the basic reasons for the unbelievable growth rates of the real GNP of 10 p.c. and more p.a.?

KERSTENETZKY: I find it difficult to accept the description of what is happening in Brazil as a "miracle". In a way, what we have been doing in the last six years in terms of achieving high rates of growth, is kind of a second stage of what happened in the second half of the 50s. We have been able to achieve progress essentially in the same dynamic sectors. There are major differences in the sense that there is more effective control of inflation and there is a more realistic exchange rate policy. Now, growth is not always concomitant with development. In the process of the quantitative expansion of an

economy, almost unavoidably there must be for some time a lag between growth and development, but if we postpone too long the reduction of that lag we might eventually limit our capacity to grow. Therefore, I think, the next challenge we are facing is that there is still a delay in the transformation of higher rates of growth into high rates of development.

Poverty and Population Problems

IE: One challenge is the increasing poverty problem in structurally underdeveloped regions. What strategies does Brazil's government intend to follow to overcome these problems?

KERSTENETZKY: By the end of February, it is too early to have an answer to that. But again diminishing the lag between growth and development will probably be an important target. It means, among other things, diminishing the disequilibria between the different re-

gions. We have such a concentration especially of manufacturing industries in areas of the South, such as the triangle São Paulo — Rio de Janeiro — Belo Horizonte, that there might be soon resistance some to the expansion of new industries. That might be an important new aspect of policy. And this might mean eventually a more even distribution of industry, in regional terms. Very soon this might offer a new chance for a better balance, with a more important role for other areas of the country.

IE: What could be done to manage the problem of population growth?

KERSTENETZKY: In relation to population growth we have to consider two aspects. The first aspect: the room that we still have for the displacement of the economic frontier, the wide spectrum of natural resources of the country and the chance to learn lessons from the experience of the development of the rich countries. The second

aspect: the role played by economies of scale — related to large populations. We know very little about the relation between population growth and socio-economic development. If one looks to the different indicators of development levels available, for instance the per capita income consumption of energy, steel, etc., they are very highly correlated. But gross birth rates are not perfectly correlated with other indicators.

Here we should search for the reasons for the precipitation of birth rates. What are its preconditions? We have no clear answer to that, unless we consider countries where there is a clear pressure of population on available resources. In the Brazilian case, I think there is no reason for changing our government's present stand in relation to population control. I think that on the contrary that might even work in a negative way. In our case we do not know to what extent given the high rates of growth in the 50s and the second half of the 60s and the 70s, there may even be a kind of favorable demographic content in the experience of accelerated growth of the Brazilian economy. Obviously I do not want to convey the idea that high population growth generates no problems. But is it not to some extent, when considered in terms of development, a substantial challenge that stimulates the expansion of the economy?

IE: Another problem is the illiteracy connected with the high rate of population growth. As far as we know the rate of illiteracy is still rather high and what does the government do about it?

KERSTENETZKY: There has been a sharp decline of the rate of illiteracy in spite of the population growth and there is a

government large-scale effort for the reduction of adult illiteracy.

Income Distribution Policies

IE: What is the present situation as far as income distribution is concerned and what kind of strategy may be expected there?

KERSTENETZKY: I think that we discovered, after the Second World War, that there is a wide gap between rich countries and poor countries. This gap always existed, and we always knew that there is a difference between developed and less developed countries; but the availability of the first estimates made by the UN of their per capita incomes came as a shock. And the same happened with the availability — in the late 60s and the early 70s — of information on data related to the income distribution for a large number of developing countries. There is a significant element in income distribution that is important to consider in social policy and also important in the light of the inter-relationship between income distribution, the structure of consumption and the profile of production, in the sense of focusing the inter-relationship between the strategy of development and income distribution. And this leads me to the first question that you put to me. The goal of reducing the lag between development and growth might mean a different sectoral strategy because if we go on with the present sectoral strategy with heavy emphasis on growth, this might mean a maintenance of the present income distribution.

IE: Do you think that the distribution problem is so serious that political problems could arise?

KERSTENETZKY: No, I do not think so, because notwithstanding the lag there has been a limited spillover of the rate of

growth in terms of a slow increase of living standards of the different strata of population. The problem is really how to accelerate this development. But I do not think there are at present critical areas of social unrest.

Successful Fight against Inflation

IE: You had very high inflation rates a few years ago. How did you get down to the much better level of 15 to 16 p.c.? And with these 15 p.c. you do not have the same troubles as many developed countries have with the 9 p.c. of inflation. What are the reasons for this?

KERSTENETZKY: Well, I would not say that we do not have troubles. First let me say that we were able to achieve high rates of growth in the late 60s and the early 70s with a rather low coefficient of capital formation. In the 50s we were able to expand the supply of agricultural products with relatively low investments, and we relied essentially on concentrating on the expansion of manufacturing, where the incremental capital-output ratio is relatively low. In the second half of the 60s we had a relatively low level of growth, and during the recovery we still benefited from the concentrating on the expansion of manufacturing, and using the capacity that was established in the first half of the 60s. In 1973 problems began to arise because we had such a high sustained rate of growth of manufacturing for several years that we had to face critical shortages in several sectors. Due to the fact that we did not have sufficient time for building up additional capacity, demand really expanded ahead of it.

But concerning the strategy of controlling inflation: first, the policies were gradual; second, there was substantial acceleration and modernization of the

government infrastructure and tax collection became much more sophisticated and effective in the 60s than it has ever been before. This diminished sharply the role of budgetary deficits, as a source of inflation.

IE: Including monetary correction measures?

KERSTENETZKY: Of course, monetary correction measures were very effective. And this was again an important tool for the government because government loans became a very successful type of investment for the private sector.

The Role of Foreign Investment

IE: In the past foreign capital came to Brazil on a large scale but in the opinion of foreign observers there is a growing scepticism concerning the role

of foreign firms, especially completely foreign-owned firms. What about the future role of foreign investments?

KERSTENETZKY: Well, one of the most important characteristics of the Brazilian development process is the role played by the government sector. The share of the government sector including government enterprises has been in the recent years between 40 and 50 p.c. of the GNP. But what do you find if you look at the sectors where the government enterprises play an important role? They are essentially sectors that produce inputs, but those inputs are being ordered by the sectors that control the profile of final demand. The private sector decides for instance on the expansion of transport equipment and other types of final con-

sumer goods, etc. This might be conditioning a substantial part of government capital formation. To the extent that we have the support of foreign capital in certain sectors it is very helpful for reducing the pressure on domestic savings and from the point of view of the importance of absorbing foreign technology. The point is in what direction should policy be oriented in order to achieve such a level of national output as to maximize the transformation of the rate of growth in real terms of development, and then given this type of objective the role of foreign capital can be designed.

IE: In other words there are still good future opportunities for foreign investment?

KERSTENETZKY: Oh, no doubt about that.

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Large octavo, 296 pages, 1973, paperbound DM 34,—

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