

Nunnenkamp, Peter

Book Review — Digitized Version

[Book Review of] Trebat, Thomas J.: Brazil's state-owned enterprises. A case study of the state as entrepreneur, Cambridge, 1983

Weltwirtschaftliches Archiv

Provided in Cooperation with:

Kiel Institute for the World Economy – Leibniz Center for Research on Global Economic Challenges

Suggested Citation: Nunnenkamp, Peter (1985) : [Book Review of] Trebat, Thomas J.: Brazil's state-owned enterprises. A case study of the state as entrepreneur, Cambridge, 1983, Weltwirtschaftliches Archiv, ISSN 0043-2636, Mohr, Tübingen, Vol. 121, Iss. 2, pp. 401-403

This Version is available at:

<https://hdl.handle.net/10419/3449>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Trebat, Thomas J., *Brazil's State-Owned Enterprises. A Case Study of the State as Entrepreneur.* Cambridge Latin American Studies, 45. Cambridge, London, New York, New Rochelle, Melbourne, Sydney 1983. Cambridge University Press. XVIII, 294 pp.

Although there is a vast amount of literature on public enterprises in developing countries, the most important question is still unsettled, namely which role these enterprises can play in the Third World's economic growth and industrialization. On the one hand, there is a considerable degree of scepticism with respect to the state directly acting as an entrepreneur, especially when engaged in the industrial sector. This is mainly based on observations and experiences in advanced Western economies where, apparently, public production frequently goes hand in hand with allocative inefficiency, ineffective management and unprofitable plant sizes. On the other hand, this scepticism sharply contrasts with extremely high expectations expressed, for example, by many governments in developing countries, but also in a significant part of the literature on public enterprises. Public production is expected to fulfil a variety of economic and socio-political objectives the relative importance of which largely differs between the various countries relying on this policy instrument. Most of these economies have one thing in common, however, i.e. that public enterprises are assigned a pioneer role in promoting industrialization and economic growth, especially in those activities where private entrepreneurs are still reluctant to invest.

Up to now, only a few pieces of literature exist that try to analyze empirically whether this strategy was a success or a failure in Third World economies. The deficit in research on public enterprises in the empirical area is largely due to severe data limitations as regards public production activities. Therefore, the value of Trebat's work in compiling plenty of important informations on Brazilian public enterprises cannot be overrated. In a very time-consuming and labour-intensive attempt, Trebat succeeded in establishing a comprehensive data base over a lengthy time period covering fifteen years for the most important forty to fifty state-owned enterprises in six separate industries (railroads, electricity, telecommunications, mining, petrochemicals and steel).

Trebat's analysis covers a wide spectrum of public enterprise issues. After giving an introduction into the broader context Brazilian public enterprises are operating in and describing the indirect regulatory role of the state, the author turns to the reasons for the creation of public enterprises in Brazil. Comparable to other developing countries, the state is primarily engaged in infrastructure and basic industries. The principal aim is to foster industrialization by filling up perceived gaps in private initiative, making use of economies of scale, internalizing external economies and removing private monopoly profits (especially from foreign investors). Next, the question is addressed as to how the government can assure that the publicly run companies will not depart from their original goals. The serious organizational and institutional problems as regards the accountability of public enterprises allow little more than rather ambiguous statements like the one that either too much or too little control is likely to prove harmful to enterprise performance.

The core of the book consists of an investigation into the relationship between public enterprise performance and Brazil's growth record in the sixties and seventies. Trebat concludes: "The evidence assembled here suggests that the public enterprise sector has stimulated rather than repressed the growth of the Brazilian private sector" (p. 136). However, this result is largely based on a pure accounting framework, i.e. on

presenting the public sector's growth in output and capital formation and calculating its contributions to national income and overall investment. The author argues "within the confines of the growth model selected" (p. 151) by the Brazilian authorities. It seems to be due to this limitation that questions of an alternative – and possibly more productive – use of public enterprise resources are hardly addressed. Two examples may serve as an explanation for the problems arising from this:

- Trebat is favourably impressed that the public enterprises achieved the objective of providing a stream of cheap intermediate products for private industry, without adequately taking into account probable economic costs. Considerable costs of factor misallocation are likely to result from the government's interference into the market by an outright subsidization of public production activities and by restrictions imposed on imports of intermediate products. Probably, private enterprises would have been better off if they would have had free access to world market supplies.
- The government's success in using state company procurement as a means to divert an increasing share of orders to local producers is subject to a similar qualification. Import substitution in the capital goods industry can be expected to have given rise to welfare losses and the discrimination of export activities.

Turning to questions of waste and inefficiency, Trebat again draws a rather favourable picture of public enterprise performance: "Many firms have been consistently profitable and, by and large, Brazilian state enterprises compare well in terms of profitability with Brazilian private companies and state enterprises in other developing countries" (p. 8). Moreover, "on balance, the public enterprise performance in raising productivity... compares favorably with the Brazilian manufacturing sector" (p. 164). Both indicators, however, have considerable shortcomings as regards efficiency. Financial profitability of public enterprises may rather reflect the dominance of monopolistic market conditions and the lack of competitive pressure in the public sector. Furthermore, the easy and cheap access to capital via costless infusions of government finance may distort the comparison of profit performance between different types of enterprise. Productivity advantages of public enterprises relate to the partial productivity of labour only. A more comprehensive data setting (presented in Table 6.8, p. 165) rather points to an inefficient use of resources in the public sector: Whereas public enterprise sales per worker exceed the respective average figure for private firms by only 25 per cent, capital employed by public enterprises per unit of output is 2.5 times as high as in the private sector. Again, the probable economic costs of the extremely high capital-intensity of public production (in terms of factor misallocations arising from disregarding the country's comparative advantages) are hardly taken into account.

In two more chapters, Trebat discusses the price policies of public enterprises and the patterns of financing the enormous programs of capital formation. The author concludes with shortly addressing the current economic crisis of Brazil. He presents an economic agenda for the eighties and speculates about the future role of Brazilian public enterprises. In this final section, Trebat's favourable perception of public production activities is most difficult to follow. To the reviewer's understanding, the author's conviction that public enterprises should continue to play an important role in the Brazilian economy sharply contradicts Trebat's own economic agenda: "The new strategy must lead to reduced dependence on imported oil and external borrowing and to a generally less capital-intensive mode of development. It will necessarily involve the relative redirection of public and private investment out of import-substituting industry

and into agriculture, alternative energy sources, and export pursuits in general" (p. 243). It remains mysterious in which way the public enterprises will help this re-orientation in economic policies. To the reviewer it seems more likely that the implementation of the aforementioned guidelines will be strongly resisted by the public enterprises. In this context some important findings of Trebat's analysis are worth to remember: Public enterprises are heavily dependent on external borrowing, their production is extremely capital intensive, and they are strongly devoted to import-substituting activities.

To sum up, Trebat provides a broad and profound basis for public enterprise analysis in the case of Brazil. The book should give a fresh impetus to empirical research in important areas of public enterprise economics. Trebat's interpretations and conclusions, however, are highly debatable and are frequently biased in favour of public production. An adequate assessment of public production has to consider both market-failure and government-failure. Moreover, conventional neoclassical economic theory cannot be rejected as a base for analyzing public enterprises simply because, in the author's prejudice, it makes "too little allowance for the government to intervene in the marketplace to the pervasive extent that it does in Brazil's mixed economy" (p. XIV).

Peter Nunnenkamp