

Institutional Challenges for Brazil's Economists

Werner Baer

University of Illinois, U. S. A.

Abstract

This article consists of the author's address thanking ANPEC for the honor bestowed on him. It begins by mentioning a list of Brazilian economists with whom he associated and who were crucial in creating the institutional structure which made it possible for the profession to grow. The author then outlines what he considers to be some of the intellectual challenges to Brazil's economics profession in the coming years.

Resumo

Este artigo é o discurso de agradecimento à ANPEC pela honra que o autor recebeu da associação. No início ele menciona os nomes dos economistas brasileiros com quem ele trabalhou e que foram cruciais na criação de uma estrutura institucional que ajudou no desenvolvimento da profissão. Depois o autor apresenta uma lista de tópicos que ele considera um desafio intelectual à profissão brasileira de economistas nos próximos anos.

Keywords: Research, Institutions, Groups, Bureaucracy, Agribusiness, Education, Service Sector

JEL Classification: O10, O30

* *E-mail address: wbaer@uiuc.edu.*

1 Introduction

I am grateful and deeply moved by the honor which the Brazilian Economics profession, through its principal organization – ANPEC , has bestowed on me. I have received a number of awards in my career, but this one is the most important.

Before embarking on my brief essay, I would like to take this opportunity to honor some of the great members of the Brazilian Economics profession who have influenced my work directly or indirectly. There is Eugenio Gudin, who is really the founder of the Brazilian Economics profession and who used his immense prestige during his time to help create the Fundação Getulio Vargas and especially to set up that institution's economic research and training sections. This is where I began my research and teaching activities in Brazil. Then there is Celso Furtado, who I met first while he was the Superintendent of SUDENE, and who I got to know while he was a Visiting Professor at Yale University. I was greatly influenced by his brilliant study of Brazil's economic history and his many insightful and original essays. Finally, there is Roberto Campos, whose writings, whether I agreed or disagreed with him, were immensely stimulating and whose willingness to incorporate highly competent economists, who did not always follow his ideological positions, in institutions where he had influential positions, like the BNDES and the Planning Ministry.

I would like to honor economists with whom I had the privilege to work and who were also close friends. Isaac Kerstenetzky, an erudite and independent thinking scholar, who greatly influenced the development of Brazil's national accounts and during whose presidency of IBGE many innovations were started, especially the PNAD, which has spawned a huge amount of studies on the well-being and socio-economic behavior of Brazil's population. Annibal Villela, a first-rate scholar and institution builder. His work on the economic history of Brazil, with Wilson Suzigan, is considered now to be a classic of the country's development literature. I also enjoyed writing a number of pieces with him, such as the role of the state in Brazil's economic development. Although Campos and J. P. Velloso set up IPEA, it was under Annibal's leadership that this became a highly productive and influential institution. He fought and won a battle to enable IPEA to publish research results under the name of the authors(s), both in

the publication of monographs and in the journals that were founded. In addition, it was because of his courage, with the assistance of his deputy, Hamilton Tolosa, that IPEA produced studies by intellectually independent scholars which were often highly critical of the economic policies pursued by the government. The brilliant Mario H. Simonsen was also among my early friends in Brazil. I had the privilege of writing a few joint articles with him. This collaboration (and also my collaboration with Isaac and Annibal) were an important learning experience for me. Few people nowadays know of Mario's acts of independence. Let me just mention the fact that when Maria da Conceição Tavares was arrested under the military regime, it was Mario's intervention that brought about her release. Also, while Mario was Minister of Finance, EPGE withdrew from ANPEC because of the admission of Campinas. As soon as Mario was back as EPGE's director, one of his first acts was to rejoin ANPEC. He obviously believed in the importance of the institution's intellectual diversity.

Antonio Delfim Neto had the original vision of creating a research and post-graduate training center at USP and he secured the original outside funding for this purpose. He had assembled around him a brilliant group of students, who later joined him in both the state and federal governments. I always admired his intellectual curiosity and his dynamism. Also quite admirable was his unquestioned loyalty to those who worked with and for him. Delfim left for public service soon after he secured the funding for IPE (later FIPE), and gave Miguel Colasuonno the responsibility of coordinating the work of IPE. The growth and success of IPE (FIPE) was in great part due to the initial efforts of Miguel, who showed an admirable talent for administering – that is, of transforming individualistic domestic and international professors into an effective team. He also coordinated IPE's collaboration with various regional centers that were being started in the 1960s, and this collaboration became the basis for the creation of ANPEC.

Let me also mention another remarkable group of economists who were responsible for the creation of various other centers that became the core of ANPEC. Clovis Cavalcanti, Roberto Cavalcanti de Albuquerque and Yony Sampaio who established PIMES; Paulo Haddad the major figure in creating CEDEPLAR; Luiz Sergio Vieira, pioneer at CAEN; Armando Mendes, the creator of NAEA; Edmar Bacha, Charles Mueller, and Flavio Versiani, the pioneers at the University of Brasilia; and, finally, Rogerio

Werneck, Dionisio Dias Carneiro, Francisco Lopes, and Jorge Vianna, who were mainly responsible for the emergence of the post-graduate program at PUC-Rio. They all were major intellectual figures in the profession, but also courageous fighters in the establishment of post-graduate research and training programs in their universities.

2 Future Challenges to Brazil's Economics Profession

Over the last half century Brazil's economics profession has made astounding progress. In the country's leading universities, in research institutes, and in many federal and state government agencies one encounters foreign and domestically-trained Brazilian economists who are well versed in modern economic theory and quantitative methods, and whose research output is at the cutting edge of different subfields. This is obvious when one examines the country's leading journals, the programs of ANPEC's meetings, or when one goes through the enormous quantities of IPEA's discussion papers. It is unfortunate, however, that the huge progress made in the development of the profession has of late witnessed a decline in the resources which in the past have sustained the activities of research economists, both in universities and in various research institutes.¹ It is to be hoped that both the government, foundations and multilateral institutions can be persuaded to maintain and expand the human capital, both in the Economics and other modern professions.

On the assumption that resources will be available to maintain and even expand the excellence of the profession, I would like to suggest topics of future research which might further enrich our understanding of how the increasingly complex Brazilian economy functions. Much of the empirical research which our profession produces is based on statistical inference. I believe that quantitative analyses have helped enormously in understanding the functioning of the Brazilian economy. This understanding can be broadened with an increasing amount of research of an institutional nature.

¹ By decline in resources I refer to the decline of real salaries of university faculties, the decline of government grants, and the decline of international foundations' interest in supporting university research activities.

Such studies might provide new insights, complementing the findings coming out of quantitative techniques, and might provide the basis for new hypotheses to be tested empirically.² They may also provide us with a greater understanding of why it is so difficult to reform the social security and the country's judicial system.

I would like to list a number of topics relating to Brazil's economy where institutional studies might be useful in our gaining a better understanding of how it functions.

3 Research and Development

Brazil still depends excessively on technical innovations which were developed abroad. Recent studies have made this quite clear.³ This may be due to the fact that most domestic firms spend little on research and development and buy most technological innovations abroad, while multinationals do most of their R&D in the parent company. It would be useful to obtain through institutional studies, i.e., studies based on case histories and/or well structured interviews, more information on the views of executives of domestically owned firms with respect to spending resources on research and development versus just purchasing new technology in the market place.

It is well known that the Brazilian government has in the past tried to promote research activities through such institutions like FINEP, and at the state level through institutions like FAPESP in the state of São Paulo. It would be useful to know how much of the resulting university research spilled over to the private and public productive sectors.

² I fully subscribe to the approach of Douglass C. North who defined institutions as any socially imposed constraint upon human behavior. He noted that institutions are the "rules of the game" for human interaction (see: North (1990)). However, I would go even further, also including the study of organizations, be they private or public.

³ See, for instance, Viotti et al. (2005).

4 Brazil's Judicial System and the Economy

Armando Castelar Pinheiro's pioneering work has opened a field of inquiry in Brazil which deserves increased attention by the profession.⁴

One of Armando Castelar's major findings is the slowness of the judicial system, which results in the type of uncertainties that can affect firms in a negative way. Case studies pinpointing the specific ways in which the slowness of the judicial system affects the behavior of firms and individuals would clarify the ways in which judicial reforms could be structured to improve the functioning of the economy.

5 The Impact of Economic Groups

Not only in Brazil, but throughout Latin America, one finds the presence of large and powerful "grupos", usually belonging to one or a small number of families. Many have had special ties to the state, from which they obtained privileges – special financing, protection, etc. With the exception of a few studies sponsored by CEPAL, their role in the Latin American economies is little understood. Is their presence an impediment to efficient long-term growth or have they been and are still today a useful institution to the economic development of the country? Can they be compared to the Japanese Keretsus or the Korean Chaebols, which in collaboration with the state contributed to rapid modernization of the respective economies? Or, could the Japanese and Korean experience serve as a model for a productive cooperation of the state and the large private groups in promoting rapid growth and modernization? And could such collaboration also lead to the sort of growth with equity which occurred in Japan and Korea? The profession has paid little attention to the institutional basis for the Japanese and Korean growth models and thus there have been almost no attempts

⁴ Pinheiro (2003). He observed a growing interest, inspired by the New Institutional movement, in property rights – their definition and enforcement, which is of fundamental importance in the development of commercial and financial activities and in improving the investment climate. This has been neglected in the development literature since the protection of property through the judicial system in advanced industrial countries has for long been taken for granted, and thus has not been treated explicitly in the mainstream professional literature.

to incorporate these experiences into mainstream growth and development analysis.

6 Bureaucracy and Enterprises

Not only in Brazil, but in many other emerging market countries, the mechanics of creating a firm are very complex and it requires a substantial amount of time to be able to open for business. It has been estimated that in Brazil it takes 19 steps and 460 days to open a business, as opposed to 5 steps and 5 days in the United States and 9 steps and 24 days in Germany.⁵ Given this situation, what accounts for the fact that Brazil in 2003 had 138,362 industrial firms and in 2002 had 945,000 firms in the non-financial service sector? These firms are not in the “informal” sector, as they are officially registered. So is the “despachante system” the major reason for the seemingly unencumbered functioning of the economy? Or can it be shown that if Brazil were to attain the bureaucratic efficiency of the U.S. or Germany, that substantially more firms would come into existence, that there would be more investment and growth?

7 The Construction Sector

This is the sector about which the profession knows very little (not only in Brazil, but also in almost any other country), and yet it is of fundamental importance in most economies. Everywhere one associates corruption with this sector. It may be the very nature of construction that forces firms to seek special relations with the state. The challenge to our profession is to find ways to obtain more information about how firms in this sector operate, possibly through a series of case studies, which gradually may reveal a pattern of behavior.

⁵ The World Bank Group, *Doing Business: Economy Rankings*, www.doingbusiness.org/EconomyRankings/.

8 Capacity to Implement Economic Policies

The most sophisticated economic policy plans might not work if there is either resistance by the bureaucracy to collaborate with the decision-makers or if the bureaucratic system is not organized in a manner to effectively carry out their directives. Game theory might provide a framework within which to study this problem, but institutional information is essential to set up a relevant principal-agent framework.

9 Agribusiness vs. Agricultural Equity

Brazil has undergone a phenomenal expansion of export-oriented agricultural growth. It is among the top suppliers in the world of grains, orange juice, poultry. The supply chain prior to and after the production of the raw product involves a modern agricultural input industry (fertilizers, agricultural implements), a processing industry, a domestic and international marketing organization. This agribusiness complex is vital to Brazil's economic growth, but it is quite capital intensive, creating relatively few jobs. Could such a system live side-by-side with a program of land-reform, which is aimed at improving the lot of the landless peasant?

10 Education and the Role of the Service Sector

It is by now clear that neither agriculture nor industry is going to provide enough jobs for Brazil's labor force. I suspect that the answer to the effective labor absorption question lies in the service sector. In the United States over 75% of the labor force is employed in the service sector, and in most other advanced industrial countries the proportion is close to this. It is thus important to discover how a country like Brazil can generate service employment which pay high wages.

The most important input in the service sector is human capital. In country like Brazil human capital is scarce and its distribution is concentrated. It

is thus of great importance to study a number of inter-related topics: ways in which to increase access to education; emphasis on the content of the education that is offered at various levels; the changing demand profile for different skills as Brazil's economic structure changes, and comparing this to the skill output profile of the country's educational system. If the demand profile and the skill supply profile do not match, will the market forces alone resolve this, or what sort of institutional changes might be necessary to reconcile the disequilibria?

11 The Tax Burden and the Distribution of Income

Recently one of our graduate students and I have been working on a paper with regard to the Brazil's high tax burden and the continued prevalence of a highly concentrated distribution of income.⁶ A high tax burden is usually associated with the situation of advanced industrial countries, especially in Europe, where the distribution of income is among the most equitable in the world. It is thus curious that although Brazil's tax burden is equivalent to that found in the European countries, its income distribution is among the world's most concentrated. Both we, and a number of other Brazilian scholars, have found that the answer to this puzzle can be found in the fact that not only is Brazil's tax system quite regressive, but so is also the government's expenditure pattern. The implication of this finding is that a restructuring of the Brazil's fiscal mechanism may play an important role in improving the distribution of income. This may not be an easy task, given the many vested interests in the present system.

12 Conclusion

If you agree with my institutional research agenda, what are the implications for the training of the future generation of Brazilian economists? In addition to the rigorous training in micro and macro

⁶ Baer and Galvão (2005).

theory, and quantitative methods, I would recommend the development of a required course which would contain the following topics:

- (1) economic history, which would emphasize the study of the development of economic institutions. An excellent model would be the recent book by Atul Kohli which compares the industrialization experiences of South Korea, Brazil, India and Nigeria by analyzing the evolution of their economic institutions (both public and private) in order to explain the contemporary successes and failures of their industrialization policies;⁷
- (2) some training in developing and applying questionnaires;
- (3) training in interviewing management of firms or government officials.

I also hope that it will be possible for economists to work more closely with colleagues in other disciplines. We often preach the virtues of interdisciplinary research, but we rarely practice it. One reason is that such work, at best, does not lead to professional advancement, and, at worst, might even hamper it. This is really a shame, since I am convinced that joint work by members of different disciplines on a specific problem can often lead to greater knowledge and insights than work in disciplinary isolation, especially in some of the topics that I mentioned above.

I have great expectations for the contributions to and influence of Brazilian economists in the profession. This is not only due to the fact that there is a large number of economists in Brazil who have an excellent professional training. Brazilians, more than most people of other nations, have a spark of originality in them. The reason for this is that Brazilian culture makes people skeptical of received doctrine, makes them suspicious of pomposity, makes them irreverent and provides them with a tremendous sense of humor and irony. This is what contributes to original thinking and progress.

⁷ Kohli (2004).

References

- Baer, W. & Galvão, A. (2005). Government expenditures and income distribution in Brazil. University of Illinois, CIBER working paper 06-0110.
- Kohli, A. (2004). *State-Directed Development: Political Power and Industrialization in the Global Periphery*. Cambridge University Press, Cambridge.
- North, D. C. (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge University Press, Cambridge.
- Pinheiro, A. C. (2003). *Judiciário, Reforma e Economia: A Visão dos Magistrados*. IDESP, Rio de Janeiro.
- Viotti, E. B., Baessa, A. R., & Koeller, P. (2005). Perfil da inovação na indústria brasileira: Uma comparação internacional. In De Negri, A. & Salerno, M. S., editors, *Inovações, Padrões Tecnológicos e Desempenho das Firmas Industriais Brasileiras*. IPEA, Brasília.