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Closing Address

LESSONS OF BRAZILIAN AGRICULTURAL DEVELOPMENT

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Agriculture has always played an extremely important role in our development. I should like to make a few comments about some of the problems with which we have been faced in recent years in the field of the Brazilian Economic Development and, in particular, I should like to say a few words to you about the way that the literature on the principles of economics relating to these problems has helped us in formulating the agricultural policies we are implementing today.

May I, first of all, say that the Brazilian economic development really began when we were able to put into practice some old ideas existing in the literature, which had not been able to be applied before, either because the administration was dominated by certain ideological views contrary to them or because important parts of the administration believed in some current myths. For more than twenty years some economists had attempted to prove that Latin America was a very special case, therefore requiring special economic theory. This theory included some important items: first, that agriculture had in our trade structure an almost feudalistic nature, and, therefore, would not be able to respond to the incentives of the price system. The second proposition of this theory was that it would not be worth while to insist on the expansion of exports since the change in exchange rates, although it might lead to a small increase in the amount exported, would in the ultimate analysis lead to a reduction of the final value of exports.

Based on these two ideas, for more than twenty years we practised a political economy that provided no opportunities for the price system to function. We set up a system of price freezing, we set up a system that took everything from agriculture at a given price level and, on the other hand, for more than twenty years we practised a foreign exchange policy changing the exchange rate very seldom and only after costs had increased to an unbearable extent, when it was no longer sufficient to maintain the profitability level of the agricultural sector—or of the industrial sector, for that matter. By a very strange coincidence facts seemed to prove this theory. The theory said that agriculture was not capable of responding to price incentives and, in fact, agriculture was in a state of stagnation. The theory said that it was impossible to increase exports by means of the exchange rate and, in fact, we saw a stagnation of exports. What we didn't perceive was that the actual acceptance of this theory was conditioning the formulation of policies to the extent that it made it impossible for the price system to work and made it impossible for a reasonable exchange rate system to work, and for this reason we were making it impossible for agriculture to respond in a proper way.

The change of view with reference to these policies was fundamental in the sense that we decided really to test this theory. In other words, we decided to reject the validity of the theory, allow for a wide range in variation of prices and adjust the exchange rate frequently in order to see what would happen, and the subsequent results showed that the theory was wrong.

As for agriculture, it is quite evident that what we had to do was to increase productivity per man in the agricultural sector. We started out from an elementary arithmetical proposition, namely, to increase the productivity per man in agriculture two things have to be achieved—first, to raise productivity per unit area and, second, to increase the area that each man could cultivate. The literature had taught us that in order to increase productivity per unit area we would have to create the necessary conditions for Brazilian agriculture to make use of modern inputs so that Brazilian agriculture could make use of all the technology that had already been developed by the research institutions.

We well knew that in order to stimulate the use of these modern inputs we would have to change the input-output relationships of agriculture, as far as the purchasing side is concerned. Agricultural prices would have to be increased faster than the prices of inputs, such as, fertilizers, pesticides and insecticides, and, at the same time, we would have to stimulate the use of new varieties of improved seed so that farmers, by making use of these inputs, would be able to increase the productivity per unit area. On the other hand, we also knew that in order to increase the area to be cultivated by each farmer we would have to increase the level of mechanization and that this also could only be achieved if the final prices of agricultural products were raised faster than the prices of agricultural implements, in particular, tractors. Once this policy was adopted it would be sufficient to find the mechanisms by which it would be possible to bring all this about. It would be sufficient to find the ways and means by which we might, on the one hand, liberate the prices of agricultural products so that they could find their own point of equilibrium, and, on the other, find the mechanisms by means of which it would be possible for us to reduce—on a relative basis, of course—the cost of modern inputs.

However, we were faced with one important doubt—what would happen if agriculture were indeed to respond to the price system and raise production? Would the internal market be in a condition to absorb these products? Would this lead to an inversion of the entire process, thus making a vicious circle? Therefore, apart from the agricultural policy as such, we would have to find a possibility of opening foreign markets. This was also done very rapidly in 1968, thanks to the introduction of a system of flexible exchange rates, with a system which varies every 3 to 5 weeks in keeping with the level of internal prices and the level of international prices, in order to maintain the purchasing power of the foreign currency on a more or less constant level with reference to the 'cruzeiro', which is of course faced with inflationary erosion, if I may say so. Therefore, at the same time three steps were taken. First, we freed all agricultural prices, some faster and others slower. For instance, meat prices were freed at a slower pace, even if prices were tripled in the course of one and a half years. But most of the products had their prices freed and with reference to modern inputs, apart from stimulating the creation of some units of a sufficient scale really to be able to produce at international prices, we eliminated all indirect taxation on the production and the import of fertilizers and insecticides. We eliminated all Customs Tariffs, we eliminated the Value Added Tax which existed, and also the consumer tax which also fell on these products. Under these conditions, it was possible to have a drastic reduction within a very short time-span in the relative price of fertilizers, pesticides and insecticides. Between 1967 and 1972 the relative prices of fertilizers, pesticides and insecticides as compared to the prices of the final agricultural products were reduced by 50 per cent, which was, of course, a tremendous incentive for the utilization of modern inputs in agriculture, particularly in the central-southern region of Brazil.

The same type of policy was carried out with reference to agricultural implements and tractors. However, in this case some additional steps were taken. We eliminated all indirect taxes on the equipment used in agriculture and we introduced for the industrial sector that produced these implements a price follow-up system so that this sector would not be able to increase profitability too quickly as a result of the very fast increase in the demand for tractors and agricultural implements. Indeed, the demand for tractors was multiplied by four in the period of three years and, if we had not introduced such a mechanism, it is obvious that a very important part of the benefits that we were trying to transfer to agriculture would have been absorbed by the tractor industry, since the supply could not grow at the same pace. Therefore, on one hand we reduced taxation and on the other hand, in a perfect harmony with the industrial sector producing agricultural implements, a mechanism was introduced by which profitability per unit produced remained at a reasonably constant level. However, as there was tremendous increase in the demand, the profit of the various firms would still be growing at more or less the same speed as demand would grow.

Alongside this, we introduced a system of flexible exchange rates which made it possible to co-ordinate the agricultural sector with the outside world, thus creating the conditions for the development of a large demand for these products that would be produced.

It is a scheme of economic policies based on the hypothesis that agriculture would indeed respond to price incentives and that if things would go according to the book we would not only have a very rapid increase in the demand for modern inputs but also a very fast increase in foreign demand for agricultural products. And this actually happened. It was proved that we did not need any special theories to explain the backwardness of Brazilian agriculture. It was proved that Brazil was not a special case of development, or lack of development, and, it was really proved that economic theory—traditional economic theory—contained many more truths than had appeared. What we had operated on for twenty years, with great care, was nothing but myth. In a very short time-span the consumption of fertilizers, pesticides and insecticides was multiplied by ten and the demand for tractors was multiplied by four. Within the same time-span we increased our exports of agricultural products in an outstanding manner. If we leave aside coffee, which maintained its export value around 800-900 million dollars, we started from a total export in 1967 amounting to 1·6 billion dollars, of which only thirty million dollars were manufactured goods, eight hundred million dollars in coffee and the remaining seven hundred million dollars approximately corresponding to agricultural products, to an export in 1972 of some four billion dollars, with coffee accounting for one billion dollars, manufactured goods one billion dollars and the remaining agricultural commodities responsible for more or less two billion dollars. In other words, we tripled the exports of non-traditional agricultural commodities in the course of six years. This present year it is obvious that the result in terms of dollars will be far more spectacular, but it is also evident that this result is due, to a considerable extent, to the increase in the world prices for the products that we are exporting. At any rate, it was clearly demonstrated that we had the conditions necessary to produce efficiently, and to produce at international prices, provided that we would allow agriculture to make use of modern inputs and provided that we would employ a more rational economic policy. It was also proven that provided that farmers could be certain that their products could be marketed at reasonable prices they would respond and very quickly to the incentives deriving from the price system.

To this end we implemented in 1967 a minimum price policy which was gradually improved and we can say today with a certain degree of joy and pride that it is a fair policy—a fair policy which meets the objectives of rationality but which also works very rapidly. We establish minimum prices on the basis of what the world price for the product is likely to be, we estimate the exchange rate which will prevail during the period at which the product is harvested and we establish a minimum price which will make it possible for the government to purchase the entire harvest and export it without major problems if this should be necessary. After introducing this system we found that the government had no need actually to purchase agricultural products in large amounts, since the private sector was organized, internal marketing was considerably improved and the minimum price policy just acted as a support, so that the agricultural exports could take place as fast as possible to the benefit of the agricultural sector as a whole.

The important lesson that, I believe, can be derived from this Brazilian experience is that no country requires special economic policies. Our desire to come up with very sophisticated theories has sometimes been detrimental to our development rather than an aid to our progress. What the underdeveloped countries need is a policy which is rational, which makes it possible to exploit the use of their resources by means of an adequate price system. A country like Brazil which has quite a reasonable number of private entrepreneurs, provided that these entrepreneurs are given the necessary incentives, will find that this entrepreneurial class will organize and will respond to the available stimuli. All that is required is a reasonably rational policy in order to mobilize the necessary resources. It is certain that there are many difficulties, it is a fact that there are many sectors of the economy, and of agriculture, in Brazil that respond less quickly than agriculture in the central southern region to price incentives, but it is no less certain that wherever the land-tenure system is difficult or where organizational structures are a problem, they are not, even so, an effective constraint to increased production, provided that we really put into practice an adequate economic policy.

It is my belief that the important lesson taught by the Brazilian experience is that the textbooks and the international literature already contain the truth and the knowledge that we need in order to bring about a process of economic development, but it is necessary to have belief and faith in these facts. The community must believe that by making use of an adequate economic policy it can mobilize the necessary economic resources. It is certain that a market economy policy will not solve all problems. It will not solve the problem of the distribution of income or the fluctuation of production levels. These are problems with which we will have to live for some years to come, but if we can continue to expand production fast enough there is not the slightest doubt that slowly but surely we will be able to implement policies that lead to the improved distribution of income and, on the other hand, will eliminate the production fluctuations brought about by the market economy.

The Brazilian example also shows that what is important for a developing country is to find the mechanisms to mobilize resources that are to be found at hundreds and thousands of independent points in the economy and that do not necessarily depend on the activities of the government itself, because all governments, I think, and not just the governments of underdeveloped countries are slow—they have to be slow. Frequently, they are very good buyers but very bad sellers. We have many experiences showing that government intervention, though it may be a useful factor when used just as an additional means and though it may be needed for the creation of stimuli so that the economy does function, nevertheless leads to insurmountable difficulties when it is extended too far, because government is far less efficient than the private sector. It is my belief that the underdeveloped countries that want to grow will have to learn this truth—this very difficult lesson—that there is no government that is capable of bringing about agricultural development on a reasonable basis.

Agricultural development really demands the mobilization of the entire society which lives in the rural areas, and this mobilization can only be brought about by means of indirect stimuli, stimuli deriving from the price system, stimuli that make it possible for those that are dedicated to agriculture to produce an important part of the increased productivity which they themselves are bringing about. I believe that the Brazilian experience is a clear example of this fact. Our agriculture remained in a state of stagnation for more than 25 years simply because we believed that there was no other state of affairs open to us but to have an agricultural industry in a state of stagnation. The moment that we decided to test this hypothesis, allowing for a better functioning of the price system, both in respect of agricultural products and of its inputs—and for the latter some subsidies were given, so that farmers would be induced to change their techniques, it was found that the farmers really will change their traditions as applied to production and will indeed make use of modern techniques. If at the same time the country did not have available the possibility of making contacts with the outside world, of making use of a flexible exchange rate system, allowing for the transfer of these productivity gains to the agricultural sector, it would be really impossible to mobilize the agricultural sector and make use of the forces available for economic development.

The Brazilian experience, therefore, shows that what agricultural economists have been writing for all these past years corresponds very closely to the reality of underdeveloped countries. Those countries that have, as in the case of Brazil, important resources of labour and of arable land can expand agriculture very quickly provided that they are willing to make use of the price system and are willing to use the international market as an important source to generate the demand necessary for the sale of their products.

In closing, may I simply say that what we have learned in these years is that we were not a case apart.

At the conclusion of this address the President formally brought the conference to a close.