COMMENT

Werner Baer
University of Illinois

Michael Wallerstein's paper sheds considerable light on the economic background of the collapse of democracy in Brazil. The fact that real wages were declining in the Quadros-Goulart years and that wage differentials increased clearly suggests that those social classes that supposedly formed the political basis of the pre-1964 regimes were not reaping any benefits from the prevailing economic situation. It is also evident that during the worsening inflation of the early 1960s the struggle by social groups to maintain their share of the national product, whose growth was declining, became acute. The inability of the regime to control this struggle worsened the inflation.

I find Wallerstein's basic arguments and evidence acceptable. His analysis, however, raises questions that need further study.

1. Wallerstein claims that ". . . export diversification would require substantial changes in the economic policy of populist regimes. Policies protecting inefficient local producers from international competition would have to be eliminated." Events subsequent to 1964 have shown this is not necessarily the case, as the rapid expansion of manufactured exports in the late 1960s and throughout the 1970s was due to special fiscal and credit incentives that more than compensated an overvalued cruzeiro (the latter resulting from the mini-devaluations lagging substantially behind the internal rate of inflation).[1]

2. There are two points that Wallerstein should take into account in his analysis of the differential effects of wage increases on capital-intensive and labor-intensive industries. First, the latter, especially textiles, reacted to increased labor costs and low productivity by substantially modernizing capacity, beginning in the late 1950s. This mitigated somewhat the impact of wage increases in that decade, though it reduced the rate of labor absorption. One should also consider that part of service employment is directly related to the growth of industry. The correct way to measure the employment impact of the industrial sector is to take into account both its direct and indirect employment effects. Thus the growth of employment in such service sectors as finance, com-

https://doi.org/10.1017/S0023879100033094 Published online by Cambridge University Press

merce, government, etc. does not represent disguised unemployment. Since the productivity of the service sector grows very slowly, increased wages can have a detrimental effect on profits, unless service prices rise as fast as wages and the government increases the wages of its employees through the printing of more money. More research needs to be done in this field. However, the struggle for shares might appear sooner in services since wage increases can be met to only a slight extent by productivity growth.

3. Although the data on profit and wage trends in the pre-1964 period seem to support Wallerstein's analysis, a word of caution is necessary for the profit data. In times of inflation illusory profits make their appearance; i.e., when capital is depreciated on its historical rather than on its replacement value, as was the case in the pre-1964 years, profits get overstated.[2] It would therefore be useful to see if true profits (corrected for illusory profits) experienced the same trend as the observed profit data.

4. Wallerstein states that the large government budget deficits resulted from falling revenues rather than increased expenditures. He might have added that as inflation worsens, there is an increase in tax delinquency and lateness in payments, as fines (at that time) are not adjusted to inflation. This phenomenon, in fact, became part of the share struggle.

5. Wallerstein devotes considerable space to the impending balance of payments crisis in the early 1960s. It should be noted, however, that the slowdown of the economy's growth rate prior to 1964 cannot be linked to import constraints. Imports kept rising in 1961 and 1962, the first years of the slowdown. They declined in 1963 and 1964, while exports were rising. Thus the decline of imports was a function of the country's growth rate and not vice versa.[3] A definitive explanation for the decline in the growth rate is still wanting. The stagnationist explanation—linking the decline in the growth rate to the end of the import substitution cycle—is difficult to sustain in the light of the post-1968 growth experience. It still seems reasonable to link the growth decline to the political turmoil of the early 1960s. The latter resulted in uncertainties about changes in the social structure and economy (especially about the role allowed to the private domestic and foreign sectors), and caused a drastic decline in investment activities. Thus, even though the profit rate may not have been affected by events in the early 1960s, the uncertainty about the future may have been the dominant cause for a decline in private economic activities and in turning the capitalist sector against the regime.

6. It is interesting to compare the debt problem of the early 1960s to that of the late 1970s. In the former, debt servicing amounted to less than 30 percent of export earnings, while in the latter, they amounted to over 50 percent. The difficulties Brazil had in obtaining loans in the early 1960s was due to political factors that Wallerstein describes, i.e., the deterioration of the country's relations with the U.S. and the IMF. The much easier situation of Brazil in the late 1970s in expanding its debt is not only related to the much friendlier political relations of Brazil with the U.S. and industrial countries of Europe; it is in great part due to the huge expansion of the Eurodollar market (especially with the inflow of Petrodollars), which has made the international banking community anxious to lend to countries like Brazil. Also, the enormous Brazilian debt of the 1970s places the country in a much better bargaining position than in the early 1960s. A default in the latter period would have greatly compromised Brazil's standing in international financial markets, while hardly making much of an impact on the international banking community. In the late 1970s, however, Brazil's debt in the portfolios of the world's largest banks is of such magnitude as to give Brazil a strong bargaining position.

NOTES

1. Werner Baer, *The Brazilian Economy: Its Growth and Development* (Columbus, Ohio: Grid Publishing, Inc., 1979), chap. 6.
2. Werner Baer and Mario H. Simonsen, "Profit Illusion and Policymaking in an Inflationary Economy," *Oxford Economic Papers* (July 1965).
3. Werner Baer and Isaac Kerstenetzky, "The Brazilian Economy in the Sixties," in *Brazil in the Sixties*, edited by Riordan Roett (Nashville, Tenn.: Vanderbilt University Press, 1972), see table 8.