NO TURNING BACK

IN THE PAST DECADE, Brazil has entered the first stages of a modern capitalist reorganization. Its economic transition has been gradual, but the country has avoided crippling setbacks. For many observers, Brazil seems finally to be pulling itself out of two frustrating decades of economic stagnation and political turmoil.

Not all observers accept these changes with unalloyed enthusiasm, however. The political left abhors what it portrays as an alienating, neoliberal destruction of Brazil's national development by international finance capitalism. But regardless of their preferences, everyone agrees that change is finally happening. As economic historian Ricardo Bielchowsky put it, Brazil's new economic model is radically different from its predecessor. In the new economy, investors have the freedom to make their own investment choices based on market changes. Of course, whether investors will use their new freedom to allocate resources effectively remains uncertain.

What makes Brazil's economic transition historic is that today's reforms break with an economic model that dominated the country for nearly 50 years. From 1940 to 1989, Brazil staked its hopes on a form of nationalist mercantilism that operated through state controls of commerce and credit. Centrally directed state enterprises provided infrastructure and services, while highly protected and subsidized industries and agriculture made up a dependent private sector. In 1974, Eugenio Gudin, a champion of economic liberalism, described this unique economic system as capitalist in principle but with more state control than in any other noncommunist country.

The old model fostered industrial development based on the country's large internal market. And it produced some significant strategic advances in oil, energy, and agriculture. Economic growth averaged more than six percent a year over three decades.

But Brazil's robust growth came to a halt in 1980 when its economy was buffeted by extravagant bouts of inflation. To make matters worse, a mountain of unpayable foreign debt, endemic corruption, and a chronic waste of capital all undermined fiscal discipline. When Brazil's access to foreign loans dried up during the debt crisis of the 1980s, its state-centered economy went broke. Brazil has not resumed sustained growth of this kind since.
Today, by contrast, the "new model" reforms created by President Fernando Henrique Cardoso feature a political economy in which private enterprise, including foreign investment, is assigned an expanded responsibility for economic development. The role of the Brazilian state in a free market is being redefined, shifting the emphasis in public spending toward improving education and health services and alleviating poverty. The state still retains control of macroeconomic policy, operates important public credit facilities, produces oil and electric power, and regulates public services. But regulators acknowledge that private investors must be able to make profits if they are going to expand the supply of goods and services in a fast-growing market. In this new private-public partnership, the state facilitates private initiatives that provide capital and efficiency. The signs of a nascent capitalist reorganization are clear: sound money, trade liberalization, privatization and a shrinking state role in the productive sectors of the economy, a strengthened private banking system, growing capital markets, and greater investment from abroad.

But Brazil's transition to a modern capitalist economy remains incomplete. Many current assessments are cautious and tentative, overshadowed by Brazil's long and painful record of false starts toward monetary stabilization and economic reform. Achieving any of Brazil's desired economic goals depends on Cardoso's successful implementation of the reforms now under way. Anything short of both a consolidation of monetary stability based on fiscal discipline and a resumption of noninflationary economic growth will leave Brazil too weak to play a regional or a global role.