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PUBLIC FINANCING OF ECONOMIC DEVELOPMENT

IN BRAZIL AND LATIN AMERICA

BY JOSÉ GARRIDO TORRES,
PRESIDENT OF BRAZIL'S NATIONAL
BANK FOR ECONOMIC DEVELOPMENT
AT COLUMBIA UNIVERSITY, MARCH 12, 1965

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I shall try to be objective and make this a brief and essentially schematic talk on account of the time available.

2. I will divide the subject into three parts, namely:
a) an analysis of conditions of the inflow of public capital into Brazil and Latin America; b) what we hope will happen in Brazil in respect to greater and more organic inflow of this type of capital, and c) a short discussion of how to maximize, in programmatic terms, the usefulness of public capital from abroad for the economic development of Latin-America.

3. The inflow of public capital into Brazil and Latin America is adversely affected by the following facts:

- a) Lack of appropriate dimensions, since its volume is far from corresponding to the actual requirements of an area such as Latin America, that requires an ample volume of capital to face its grave problems, among which the low income and consumption levels and the substantial population growth;
- b) Lack of confidence in the action and capacity of

internal agencies in transferring these resources, since the inflow of public capital is more and more conditioned by all sorts of requirements, some clearly reflecting a lack of confidence in the national ability to invest the capital from abroad to the benefit of a healthy economic expansion.

- c) Lack of a better knowledge, on the part of supplying sources, of the real economic problems of the region and the size of these problems, since we encounter more often than not analyses and types of judgement on the economy and economic policy of the region which are almost exclusively patterned upon models peculiar to highly developed countries.
- d) Lack of a greater coordination among foreign sources of public capital since we frequently face difficulties in obtaining stand-by credits for domestic undertakings partly deserving of foreign assistance or see two or more external sources of funds adopting different criteria in examining and deciding upon requests for fi-

nancing made by initiatives and enterprises of a same country in the area.

- e) Unsuitable analyses as to long term prospects of the area or of some of the countries in the area, confusing circumstantial phenomena of negative and seemingly depressive effects with the vitality that these countries have shown in developing their economy and remunerating and/or repaying their commitments over a longer term.
- f) Conditions regarding term and interest, mainly the former, which are inconsistent with the type of aid needed for internal development, and which leads, as a result, to rather unbearable pressures on the scanty foreign exchange receipts of the countries of the region.
- g) Defective interpretation as to the effects of international trade on the existing patterns and external paying capacity of Latin America, an interpretation that unduly discounts the depressive influence exerted on that capacity by the instability of international prices of prima-

primary products and the deterioration of the terms of trade over the long run.

4. As a result, further to being of relatively modest proportions, the inflow of public capital into Latin America is also deficient as regards the positive influence it should exert, since the above mentioned aspects fully concur in destroying the efficacy it should and could have in aiding Latin America to break underdevelopment chains.

5. I would say that foreign public capital sources have been lacking a greater experience as regards the situation in Latin America, either in respect of its economic problems or in connection with the political situation itself, largely influenced in its disturbances by the low living standards prevailing in almost every country of the area.

* * *

6. These preliminary considerations made, let me tell you what we would like to see in Brazil as regards the inflow of foreign public capital.

7. With the arrival of the March 1964 Revolution it is no longer possible to claim that Brazil's climate is hostile to foreign capital. On the contrary, the Revolutionary Government has given every possible evidence of its appreciation of foreign capital of a positive role, that is, when intended for

the reproduction of income and expansion of the employment volume. The political environment in Brazil is one of peace and security. The combat against inflation is being firmly and rationally conducted. And Brazil tries to find every available way to honor her external commitments and strengthen her export receipts, increasing her capacity to pay over terms not as short as she has had to face,

8. It would, therefore, be incomprehensible if foreign aid in the form of public capital did not present a new aspect and new dimensions as far as assistance to Brazil is concerned.

9. We would like to see the amounts of the Alliance for Progress expanded and the distribution of funds through that important program made according to the principle of global credits to internal financing agencies, since these are the only institutions in a position to submit global plans for investment (not specific projects) and periodic reports of transfers made.

10. We would like to see the foreign sources of assistance - international agencies, Governments and other institutions, both public and private - working together in the form of overall assistance programs clearly outlining the amounts available, the sectors eligible for support or assistance, the criteria for

the extension of credits and the mechanisms for the liberation of credits granted. But everything in a simple, clear way, without undue red tape or severe requirements of exhaustive and excessively detailed analyses.

11. Under this combination, we would like to have a clear definition regarding the financing of undertakings aimed at reformulating the country's economic structure, the financing in cases of episodic or short-term difficulties (balance of payments) and that kind of financing particularly intended for undertakings of a social rather than economic nature. The definition required should cover all aspects, including those related to financial amounts and investment systems, which should be characterized by a maximum of automaticity and flexibility.

12. We would like foreign financial assistance of a public nature to consider problems typical of the country's industrialization stage, such as the serious shortage of working capital that leads to idleness of installed fixed capital.

13. We would like to see our foreign trade problems well considered and rely, for that purpose, on assistance in line with the difficulties in the balance of payments arising from exports in which primary products prevail. And, further, we would like, as a complement, external sources of public capital to consider the financing of the exports of the manufactured goods the country

is able to produce.

14. We would like to have external public financing at such interest rates and mainly at such terms as are consistent with the paying capacity of a country that depends on foreign currency afforded by a small group of primary products and makes herculean efforts to strengthen and diversify its economic structure and exports program.

15. Finally, we would like foreign assistance to clearly understand and appraise well our problems, to take into due account our national development effort and to grant just value to the appreciation that the Revolutionary Government has been showing towards foreign capital that effectively cooperates in building up the country. We would expect those responsible for the assistance of foreign public capital to have confidence in the political and economic situation of the country, faith in its destiny and a feeling of security as to the prospects of the Brazilian economy on the long run, which are irrefutable as demonstrated by the development attained as from the 1950's . To consider, finally, that the low income and consumption levels prevailing in certain regions of the country may become more threatening, from the social and political standpoint, than was the post-war chaos for Democracy in Western Europe, revived by the restoring effects of the Marshall Plan.

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16. I will speak on foreign public capital in Latin America just as candidly.

17. As it seems, it is yet to be realized that many of the countries in the area can only really develop if they can rely on the possibilities of a large sized market. History shows that many initiatives or pushes towards development, in the area, inescapably bumped against strict market limitations. Impervious as they are kept, these markets are exporters of problems and difficulties rather than of goods and services.

18. The economic integration of Latin America is, therefore, a must for the economic development of the region, and at an accelerated pace and with less sufferings. For most countries in the area, it stands as a preliminary condition, considering the small dimensions of their individual markets.

19. Thus, I believe that the greatest benefit international public capital can bring to the region as a whole is the support and assistance to its economic integration.

20. I can see two ways of attaining this objective. First, by helping these countries to solve their mutual payments problems through the establishment of a fund to permit conversion of balances and compensations within the area. Secondly, by organizing the financial assistance to the region so as to allow the

growth of the secondary sector to take place essentially in the form of complementation and not as sector competition among the countries. This latter aspect could be immediately worked upon, considering that in many industrial sectors the area as a whole is still in the stage of erection of its first production units.

21. The financing of the exports of capital goods already satisfactorily produced by some Latin-American countries would greatly help in changing and expanding lines of trade within the region, in addition to increasing the value of its terms of trade, since such a financing could, as a consequence, assist these countries in improving their possibilities of entering other markets.

22. Likewise, I think that the Alliance for Progress could decisively contribute to overcome the obsolescence existing in industries which produce consumers goods in the region, strengthening their power to compete in the internal market and sparing entrepreneurs in the area an "inferiority complex" in respect to the foreign investor, which stands as a cause of a certain hostility against the inflow of foreign capital into the area. This situation could be greatly improved if the region could count on resources from the Alliance to finance the reequipment of these industries at reasonable interest and terms. This would be a positive solution

which, further to lessen the burden of the Latin-American consumer, would also have beneficial international repercussions. Instead of placing the emphasis on protectionism, it would be shifted towards cooperation. Latin American entrepreneurs would then be in a position to face external competition within and without the area or within and without their country, as they would be on a parity level from a technological standpoint.

23. I believe, furthermore, that the moment has arrived for the Alliance for Progress to turn to the economic integration of Latin America, affording an opportunity for the implementation of sectorial common markets foreseen in the Montevideo Treaty. A reasonable degree of integration can be started in many sectors of economic activity among several countries in the area, as, for instance, the iron & steel sector, ship building, automotive industry, etc. This would require, however, external financial support of a public nature to supplement the necessary investments.

24. It would not be difficult to make investigations as to the natural capacities of each country in relation to the others, in terms of comparative advantages, later combining the liberation of intra-regional trade with scale financial assistance for the implementation or improvement of the said comparative advantages.

25. It is my opinion that, in this field, much could be done

by the Alliance for Progress in support of LAFTA. And if the area could count on this sort of financial assistance, one might rapidly consider reformulating the Montevideo Treaty so as to make it conform to the economic integration requirements of the region. The Alliance for Progress and LAFTA should tie up and converge to the same end - the development of a common market in Latin America. It is hard to see how the Alliance can succeed otherwise.

26. I also think it relevant to tell you that regionally a combined effort of external public capital sources would be important, in view of two facts:

a) the realities of Latin America's foreign trade

and

b) the natural economic ties, within the area, with the different external markets.

27. Let me explain myself. In general, the entire area suffers from an inadequate exchange revenue. And also, the area, as a whole, depends on the export of a restricted number of primary products. As a result, imports shrink in phases of depression (volume and prices) in its export schedule or when external debts tend to choke the area. It would be difficult under such conditions or during such phases to keep the internal investment pace, and equally difficult to imagine that one or

two external sources alone could satisfactorily help the region. However, a combined action by the different existing external sources might give Latin America, even in moments of strong depression in its external sector, basic levels of internal investment and convenient means for the settlement of its external commitments.

28. On the other hand, although having export schedules based on primary products, the various countries of the area show a different condition as regards the nature of exportable primary products and the control and preponderance of the markets receiving the bulk of its externally marketed products.

29. I will illustrate. A given number of Latin-American countries depend on tropical products, (coffee, cocoa, banana, etc). Another group on raw material and fuels and still another on farm and cattle products of temperate climate. Although they all suffer from instability as regards a market for primary products, the situation of each group in the international trade sector is different in economic time and space. Likewise, a group of these countries fundamentally depends on the U.S. Market; another on the western European market and still another on both markets in equal percentages.

30. It results that not always does public financial as-

sistance from one source or a group of sources adequately offset the effects of commercial difficulties of the region, which, although of common origin - primary products - present somewhat different form and entailments.

31. As regards international financial assistance of a public nature it should be enough to turn into reality the resolution unanimously approved at the World Trade Conference of the United Nations, which seems a perfect synthesis of what we feel and think in Latin America and particularly in Brazil. Thus international financial cooperation should abide by the following principles:

- a) be intended to the largest possible extent to the formulation and implementation of sectorial, regional, national or multinational development programs;
- b) be supplied with a sense of continuity in order to permit an efficient planning of the economic growth of developing countries;
- c) be supplemented by the effort on the part of under-developed countries to mobilize, to the greatest possible extent, internal resources through the necessary internal measures and policies;
- d) contribute to a balanced and diversified growth

- of the economy of underdeveloped countries;
- e) take into account the characteristics, requirements and present development levels of beneficiary countries;
 - f) be free from the obligation to purchase financed goods and services in the country granting the financing;
 - g) be channeled, whenever possible and advisable, through multilateral institutions, including regional development institutions;
 - h) take into account the role of national development institutions;
 - i) take into account the financing of local costs in respect of projects and programs;
 - j) take into account, when establishing amortization periods and interest rates, the paying capacity of the borrowing country;
 - k) promote regional cooperation and integration among developing countries;
 - l) expand the volume of long term financing, so that resort to short and medium term credit can be limited to proportions compatible with the paying capacity of borrowing countries.

