

THE FUTURE OF BRAZIL

Hudson Research Services Proposal No. 698

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For

MacMillan Bloedel, Ltd.

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## THE FUTURE OF BRAZIL

Hudson Research Services proposes to undertake for MacMillan Bloedel a rapid but comprehensive study of the future of Brazil, focusing on that country's economic and political prospects. Following a coherent overview of Brazil's prospects we will analyze the sources of potential surprises or other rapid alterations in the course of Brazilian society. We propose in short to prepare a surprise-free projection, with such variations as are appropriate, followed by an analysis of domestic Brazilian and international surprises which could greatly alter the projection. The research will emphasize effective utilization of existing research on Brazil's economy and polity.

The political characteristics of greatest interest to the future of the economy and to foreign investors are governmental stability, policy stability, government strength vis-a-vis various interest groups, and the effectiveness of various political and social institutions. Lack of certain kinds of government stability could mean disorders which would reduce growth. Lack of policy stability could bring rapid shifts from policies relatively favorable to foreign investors to policies hostile to foreign investors. A weak government faced by strong interest groups is likely to pursue economic policies conducive to serious inflation. Institutions which gradually become more corrupt or more inefficient--a serious possibility in today's Brazil--can create a general decay leading to economic stagnation.

In analyzing these four concerns, we shall examine social trends with political consequences, including the rise and decline of various social groups and changes in relationships among social groups, as well as changes in the governing institutions and in their interrelationships. In particular, civil-military relations is a crucial issue in a country governed by the military but committed emotionally and as an official national goal to some form of eventual civilian democracy. Within the formal framework (of military rule modified by the tolerance of political parties and an opposition), important shifts of role and of power occur constantly. In some periods and in some policy areas, the military governs directly, whereas in others it acts in effect as a monitoring agent analogous to a strong political party. Other more obvious changes occur in the military's relationship with non-governing social groups such as the church. Within the military itself, important changes of organization and of opinion are occurring; we must examine the possibility of a future rift between the hardliners (Linha Dura) and those more inclined toward greater emphasis on human rights and democratic procedures.

Social trends, including most importantly rapid urbanization and rapid economic growth, may bring to roles of greater influence social groups which have previously been politically ineffective; we shall examine the organizational cohesiveness of various social groups and examine the degree to which social trends are encouraging newly potent groups to side with the government or to oppose it. In this regard, we shall pay particular attention to regional, urban/rural, and urban/urban income disparities as they are affected both by growth and inflation. Since

these income disparities represent a major and widely recognized danger to indefinite continuation of the status quo, we shall discuss various potential ameliorative responses which the government might take.

All of these will be examined within the context of various larger characteristics of Brazilian society and national character. Such characteristics include, first, a desire for civilian rule, usually expressed as a policy to restore civilian government by 1980. We shall, like the Brazilians, pay particular attention to other Latin American models of civilian rule such as the Mexican and Columbian polities. The Brazilians may have a particular predilection for the Mexican model of a dominant party, always able to win but with its policies influenced by the effectiveness of the opposition. However, the Mexican model, which derives from a grass roots revolution, would be very different in operation and in consequences from any Brazilian counterpart imposed from above. A second major characteristic of Brazilian society has been the tradition of pacifism which, as in Portugal, has greatly moderated social conflicts and reduced the likelihood of a major civil war. (Contrast Spanish/Argentinian traditions of violence with the Portuguese/Brazilian pacifism.) A third characteristic noted by many observers is Brazilian oscillation between historical periods of self-confidence and equally long periods of self-deprecation; such changes of mood, although difficult to quantify, can have major consequences for growth rates and for attitudes toward foreigners. Fourth, Brazilian culture prides itself on jeito, a pragmatic problem-solving attitude.

Our economic analysis will stress the impact of domestic and international political factors on the economy. As mentioned above, strong and stable government is likely to be associated with low inflation, and political order and institutional effectiveness are likely to be associated with relatively high growth rates, unless the dominant political group becomes so entrenched as to be able to pursue its own interests without regard to the general interests of the economy. We shall provide alternative projections for the future of such key economic variables as population, gross national product, GNP per capita, and inflation, together with detailed discussion of the political, social, and international factors which could change these. We shall investigate trends in Brazil's relation to the world economy, including its debt (currently U.S.\$20 to 30 billion), its degree of dependence on trade, the prospects of its principal imports (such as oil), the prospects of its principal exports (such as coffee, soybeans, iron ore, and timber), and the adequacy of Brazilian infrastructure for sustained high growth rates.

We shall also discuss the relationship between certain complex socio-economic institutions and the prospects of the Brazilian economy and polity. One of these is the system of allowing much of the economy to be managed by American, Japanese, and European managers--which has so far been accomplished without jeopardizing or appearing to jeopardize the control by indigenous Brazilians of the nation's overall destiny. If this system were to become less effective or to become vulnerable to severe political challenge, the prospects for the country would become very different. Second, we shall undertake, with the assistance of

various specialists and perhaps of a major institution such as Price Waterhouse, an analysis of the past, present, and likely future effectiveness of Brazil's system of indexing in order to prevent inflation from damaging certain social relationships. The future of the indexing system depends on its technical effectiveness in a changing economy but also upon the political power of groups that are helped and hurt by it. Finally, we shall devote considerable attention to the likely future of Brazilian attitudes toward foreign investment, and particularly whether the Brazilian attitude in the future is likely to be one of self-confident professional management or whether on the other hand it is likely to be one of self-pitying elaboration of complexity, restrictions, and red tape.

Both the domestic polity and the domestic economy will be affected by Brazil's international role. Brazil's current policy of "responsible pragmatism" appears to include elements of ambiguity and contradiction that will have to be resolved in the future. Brazil's future could be leadership of much of the Third World in a generally hostile attack on the privileges of the rich countries. On the other hand, it could--like Taiwan, South Korea, and Singapore--find that its successes are so great that it greatly values the cooperation and support of the rich countries, and identifies with their viewpoints on many issues; such an eventuality would be consistent with Brazil's perceiving itself primarily as a major regional power, like Iran and perhaps Indonesia, intermediate between the Third World and the powerful countries. Brazil might also perceive itself in more parochial terms as primarily the leader of Latin America, or

primarily the leader of the Portuguese-speaking countries. With regard to the latter possibility, it is noteworthy that Brazil has participated in proposals for a South Atlantic Treaty Organization (SATO), which would, in effect, ally Brazil with South Africa, but on the other hand has expressed a sense of solidarity with the left-leaning Portuguese speaking countries of Africa, namely Angola and Mozambique. Clearly, Brazil faces a set of choices here which will be momentous for its future international political role and perhaps for its economic relationships. Our analyses of these alternative future self-images and roles for Brazil will be based on careful analysis of trends in Brazil's relations with the big powers (Japan, U.S. and the EEC), with its neighbors (such as Argentina, Peru, and Bolivia), and with the Third World economic movement more generally. We shall pay special attention to the likelihood of successful cartelization for each of Brazil's major exports and imports. We shall also pay special attention to issues which have been minor in the past but could become major in the future, including possibly serious conflict between the United States and Brazil over the issue of nuclear proliferation.

### Surprises

In addition to the surprise-free projection, with variations, it is necessary to consider the possibility of major domestic or international events which, although of relatively low probability, are still possible and potentially of great influence over Brazil's political or economic evolution. For instance, a failure to resolve the differences between

Panama and the United States over the status of the Panama Canal could conceivably lead to a period of protracted guerrilla warfare in the neighborhood of the Canal and to major breaks between the United States and portions of Latin America. Although new American foreign policy emphases make U.S. intervention less likely than in the past, one cannot rule out the possibility of the rise of a regime in one of Brazil's neighbors that would trigger a major U.S. intervention and thereby pose for Brazil a sharp choice between close alignment with the United States and sharp denunciation of the United States. A war between Peru and Chile could easily involve Bolivia and Brazil. A major world recession or other dramatic global economic events, such as the collapse of world energy prices, could greatly change Brazil's balance of payments and its prospects for major export growth. Development of nuclear weapons by Brazil or Argentina could fuel similar development elsewhere in Latin America, and the prospect of rapid nuclear proliferation in South America could trigger an American reaction, possibly leading to prolonged hostile political and economic relationships between Brazil and the United States. A domestic crisis within Brazil could conceivably lead to the rise of a charismatic leader like Peron who would endanger the Brazilian economy and imperil Brazil's relationships with the larger powers. We shall systematically generate a more comprehensive list of such potential surprises, together with scenarios which could produce them, and we shall evaluate the surprises as to likelihood and consequences.



### Organization of the Study

Hudson would assume the roles of organizer and coordinator of this study, with heavy reliance upon responsible officers of MacMillan Bloedel, upon existing research, and perhaps upon inputs from other major research institutions with regard to particular problems.

Hudson would quickly compile all available useful studies of Brazil. Such studies would include research monographs by outstanding scholars, data sources such as the Army Area Handbook on Brazil, and the various studies by international banks and various research organizations. Hudson would compile the most useful quantitative and expository items in a chartbook for handy reference, and would use the information so obtained as a data base for its projections.

Simultaneously, Hudson would contract out to other organizations such portions of the study as Hudson and MacMillan Bloedel agree could be most usefully undertaken by other institutions. We have in mind particularly the detailed analysis of the indexing system, the future prospects of Brazil's balance of payments, and the prospects for Brazil's income distribution. However, with regard to the latter two items, it is possible that existing studies, together with Hudson's own analyses of income distribution and land reform programs in other areas of the world, would make it possible to do much of the research in-house. In any case we would not expect to be passive recipients of such reports. Instead, we would have them carefully reviewed by people with a variety of disciplinary specialties and political perspectives and would make such comments and amendments as seemed appropriate.

We believe that early in the research it would be useful to convene a conference of 10-20 of the leading specialists on Brazil to analyze the future prospects of the country. We have in mind a conference of four to five sessions over two days, organized around a detailed agenda and perhaps around short position papers. By drawing upon individuals with a broad range of complementary skills and different political perspectives, such a conference can rapidly get all the major issues onto the table and enable the detailed subsequent research to focus on generating crucial pieces of information and exploring issues that are not part of the current literature. This would provide a major opportunity for MacMillan Bloedel personnel to consult with academic, government and business specialists. We encourage MacMillan Bloedel to suggest participants who would contribute to the conference. We would have a rapporteur prepare a summary of the conference in analytic form as one of the major documents generated by the research project.

A list of potential participants in such a conference is appended to this proposal.

#### Relations With Other Institutions

In addition to the possible Price Waterhouse study of indexing, we believe that our study would benefit from some cooperation with the Yale Economic Center, with the Johns Hopkins School of Advanced International Studies in Washington, D.C., with Business International, with ADELA (a Washington, D.C. consulting firm), and possibly with other institutions. We shall exploit their expertise and if useful undertake brief cooperative

Proposal No. 698  
MacMillan Bloedel

-10-

Hudson Research Services, Inc.  
March 11, 1977

analyses. At the conclusion of the study we shall supply, in addition to our own report, the most important and useful research materials we have accumulated from other institutions during the study.

POOL OF POTENTIAL CONSULTANTS AND CONFERENCE INVITEES

Economists

1. Werner Baer, Professor of Economics, University of Illinois
2. Eric Baklanoff, Professor, Louisiana State University  
author of "The Shaping of Modern Brazil" (1969) and  
"US Investments and Alternative Strategies in Latin  
America: Studies of Cuba, Chile and Brazil", paper for the  
Convention of ISA 1972.
3. Bela Balassa, Professor of Political Economy, Johns Hopkins;  
specialist in export policies.
4. David Barnes, Senior Economist, Banco Real, S.A.,  
specialist on Brazil's balance of payments.
5. Albert Fishlow, University of California, Berkeley;  
author of Essays on Brazilian Economic Development;  
specialist on income distribution.
6. Albert O. Hirschman, Institute for Advanced Studies, Princeton
7. Alexander Kafka, Professor of Economics, University of Virginia;  
former Director, Vargas Foundation.
8. Nathaniel Leff, Associate Professor, Columbia University,  
Department of International Business
9. Siegfried Marks, Senior Economist, Esso Interamerica;  
energy and resources specialist
10. Thomas Sanders, American Universities Field Staff writer for Brazil;  
former Professor at Brown University.
11. Donald Syvrud, U.S. Treasury Department; author, Brazilian Economic  
Growth
12. Richard Weisskoff, Professor of Economics, Yale
13. Jan Peter Wogart, Professor of Economics, University of Miami

Political Scientists/Sociologists

1. William L. Ascher, Professor of Political Science, Johns Hopkins.
2. Frank Bonnilla; specialist on politics and ideology
3. Robert Deland; author of Planning in Brazil
4. Robert Packenham, Professor of Political Science, Stanford;  
author of Liberal America and the Third World
5. Robert Pastor, U.S. National Security Council; former coordinator  
of Linowitz Commission
6. Riordan Roett, Director of Latin American Studies, Johns Hopkins  
School of Advanced Internatinal Studies
7. Philippe Schmitter, Professor of Political Science, University of  
Chicago, radical perspective
8. Ronald M. Schneider, Professor of Political Science, Columbia
9. Alfred Stepan, Professor of Political Science, Yale

Geographer/Historians

1. Robin Anderson, Professor of Latin American history, Arkansas State  
University; specialist on Amazon region
2. Thomas Skidmore, Professor of History, University of Wisconsin
3. Kempton Webb, Professor of Geography, Columbia; author of Changing  
Face of Brazil; expert on resources and food