

FIRST EURO-BRAZILIAN MEETING, Paris, luglio 1989

on the Economic and Social Policies of Development

(A note prepared by P. Sylos Labini, Professor of Economics, Facoltà di scienze statistiche, Università di Roma)

1. The problems to be discussed in the meeting are very complex indeed. I would like to concentrate my attention on a particular problem, that, however, I consider very important in the Brazilian context: the fiscal reform. I maintain that such a reform is strictly connected not only with social justice and with economic growth, but also with inflation and foreign debt. The connections between fiscal reform, social justice and economic growth have been examined by several economists, but those between fiscal reform, inflation and foreign debt have not been sufficiently considered.

2. Fiscal reform and inflation.- To try and understand a process of inflation we have to consider a number of factors - to concentrate on one factor only, like the quantity of money, is misleading. One of the factors that is worth of particular attention is the fiscal mechanism. Direct taxes, indirect taxes (including tariffs) and welfare costs are the main sources of the Government revenue. Now, it<sup>is</sup> well known that indirect taxes, when raised, are quickly shifted completely or almost completely on prices, whereas direct taxes cannot be shifted or can be shifted only limitedly and, in this case, slowly. Welfare costs are much more akin to indirect taxes and, as a rule, they are shifted on prices via the increase in the cost of labour. A Government that decides not to finance public expenditure with money creation has only two ways to follow: taxes or loans. If it choses the second way, it competes with firms and is compelled to push up the interest rate and thus puts a brake on investment. If it choses the first way - taxes - it cannot go a long way when the system of direct

taxation is inefficient; under these circumstances, the Government is bound to rely on indirect taxes, which, however, are inflationary.

In Argentina for a number of months the Austral Plan appeared to work and created great hopes both in Argentina and elsewhere. I was visiting Argentina when those hopes seemed to be well founded. Yet, in a rather long article published in an abridged form in Argentina and, one year later, in Italian and in English I was emphasizing that the risk of failure was high if certain conditions were not fulfilled ("Some reflections on the Austral Plan", Review of ~~the~~ <sup>in Italy</sup> Economic Conditions, Banco di Roma, October 1986). A complete Spanish edition was published in Argentina in 1988 by the Centro Torcuato di Tella. In that article I was raising the question of <sup>the</sup> fiscal reform. To be sure, the Austral Plan failed for a number of reasons; but certainly one of the reasons was the working of the fiscal system - in Argentina the fiscal revenue coming from direct taxes oscillates between 4,5 and 12%; in Brazil the percentages are 10-15; in Europe 30-40 or more.

The inefficiency of the system of direct taxation creates a sort of inflationary vicious circle: when it sees no alternatives, the Government increases indirect taxes (and tariffs), with inflationary consequences. But when inflation accelerates the revenue from direct taxes tends to shrink, since the intervals between the time in which incomes of families and firms are earned and the payments to the fiscal administration are relatively long (usually one year), whereas in the case of indirect taxation those intervals are much shorter. This could compel the Government to have even more recourse to indirect taxes, with the consequence that an inflationary spiral takes place. As a matter of fact, if we compare the rate of inflation and the percentage of fiscal revenue

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coming from direct taxes in different countries, we find a clear negative correlation (the relevant data can be found in the World Development Report of the World Bank).

3. Fiscal reform and foreign debt. - Under the conditions that I have just described the Government is induced - nay compelled - to apply for foreign loans, not only to finance public agencies or a share of public expenditure, but also private and State-owned firms that the Government and the internal banks are unable to finance and that find it difficult to obtain loans from banks of other countries or from international credit institutions without the State guarantee. All this means that the recourse to foreign loans tends to be pathologically large when the possibility of raising income through direct taxation is pathologically small and when <sup>the</sup> Government absorbs a considerable share of home savings.

4. Fiscal reform and social justice. - The connections between a fiscal reform aiming at rising decidedly the relative weight of direct taxes and social justice have been emphasized by many economists - I would say that they have been overemphasized. A fiscal reform of that type would be essential not so much to increase social justice as such, but <sup>to promote economic development and -</sup> to use the words of the "Raisons et objectifs de la rencontre" - "pour faire en sorte que la croissance économique puisse aller de pair avec la croissance de la justice sociale". This is particularly important in Brazil, where, according to the data of the Report of the World Bank, the degree of inequality in the distribution of income is the highest among the many countries considered in that Report. To be sure, this is also (but not only) the result of the sharp economic

(North-South).  
dualism of the country. But the fact remains and is to be changed.

5. Fiscal reform and policies of development. - A substantial increase in the revenue coming from direct taxes is essential for a policy of economic development. Putting aside projects of nationalizations or ambitious but sterile overall plans of development, there is plenty of room for wise and well co-ordinated Government interventions - financial and credit incentives, public investment for infrastructures necessary to the whole economy and to industry and for public works necessary for the development of agriculture, which should get a high priority. Here I wish only to emphasize the importance of organizing real services to stimulate the birth of small firms and co-operatives and to keep at the lowest possible level their mortality rate: this should be the task of public agencies in co-operation with the associations of private firms. Among the said services, to be organized in strategic areas, I would include technological, legal and commercial assistance (for internal and international markets). Real services should be organized also to promote the gradual modernization of the economic activities which are outside the circuit of the monetary economy - not necessarily to bring those activities within this circuit.

6. Fiscal reform and the World Bank. - No doubt, a fiscal reform represents both politically and technically a very difficult task and would require several years. An international support would be indispensable. The World Bank is not a profit institution and its support would be essential, I believe, for the success of that reform. The hypothesis to be discussed with the authorities of the Bank is that of a substantial long-term loan (I am thinking to several billions dollars) coupled with a moratorium of the outstanding debt on condition that a well articulated fiscal reform would be enacted and gradually carried out: each "tranche"

of the loan would be paid only after presenting evidence that the fiscal reform is being carried out according to the agreed program. The service of the debt should have to be related to the increase of tax revenue. Any creditor is entitled to put the conditions that are deemed to give the correct guarantees when granting a loan; in this case all political and economic forces interested in the social and economic development of Brazil (including the organizations representing trade unions, modern industrialists and enterprising landowners) should be asked to co-operate with the Government both in framing the fiscal reform and the agreement with the World Bank.

7. Various obstacles to a fiscal reform. - To be sure, the interests of the well-to-do, who risk to be more seriously hit, represent a serious obstacle to a fiscal reform. But we should not underrate another obstacle - skepticism, that is, the idea that both the political and the organizational obstacles are so serious that they cannot be overcome. I am old enough to remember that after the war in Italy this was the state of mind of many economists and many politicians. Yet, a reform was enforced and in a limited number of years its relative success was evident - a success that, from the technical point of view, is to be attributed to a number of simple rules. It is true that in Italy tax evasion - especially among the self-employed and the professional people - is still considerable. But the situation is far better than it was in the Fifties, as the share of direct taxes on total fiscal revenue shows (35%; in the early Fifties it was not very different from the share that we observe in Brazil to-day).

The obstacles represented by the interests involved can be considerably reduced if a climate of consensus is established in the society. I hope that all left-wing forces completely abandon the old idea of Marxian extraction that the clash between

the "owners of the means of production" and the other members of the society is irremediable - there can be no peace between St George and the dragon. The truth is that as long as there is democracy, however imperfect, the "rich" need a certain consensus from the "poor", and vice-versa. To be sure, economic conflicts - like those that take the form of strikes - are inevitable (and useful); but such conflicts do not contradict the idea that a general consensus is both desirable and possible. I believe that for a Government like the one envisaged in the presentation of the program of the meeting such a consensus - which is social and not only political - would be vital and should have top priority in any strategy. If such a consensus is obtained, then, even a radical fiscal reform, given time, would become possible.



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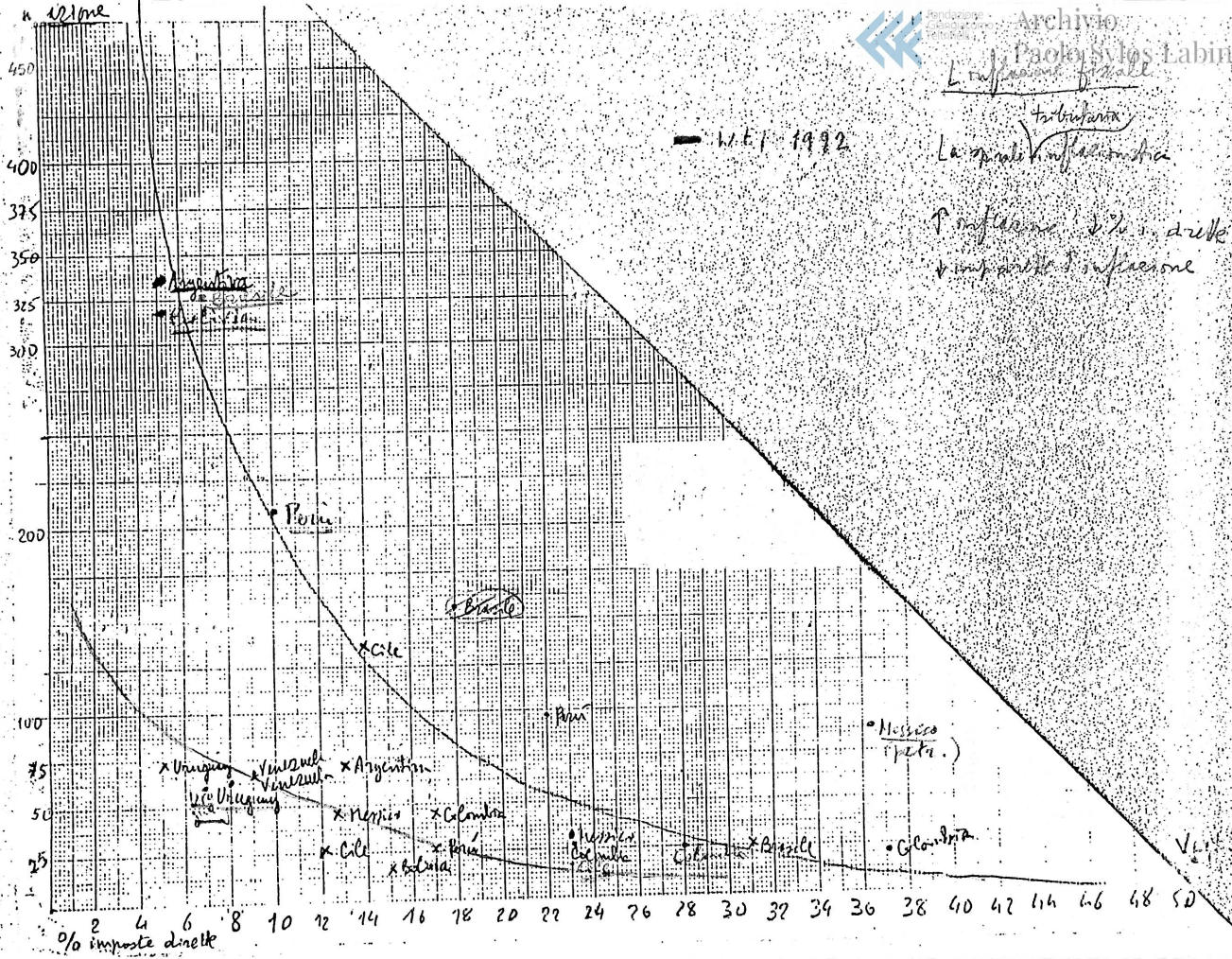
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— W.E.I. 1992



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W.E.I.

PREMIERE RENCONTRE EURO-BRESILIENNE  
sur les Politiques Economiques et Sociales du Développement

Paris, du 17 au 23 Juillet 1989

FIRST EURO-BRAZILIAN MEETING  
on the Economic and Social Policies of Development

Paris, from July 17th to July 23rd 1989

Paris, le 27 juin 1989

*Monsieur le Professeur,*

Nous vous remercions d'avoir bien voulu confirmer votre participation à la réunion ci-dessus mentionnée. Nous avons pris note du(des) jour(s) que vous avez retenu(s) pour votre présentation et la discussion qui suivra, soit: le 17/7. En principe ces dates conviennent, dans le cadre de la planification actuelle des sessions; toutefois, il est possible que nous soyons amenés à un stade ultérieur à procéder à de légers aménagements pour équilibrer les sessions, mais nous garderons bien entendu à l'esprit que les dates que vous nous avez communiquées ne sont pas vraiment flexibles. Nous vous contacterons par téléphone, si nécessaire.

Entre-temps, nous souhaiterions que tous les participants internationaux nous adressent une courte auto-biographie, pour l'information des participants brésiliens, en particulier. Nous nous proposons en effet de préparer un petit "Who's Who" pour les intéressés.

En outre, il serait très utile que vous puissiez nous envoyer un ou deux textes dont vous êtes l'auteur et qui refléteraient le mieux votre pensée sur le thème de la réunion. Ces textes seront reproduits au Secrétariat à Paris et mis à la disposition de tous les participants pendant la réunion.

Nous souhaiterions également recevoir de votre part, dans la mesure du possible, des informations bibliographiques relatives à la littérature publiée ou non publiées par vous-même et d'autres collègues ou personnalités, et dont vous recommanderiez la lecture au groupe brésilien, dans le contexte de leurs préoccupations.

Nous vous serions très reconnaissants de nous adresser ces informations dès que possible et vous en remercions à l'avance.

Je vous prie d'agréer, Monsieur, l'expression de mes sentiments distingués.

*V. Di Giacomo*

Valérie Di Giacomo  
Co-ordinatrice

Prière de m'adresser personnellement votre réponse à l'adresse ci-dessous:  
c/o ANCO

146, Les Bureaux de la Colline  
92213 SAINT-CLOUD CEDEX, France

Cf. note en annexe



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Monsieur le Professeur,

Comme suite à la conversation téléphonique que je viens d'avoir avec vous à l'instant, je vous adresse, comme promis, une copie de la lettre d'invitation qui vous a été adressée le 5 Mai au Département des Sciences Statistiques et Démographiques de l'Université de Rome (Via Nomentana, 41, à Rome) et que vous n'avez pas reçue.

Ainsi que je vous l'ai indiqué nous souhaiterions vivement vous avoir parmi nous, ne serait-ce que pour une journée, afin que nos amis brésiliens puissent bénéficier de votre expérience et de vos travaux sur le Brésil et l'Argentine, et que vous avez éloquemment esquissés au téléphone.

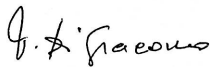
J'espère donc que vous pourrez réorganiser vos projets personnels et participer à la session du 17 juillet après-midi (la matinée étant réservée aux brésiliens seuls). J'ai bien noté que vous projeteriez de partir de Rome le 16, pour repartir si possible vers Alghero dans la soirée du 17, ou le matin du 18 juillet.

Dès réception de votre confirmation, nous ferons le nécessaire pour vous adresser un billet pre-paid. Selon votre calendrier de voyage, il faudra prévoir des réservations d'hôtel, à moins que vous ayez vos propres habitudes à Paris. La période étant assez critique, le plus tôt sera le mieux.

Entre temps je vous serais très reconnaissante de bien vouloir nous adresser les documents dont vous m'avez parlé, afin que nous les fassions reproduire pour les mettre à la disposition des participants; pour le bénéfice des Brésiliens en particulier, nous voulons établir un document donnant quelques indications biographiques des participants internationaux, avec des indications bibliographiques qui reflètent aient leur pensée sur les problèmes intéressant le groupe brésilien.

En vous remerciant à l'avance de votre co-opération, je vous prie de croire, Monsieur le Professeur, à l'assurance de mes sentiments les plus distingués.

Valérie Di Giacomo  
Co-ordinatrice



Monsieur le Professeur Paolo Sylos-Labini  
Via Capodestria, n° 4  
00198 ROMA, ITALIE

July, 20, 1989  
 Via Capodistria 4, 00198 Roma

Professor Stanley Fischer  
 Vice-President and Chief Economist  
 The World Bank  
 Washington DC

Dear Professor Fischer,

recently I have been invited to participate to the "First Euro-Brazilian Meeting" in Paris to discuss, with several important European and Brazilian economists and politicians (e.g. Raymond Barre, Jacques Attali, Edmar Bacha, Mario Covas, candidate to the Presidency of the Republic, Fernando Henrique Cardoso, senator), the means capable of promoting at the same time, economic development and social justice. Since I was unable to participate, I have sent a note, a copy of which you will find enclosed herewith. I don't know whether it will be of any use; in any case, I try to follow Keynes's dictum: "the economist should throw pamphlets [and notes] to the wind" - hoping for the better.

Yours sincerely,

*T In that meeting two World Bank high officials were also invited, that is, Mr. David Hopper and Professor Colin Bradford.*

Paolo Sylos Labini


 UNIVERSITA DEGLI STUDI DI ROMA - LA SAPIENZA -  
 DIPARTIMENTO DI SCIENZE ECONOMICHE Fax 868054

 11 July 1989  
 Via Nomentana, 41 - Tel. 868054 - 862780  
 Via del Castro, Lucreziana, 3 - Tel. 868054  
 00161 ROMA

 Miss Valérie Di Giacomo  
 First Euro-Brazilian Meeting  
 18/20, quai d'Orléans  
 75004 Paris

Dear Miss Di Giacomo,

since, as I told you by telephone, to my regret I am unable to participate to the meeting, I have written a note, that I am sending by telefax, together with some bio-bibliographical information included in the volume "Who is Who in Economics" edited by Mark Blaug and published in 1986.

I shall be grateful if you will send before the meeting a copy of my note to my dear friend Professor Ignacy Sachs of the Ecole des Hautes Etudes en Sciences Sociales, who appears in the list of participants. I shall be grateful, too, if you will be so kind as to inform me about the results of the meeting. My Sardinian address is: c/o Garau, Via Lepanto, 07040 Stintino (Sassari).

Yours sincerely,



Paolo Sylos Labini



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11 July 1989  
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Yours sincerely,

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