Brazil, Venezuela and Colombia: Out of the 1990s Economic Pattern

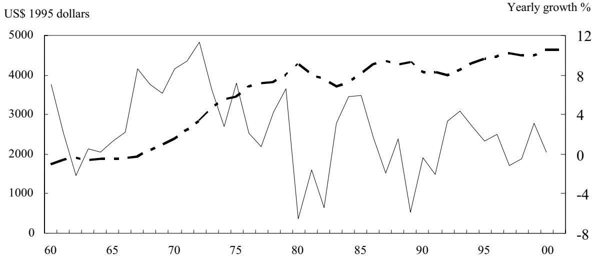
Ana Sueyoshi

These countries have timidly implemented superficial or partial plans, or the way they have addressed the reforms is a succession of back and forth measures; in contrast to Chile and Mexico, and Argentina and Peru. These countries evidenced clear grouping characteristics regarding reform implementation: earliness and rapidness, respectively.

Brazil: successive economic plans

The dismantling of Brazil's pattern of financing was a process initiated in the mid-1970s with the ambitious development goals embraced by the Geisel government. The growth of public financial schemes to foment activities, the state-private sector joint companies, and the subsidies to promote industrialization placed too much pressure on funds availability. The negative external shocks of 1979-80 and the rationing of external credits represented the last drop in the glass (Zini, 1992). The Brazilian economy experienced high growth in the 1970s (See figure 1). The average rate of growth was 6.8 percent per year in constant prices, led by a strong performance of the industrial sector, as can be observed in the figure below.

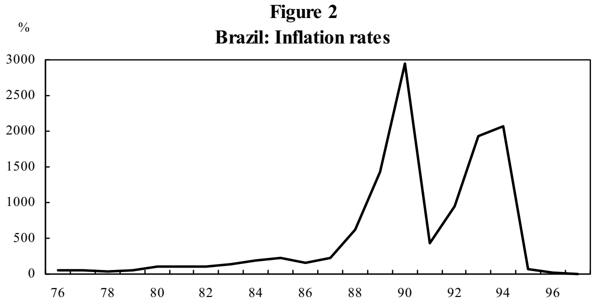
Figure 1
Brazil: growth rate and GDP per capita



1. Growth deceleration period, the 1980s

However, in the 1980s the average growth rate dropped to -0.6 percent per year (See figure 1). This contrasting performance was the result of internal and external causes: the lack of a national growth project and the reversal of the external credits. The economic policy in this decade was a succession of attempts to adjust the economy shifting between external and internal balances.[1] The transition of power to civilian hands in 1985 implied a renewed commitment to promote growth and create jobs. The rapid expansion of the domestic demand caused the price to rise (Zini, 1992).

Figure 2
Brazil: Inflation rates



The Cruzado plan

In 1986, through this plan, prices and wages were frozen, and price surveillance system was launched. But differently from other LAC countries' experiences, the Cruzado plan expanded also the money supply to buy part of the outstanding domestic debt and to provide the economy with liquidity to meet the rise in demand due to inflation reduction. This was also a heterodox experiment, but it did not combined orthodox elements as the Austral and Apra plans did in the cases of Argentina and Peru. After only one year, in 1987, the inflation goals could not been

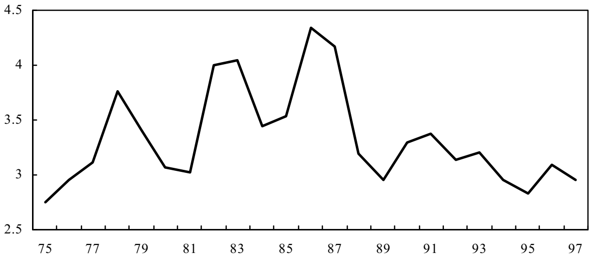
[1] Periods of reduction in absorption to balance the current account were followed by periods of domestic growth to appease domestic pressure groups and periods of restrictive monetary policy in programs to fight inflation.

achieved and the government announced the moratorium of the external debt payment. A change was necessary.

The other consecutive attempts to curb inflation

From 1987 to 1989, in only two years, *un défilé* of finance ministers was observed, each of them with their own magic recipes to attack inflation. The Bresser plan adopted measures to curb domestic demand and cut real wages, Minister Nobrega tried to stabilized inflation and clear arrears in external payments by implementing a debt-conversion program, and based on price-wage freeze, the Summer plan attempted to fight inflation. However, the result was the already well known hyperinflation of the 1980s, as it can be seen in figure 2, proving that the Brazilian economy was resistant to many of the different programs tried in the 1980s. The rise in inflation in the second half of 1989 meant the necessity to implement a once-and-for-all program to deal with inflation.

Figure 3
Brazil: Total external debt / exports ratio



2. The beginning of the reforms

The Collor plan

In March 1990 when President Collor de Melo took office, an anti-inflation program based on fiscal reform, trade liberalization, and monetary reform was implemented. The rationale was the elimination of the public deficit and repossession of control over the money supply would defeat inflation while the

Table 1
Brazil: Major Structural Reforms, 1990s

Situation pre 1994	*Post 1994*
Privatization	
✓ Considerable number of commercial firms and banks controlled by the state.	✓ Some firms were privatized.
Prices	
✓ Price controls.	✓ Market-determined prices except wages (1990).
Trade liberalization	
✓ Fixed exchange rate system.	✓ Floating exchange rate. ✓ Tariffs were lowered.
Fiscal sector	
✓ Large fiscal deficits. ✓ Welfare burden.	✓ Tax rate was increased and expenditures reduced. ✓ Deficit was eliminated. ✓ Governmental agencies were reduced.
Domestic financial sector*****	
✓ Controlled interest rates. ✓ State-owned banks. ✓ Control of credit.	✓ Market-determined interest rates. ✓ Re-privatization of banks. ✓ Liberalization of capital markets.
Capital mobility****	
✓ Control of capital movements. ✓ Government was the main external borrower.	✓ Liberalization of capital account. ✓ Private sector was the main external borrower.
Labor regime	
✓ Strict regulation protecting workers' interest.	✓ Almost no change.

structural reforms would place the economy on a new growth path (Zini, 1992: 214).

Important components of the Collor plan were the administrative reform and privatization, trade, fiscal and monetary reform. By implementing this plan the number of ministries was reduced to nine, and privatization program started, some fiscal benefits were eliminated, tax rates increased, tax incentives suspended, expenditures lowered, floating exchange rate, trade liberalization, and saving accounts[2] were blocked and transferred to special accounts on the order of the Central Bank of Brazil. However, the weak foundations of the monetary reform urged the implementation of Collor Plan II that was mainly based on price freeze, fiscal discipline, and wage indexation law.

Considering the negative results brought by the Collor Plan, a more conventional program, in other words an orthodox economic package was carried out. It was aimed at achieving fiscal discipline, abandon the price freeze, and renegotiate with the international banking system.

Although Brazil experienced periods of economic expansion and contraction in the 1980s, per capita GDP at the end of the decade was about what it had been at the beginning. The debt crisis did not impose as heavy a blow on Brazil as it did, for example, on Argentina or Mexico.

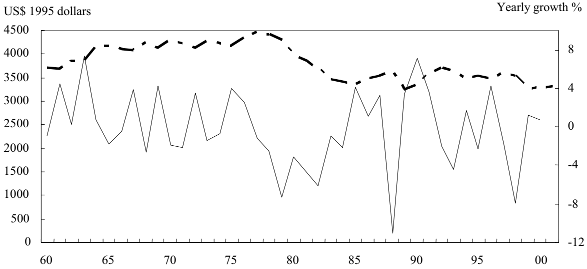
The Real plan

Brazil and Argentina shared a common economic path from the mid-1980 until the end of the decade, when the so-called heterodox programs were implemented in both countries. However, their stories diverge sharply in the 1990s. Brazil unlike Argentinean fiscal austerity, slipped back into large fiscal deficit leading to a high inflation rates, when almost every Latin American country was toward single digit inflation rates. The implementation of the Real Plan by President Cardoso brought down the inflation rate and made all the efforts to keep the fiscal accounts balanced.

Venezuela: a net-oil-export country, a different story?

Considerable reliance on natural resource wealth is one important characteristic of this country's economy. In comparison to the other regional economies, Venezuela was not urged to implement stabilization packages as its southern most neighbors were, and it also applied late economic reforms because apparently there was no need for them as future higher oil prices were expected to close the various macroeconomic gaps.

Figure 4
Venezuela: growth rate and GDP per capita

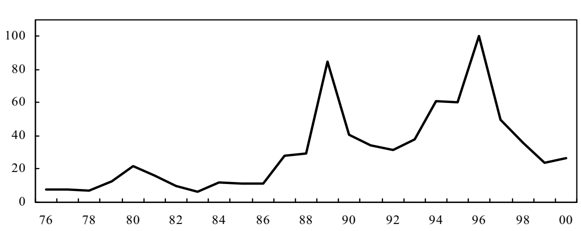


1. High but erratic economic growth

Between the 1950s and the 1970s, the Venezuelan economy was a model of high growth and domestic price stability, even if its growth rate showed a high volatility due mainly to its dependency on oil price swaying. In the 1950s GDP per capita grew 4 percent annually. In the 1960s per capita GDP growth slowed down to 2.4 percent, and inflation rose to 2.4 percent. During the 1970s, even when inflation was 3.5 times higher than in the 1960s, per capita GDP continued growing at an annual pace of 1 percent. Although during the seventies Latin American economies emerged as one of the most dynamic regions in the world, Venezuela was outstandingly an exceptional case.

[2] Accounts in excess of NCz $ 50,000 (about U.S. $ 1,200) were blocked for eighteen months, and transferred to the order of the Central Bank of Brazil in some special accounts called VOB, and were to be redeemed in twelve installments starting in September 1991.

Figure 5
Venezuela: Inflation rates



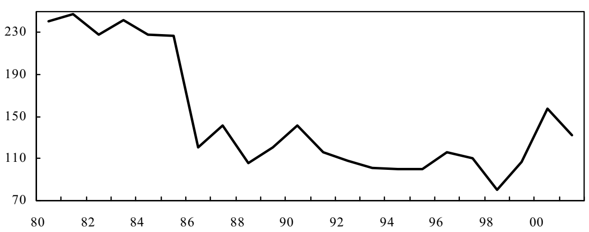
2. The eighties: going with the regional tide

This enviable performance ended in the 1980s, when annual inflation rose to an average of 23 percent, and per capita GDP contracted (See figures 4 and 5). Exogenous factors like the collapse of oil prices and debt crisis played an important role. However, domestic economic policy which could cope with external shocks was not applied.

Venezuela can be singled out in the region, because this country has registered and increase of volatility in its growth rate after the 1980s(see figure 4), in spite of its advantageous sustained economic growth before the crisis, when the others had unpredictable growth rates. So far this country has not been able to recover the income level it had before the 1982 debt crisis. On the other hand as mentioned before, Venezuela's income level has decreased in comparison to the rates before the 1980s.

Venezuela, once a country that exhibited spectacular expansion before the eighties, turned into one of the most eclectic and unstable economic environments in LAC in a decade. This negative turn for the worse is due to some simultaneous negative causes: a fall in oil export revenue derived by the slump in world prices, volatile international financial environment, and political uncertainty.

Figure 6
Venezuela: Terms of trade (1995=100)



3. The nineties: going against the regional tide

While in the nineties most of LAC were recovering

Table 2
Venezuela: Major Structural Reforms, 1990s

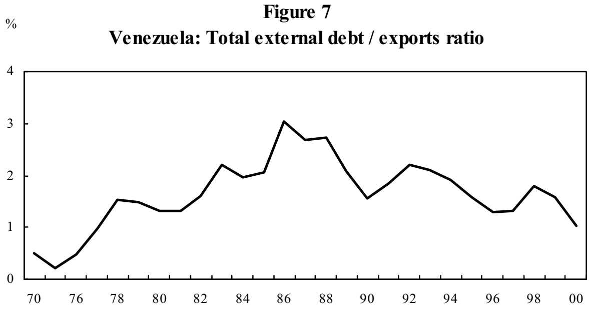
Situation before 1990s	*Post 1990s*
Privatization	
✓ More than 500 commercial firms and banks controlled by the state.	✓ By 1980 only 25 firms (including one bank) remained in the public sector.
Prices	
✓ Price controls.	✓ Market-determined prices except wages (official adjustments) and exchange rate.
Trade liberalization	
✓ Multiple exchange rate system. ✓ Prohibitions and quotas to imports. ✓ High tariff (average 94 percent, maximum 200 percent). ✓ Prior deposit for imports.	✓ Homogeneous and unified exchange rate. ✓ Flat import tariff of 10 percent (excluding automobiles). ✓ Absence of other trade barriers.
Fiscal sector	
✓ "Cascade" sales tax. ✓ Large fiscal deficits. ✓ Large public payroll.	✓ 20 percent value-added tax. ✓ Fiscal surpluses in 1979-81. ✓ Public sector retrenchment program.
Domestic financial sector	
✓ Controlled interest rates. ✓ State ownership of banks. ✓ Financial resources managed by the state	✓ Market-determined interest rates. ✓ Re-privatization of banks. ✓ Liberalization of capital markets.
Capital mobility	
✓ Control of capital movements. ✓ Government was the main external borrower.	✓ Liberalization of capital account. ✓ Private sector was the main external borrower.

from the eighties nightmare, which was evidenced on the positive macroeconomic outlooks for the first half of the 1990s, Venezuela was an economy with deteriorating indicators on almost all fronts. Negative results in the current account of the balance of payments and central government's fiscal position, soaring inflation due to expansionary monetary policies, and high interest rates that jeopardized the stability of the banking system prevailed in the nineties economic policy of this country.

Common social and economic problems to other LAC countries became a serious issue in Venezuela: increasing unemployment as a result of the economic weakness, and growing informal sector as a desperate individual economic measure to cushion the negative impact of the serious situation.

From 1989 through 1992 the favorable conditions of the world oil prices had positive spillover effects on Venezuela. However, from 1993 this economy fluctuated yearly from negative to positive growth rates, and registered both, sharp deterioration of the growth rate of around 8 percent and sudden economic recovery of 4 percent. This scenario was a result of unfavorable oil prices and economic mismanagement and political instability.

Figure 7
Venezuela: Total external debt / exports ratio



By the late 1990s the Venezuelan government solicited an enabling law from Congress to be able to swiftly implement economic emergency measures. The major fiscal measures fast tracked by the government were: tax reform and public administration streamlining, both aimed to reach sound fiscal balance.

Despite Venezuela's privatization program of state-owned industries started in the early nineties, parallel in timing with other economies in the most diverse sectors (telecommunications, steel, sugar, oil refining, tourism, dairy, cement, airlines, banking and insurance), it was not before than 1998 that the privatization of the almost bankrupted social security system took place.

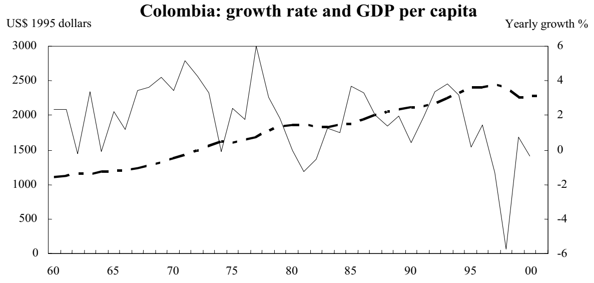
By the late 1990s, unlike other neighboring countries, the Venezuelan economy kept some anachronistic economic measures such as minimum wage in the public sector, negotiated wages in the private sector, and managed crawling peg of its currency, the Bolivar.

As it was four decades ago, Venezuela continues to be highly dependent on the oil sector, accounting for roughly one-third of GDP and around 80 percent of total exports. The dimension of this sector is determinant on the influence of the petroleum prices oscillation on the other economic activities.

Colombia: a completely different pattern?

Within the Latin American context, this country had been characterized as the least volatile economy. The country's stability was evidenced in their main economic indicators as growth, inflation, outstanding external debt, and fiscal deficit.

Figure 8
Colombia: growth rate and GDP per capita



The external environment for Colombia has been the same as for the other Latin American economies, it means unfavorable terms of trade, reduction of availability of capital flows and increase of interest rates, but this country had the virtue by far of performing the best and most stable[3] economic policies in the region during 1970-1992 (Inter-American Development Bank, 1995.)

1. The 1980s' regional star

During the turbulent 1980s, Colombia was together with Chile, the best performer among Latin American economies. Although at the end of the 1980s Colombia did not face severe macroeconomic imbalances, it was certainly facing serious institutional problems.[4] In the 1980s, it was the only major regional economy which did not restructure its foreign debt, as a result of the debt crisis initiated by Mexico's 1982 moratorium.

Despite this fair economic performance, the external shocks originated by the cut of external financing and the worsening of the terms of trade in the first half of the 1980s, forced Colombia to implement economic adjustment based on real exchange rate depreciation by mini devaluations whose effects on domestic production tried to be offset by a major hike in the degree of protection. By the mid 80s Colombia[5] was considered probably the least open of all LAC economies.

Also the Colombian economy registered severe distortions in other areas as labor legislation. As it has been the case in a number of LAC countries, Colombia's labor system was extremely rigid, imposing very high costs on formal sector. The financial sector was also highly distorted. An important number of banks was state controlled, and their ownership was highly concentrated. The capital market was strictly controlled by exchange regulation.

2. The launching of the Colombian market-oriented reforms in 1989-91

Indeed, during the final years of the Barco administration an economic reform program was initiated. This was intensified during the first two years of Gaviria's presidency. Although Colombia was not facing a major economic crisis, a severe political and institutional breakdown were evident.The strategy followed by the Gaviria administration has as centerpiece the enactment of a new Constitution, which allowed the authorities to go beyond the economic sphere and to launch major political reforms, [6] and allowed the authorities to carry on structural economic reforms.

In September and October 1990, proposals related to foreign exchange management, financial sector, tax, labor regime, housing, ports, and trade liberalization were submitted to Congress. Finally in 1992 those reforms were introduced along with pension reforms and decentralization and privatization process.

3. The imminent crisis one decade later

Up until 1998, Colombia was considered the regional stellar performer, in terms of reception of foreign investment, fiscal discipline, inflation, and of course economic growth. However, in July 1999 Colombia entered into an extended facility agreement with the IMF as a result of serious deterioration in most economic indicators (Edwards, 2000). Clearly, problems currently affecting Colombia went well beyond economics, as political and social tensions have intensified in the country.

[3] It is interesting to single out that while its neighbors were experimenting with many exchange rate systems, Colombia kept for almost 24 years the same crawling peg exchange rate system adopted in 1967. The stability of the exchange rate system has coincided with remarkable institutional stability in related agencies as the Central Bank and the main exporters association, Federation of Coffee Growers (Edwards, 2000).

[4] Basically the country was affected by drug trafficking, guerrilla activities and political reform.

[5] The average nominal import tariff was almost 60 percent and 99 percent of the imports were either prohibited or required prior import licenses.

[6] It is important to highlight the opening of the political system, making peace with the guerrilla's and bringing drug lords to justice.

Table 3
Colombia: Major Structural Reforms, 1991s

Situation before 1990	*Post 1990*
Privatization	
✓ Banks controlled by the state.	✓ Large number of financial firms privatized. Also privatizations were conducted in telecommunications, oil, and tourism.
Prices	
✓ Crawling peg exchange rate.	✓ Market-determined prices.
Trade liberalization	
✓ 99 % of the total items were prohibited or required import licenses. ✓ High tariff (average 60 percent).	✓ Absence of other trade barriers.
Fiscal sector	
	✓ Value-added tax of 12 percent.
Domestic financial sector	
✓ Controlled interest rates. ✓ State ownership of banks. ✓ Control of credit.	✓ Market-determined interest rates. ✓ Privatization of banks. ✓ Liberalization of capital markets. ✓ New Financial Law.
Capital mobility	
✓ Control of capital movements.	✓ Liberalization of capital account.
Labor regime	
✓ Highly protective worker's rights.	✓ More flexible labor regime. ✓ Private pension funds.

Conclusions

These three economies have as a common characteristic a timid implementation of superficial or partial plans, in other words, the way they have addressed the reforms is through a succession of back and forth measures; in contrast to other countries such as Chile and Mexico, and Argentina and Chile that evidenced clear characteristics regarding reform implementation.

Brazil the largest economy, Venezuela once one of the richest economies thanks to their oil resources, and Colombia, the only Latin American country that in the eighties did not deal with external debt problems and could grow at a sustained pace. In the last thirty years, these three countries have intermittently applied either strict or expansionary fiscal and monetary policies, principally due to the in-office administrations or due to the prevailing economic environment. The results evidenced in their performances have not been very satisfactory. Brazil faces deep-rooted poverty and inequality which exacerbates its already critical social situation. Unfortunately, chronologically coinciding with the Argentinean crisis, Venezuela also was challenged by economic and social turmoil. And finally Colombia is a country that has serious political instability worsened by drugs-trafficking activities and an insurgency movement.

The Brazilian economy, a model for growth in the seventies, was characterized by an endless sequel of stabilization packages after the 1982 debt crisis. As well as its neighbor countries, Argentina and Peru, it also experienced heterodox programs in the eighties. However, contrary to these two countries the promised results were never achieved, particularly the anti-inflationary targets, and Brazil had to look for other alternatives. In contrast to Argentina and Peru that rapidly embraced the full Washington Consensus' economic package, Brazil implemented several policy measures over time that still had some non-orthodox components. It was not until 1994 that Brazil started to carry out a more coherent program that followed the prescription already adopted by the other countries.

The enviable performance of Venezuela, thanks to the oil-export benefits, ended in the 1980s, when exogenous factors like the collapse of oil prices and debt crisis pushed the country into a prolonged recession that domestic-economic-policy could not cope with it, instead its income per capita was irreversibly affected, and they have not recovered to these days. In fact the current income level per capita is far lower than the level that was achieved in the sixties. While in the nineties most of LAC were recovering from the eighties nightmare, evidenced by the positive macroeconomic outlooks for the first half of the 1990s, Venezuela consisted of an economy with deteriorating indicators on almost all fronts. Negative results in the current account of the balance of payments and central government's fiscal position, soaring inflation rates, expansionary monetary policies, and high interest rates prevailed in the nineties economic policy of this country.

Within the Latin American context, Colombia has been characterized as the least volatile economy, evidencing stability in their main economic indicators as growth, inflation, outstanding external debt, and fiscal deficit. Although this country was not facing major economic crisis, severe political and institutional breakdown urged the authorities to launch structural economic reforms from 1990 to 1992.

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Brazil, Venezuela and Colombia: Out of the 1990s Economic Pattern

Ana Sueyoshi

Brasil, Venezuela y Colombia: Un patrón diferente de crecimiento económico en los noventa

Si bien es cierto que la economía de América Latina en la década de los noventa tiene claros matices neoclásicos, hubo países que en el afán de no verse completamente involucrados en la vorágine dictada por el Consenso de Washington, tímidamente o con avances y retrocesos se animaron a seguir parcial o esporádicamente la “receta.” Este artículo tiene como objetivo ofrecer un recuento de la economía más importante de la región, Brasil, y de otras dos de mediana escala, como Venezuela y Colombia, que por diversas razones de índole política y económica principalmente, se mantuvieron al margen de la tendencia ortodoxa predominante, pero que luego inevitablemente cayeron bajo el influjo de la misma.

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