Agriculture in brazil: perils, trials, and economic crisis

Business, Industries

This paper examined the historical and political rule of agricultural policy formulation in Brazil from 1964 to 1992. The article also centered on how trade, credit, and support-price policy evolved in response to economic crisis and democratization in the 1980s.

The economic crisis caused the agricultural policy of Brazil to be redesigned with the change in political regime and with the institutions of interest-group representation that significantly influenced the direction of policy reform programs and assessments.

The return to a democratic regime of this nation permitted the local legislatures and the judiciary to take part in more significant agricultural policy rules. Simultaneously, the republic led to the questioning of other institutions and there was an emergence of more participatory organizations in the agricultural sector.

These changes have caused policy making to become increasingly subject to explicit rules, which should lead to more predictable policies and a long-term reduction indiscriminationagainst Brazilian agriculture (Helfand 1999).

Brazil promoted agriculture and greatly achieved a rapid expansion in this sector, but its record onpovertywas disappointing (Helfand 2001). One reason was that biases within the agricultural sector, notably in taxation and subsidized credit, favor large farmers and work to the disadvantage of labor.

These biases interact with the highly inequitable initial land distribution to reduce the gains to the poor from growth. Brazil vividly demonstrates that promoting agriculture is not enough. Policies within the sector also matter.

Brazil's income tax greatly favors agriculture in relation to other sectors, but only the rich can reap the benefits. Through special provisions in the income tax code, corporations can exclude up to 80 percent of agricultural profits from their taxable income, and individuals can include 90 percent. Fixed investments can be fully depreciated in the first year and can even be depreciated two to six times over.

This, together with high inflation, encourages corporations and the rich to over invest in land. The result has been the accumulation of large

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landholdings and increases in land prices that exceed growth in land productivity. The poor do not benefit from the tax breaks, since they pay no income tax, and they cannot afford to buy land. Many move to frontier areas in search of unclaimed land.

A progressive land tax could offset the bias in the income tax. Brazil tried this but failed because of widespread evasion and many exceptions. One such exception, intended to encourage land use, reduces the tax by up to 90 percent if owners use the land to graze cattle. This promotes the conversion of forestland to uneconomic livestock ranching, reduces the demand for labor, and has harmfulenvironmentconsequences (Grahan 1987).

Agricultural credit has been exceptionally distorted in Brazil. Until recently, real interest rates on official credit were negative, and real interest rates on loans for agriculture were lower than in the nonagricultural sector (Grahan 1987).

The difference in credit terms between sectors has been capitalized in the price of land. Although subsidies raise profits in agriculture, they have mainly benefited large farmers and have encouraged excessive mechanization, again reducing the demand for unskilled labor. Poor people who lack land titles have not benefited from credit subsidies.

Agricultural policies in Brazil have reduced labor demand and have made it almost impossible for a poor person to buy land and become a farmer. Opportunities for unskilled workers to acquire skills by becoming long-term workers have been substantially reduced by subsidized mechanization (Helfand 1999).

The years from 1947 to 1963 were generally called the import substitution period. The primary agricultural goal in the first period was to produce an adequate supply of reasonably pricedfoodfor urban wage earners. A secondary goal was to generate foreign exchange tofinancethe importation of industrial raw materials and capital goods. Agriculture was not considered a vital growth sector, but rather a reservoir for surplus labor not absorbed by rapid

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industrialization. From 1961 to 1963, food shortages, high food prices, and near hyper-inflation forced the government to give more attention to the agricultural sector. The inability to cope with these problems and concern over leftist politics resulted in the military-led revolution of 1964.

The second period (1964 to present) is a phase of economic growth characterized by export expansion and diversification. The military governments after 164 advocated a completely different role for the agricultural sector.

The relative backwardness of the sector was acknowledged, but the causes and cures were perceived quite differently. Farmers were believed to be responsive to prices and the distortions and disincentives created in the earlier period were gradually removed. New government investments and incentives emphasized modernization of agriculture (Truran 1977).

Large quantities of subsidized credit were tied to the purchase of " modern" inputs such as improved seed, fertilizers, chemicals, and machinery (Grahan 1987). These inputs were made more easily available by exchange rate controls, overvalued exchange rates, tax exemptions, and direct government distribution.

Low interest loans for operating costs and investment expenditure encouraged farmers to produce certain crops and livestock. Investments to improve marketing and transportation facilities were made, in part, to benefit the agricultural sector.

Agricultural research and extension received more attention as the development and adaptation oftechnologybecame important in the face of stagnant yields (Truran 1977).

Agricultural development in Brazil throughout its history has also been associated with the extension of its land frontier. After 1950, this process has been supplemented by some infrastructure development, undertaken by large farmers and private companies, who

were heavily subsidized through negative interest rates, especially in the 1970s (Grahan 1987).