ABOUT THE OBJECTIVITY OF THE ECONOMIST

The more intense the process of transformation of the society in which they live, the greater is the burden of responsibility of the intellectuals. It is in these rapidly changing societies that one can can be aware of the great social problems that exist, which thus opens up a unique opportunity to men of learning to conscientiously cooperate in the improvement of culture and to contribute to the development of man as a social being. This responsibility cannot however be fulfilled if Universities, where men of learning tend to congregate, are not adequately equipped and guided in a superior manner. Without the systematic and disciplined effort of researchers and without the dedication of analysts that are meticulous and conscious of methodological requirements, the interpretation of social processes becomes overly dependent on individual inclinations and on the social position of each within the social structure. I know and admire the tradition of this Faculty as a center of intellectual work. I very much appreciate the opportunity these graduates of 1959 have conferred on me to stand up here on stage to recount something of my experiences and concerns as an economist from a generation that has already done its part.

More than other scholars of society, one must demand of the economist a strict definition of principles. Objectivity, in economic science, is greater the more explicit those basic principles of living in society, which have been set down and accepted by the economist, are. The fundamental difference between us and the economists of the generation that preceded us is exactly in this: we do not believe in pure economic science, that is, independent of a group of pre-established principles of social coexistence, of value judgments. Some of these principles can tend towards universality, such as the norm that says that social well-being should prevail over the interests of the individual. Nevertheless, at the stage we find ourselves, one of huge disparities in levels of economic development and social integration, not to mention the antagonisms that prevail with respect to ideas of social coexistence, it would be totally wrong to instill in the mind of the economist an equivocal idea of objectivity, lent to the physical sciences.

For the economist, objectivity means understanding exactly that the economic phenomenon cannot be caught outside its context, and in order to place it within this context, value judgments are required that presuppose the acceptance of principles. Whenever it is possible to agree on this principle, it is then not difficult to establish the criteria of rationality, thus creating an economic science that is sufficiently effective to point out the interdependence of past and present phenomena and suggest tendencies in relation to future behavior of relevant economic variables. In the highly developed nations, which have therefore reached a high level of social integration, a relative agreement on certain basic principles can easily be achieved. The same however, cannot be said for a rapidly transforming and heterogeneous country, like Brazil.

Nevertheless, having understood the limits of our objectivity already constitutes considerable progress. We no longer need to look abroad for prefabricated solutions to our problems, claiming that elsewhere there are economists who are more capable than those we have here. Unless it can be proven that the value judgments of these good economists correspond to the social coexistence principles that we postulate, their recommendations are more likely to be less objective for us than those of our own economists, in spite of their limitations.

The conflict that some Brazilian economists have had with the theoretical experts at the International Monetary Fund, in the current year, is a clear example of this problem of objectivity. The Monetary Fund economists accept, as a principle, that nothing is more important for an economic system than a minimum degree of stability. Like all assumptions, this results from experimental observations, observations furthermore that have been made in countries with relatively homogeneous structures. In these structures, economic growth occurs with a moderate degree of inflation. As soon as this level is surpassed, the criteria of rationality begin to fail, with the result that growth slows or its social costs increase. Under such conditions, the therapy to correct inflation consists, as a rule, of a reduction in public spending or private investment.

In trying to universalize these rules, the economists at the International Monetary Fund make a mistake of serious consequences for underdeveloped countries, an error that is that much more serious when it results from the application of supposedly scientific criteria.

The heart of this question lies in the fact that to assume stability is a distinct thing, depending on whether you are dealing with developed or underdeveloped structures. To assume the stability of the United States is to assume full employment of the labor force, that is, the full use of productive capacity. Sometimes, this can ultimately be an assumption in the maximum growth rate that is compatible with the principles of social coexistence accepted in that country. Avoiding that inflation pressure passes a certain critical point, in the United States, means maintaining the growth rate at its highest level.

On the other hand, avoiding any kind of collapse in effective demand signifies defending a high level of investment. Thus, all it takes for the United States to see its historical growth rate increase and even possibly double is for it to maintain a reasonable level of stability in its economy. We can therefore state that the economists at the Monetary Fund are totally objective when they think in terms of a highly developed economy. Objective in terms of the basic principles that rule North American life, that is to achieve maximum well-being within the regime of free economic initiative.

If one transplants these IMF conclusions to a country like ours, they become much less objective. Unable to think in terms of full employment of labor, stability becomes a problem that is strictly based on price levels. Taking into account fluctuations in external demand and the precarious guidance of investment, to maintain the level of prices stable, without other measures, can result in permanent unemployment in part of the productive capacity. Thus, stability can have a social cost that is higher than that of inflation itself. To transform stability from a means to an end is to opt for the immutability of income distribution as the basic principle of social coexistence. As this has not been made explicit by the Monetary Fund's economists, we must then conclude that they lack the necessary objectivity to tackle our specific problems.

This proof of objectivity should be applied by us, economists, to those fundamental problems that divide opinions amongst those responsible for economic policy in this country. This would be a valuable contribution from economists to provoke awareness of the problems faced by our social development. We can take as an example the boiling issue that translates into the dichotomy between those who defend foreign capital and those who are ardent nationalists.

Dialogue between these two groups has become impractical thanks to the fact that the implicit principles are distinct and not always clearly established. Setting off from a variety of different principles, each speaker tries to demonstrate the lack of reality of the contrary viewpoint. Let us look at the case of those who defend foreign capital. They assume that in an underdeveloped country, the production factor which par excellence is lacking, is capital; to increase the rate of investment using own resources is extremely difficult in view of the low level of per capita income.

This is the vicious circle of poverty. To break it one must urgently call upon foreign aid. This line of thought however largely results in the transposition of observations made in homogenous and highly integrated systems to underdeveloped economies. The underlying principle here is that the pace of growth is a known function of the level of employment since it is the level of employment that determines on one hand, the rate of investment, and on the other, the efficiency of investment application. In other words, in a developed economy, on reaching full labor force employment conditions are created under which the rate of investment achieves its optimum level and under which the entrepreneur's expectations reach their maximum in terms of objectivity. Under such conditions, to interfere in the growth process through an artificial increase in the savings rate could result in a modification in demand conditions and a drop in the efficient use of new investments. In this case, only an influx of foreign investment can raise the rate of investment without reducing its average efficiency.

To apply this model to an underdeveloped country is, therefore, an act that greatly lacks objectivity. If a country like Brazil had to depend on a steady inflow of foreign capital in order to develop, its present prospects would be very inauspicious indeed. This is because the inflow of foreign capital signifies the creation of a permanent flow of income from within the country to the outside. If this foreign capital contributes to increasing exports or substituting imports, then this outflow may not create problems for the balance of payments. At our present stage of development, however, the typical foreign investor has largely contributed to the creation of new habits of consumption and stimulated demand amongst high and medium income consumers. He has thus contributed to a reduction in voluntary saving whilst at the same time created a flow of income abroad with serious consequences for the balance of payments.

One can admit, based on historical experience that the capacity of foreign payments by this country will continue to grow at a slower pace than global demand. In other words, that the real value of exports will grow less than the real product and this observation is valid for almost all nations. But, that isn't all. If, on one hand the prime international currency has a tendency to become an ever-scarcer asset amongst us, on the other hand, its demand is likely to be increasingly intense, for the simple fact that technological advancement is greater outside Brazil than within its borders.

This problem did not exist at the time when foreign exchange served us merely or entirely as a means of buying consumer goods. But, we have now entered an era in which our imports have become basically made up of equipment, and equipment containing the latest advances in technology. We no longer simply import rail tracks, rail wagons or trucks, but rather equipment that represents cutting-edge technology. In view of this, the contribution of foreign capital needs to be faced with its cost in terms of the reduction in capacity to import equipment over an indefinite period in the future. This problem does not exist for a highly developed nation, due to the simple fact that its growth depends much less on importing equipment and technology from abroad.

We can now consider the problem of those who are intransigently against foreign capital inflows. This side assumes that the advantage to the country of the influx of foreign capital is totally fictitious, because this capital that arrives here links itself to domestic saving, thus contributing to its denationalization. Funds borrowed in the country by foreign groups, once settled, are transformed into foreign capital, and this contributes to increasing the volume of funds leaving the country and to increasing pressure on the balance of payments.

However, even if one recognizes a high degree of truth in this view, one cannot deduce from it that this country can develop without a contribution, and in some cases a sizable contribution, of foreign capital. Brazil is nothing more than a small part of a global economy in expansion. And, in this global economy, technical development is taking place, through preference, in just a few countries who are fully aware of this important asset they have. Even if we became fully conscious of this problem and as from today made a great effort to seek independence on the technological plane, we would still have to pass many decades servile to scientific research and its technical applications in the great centers of the world. Therefore, like it or not, a good deal of modern technology is either almost inaccessible or costs a good deal of money.

On the other hand, this technology, in many cases, is only efficient if it continues to benefit from the ceaseless toil of the great centers of research that designed it in the first place. Alternatively, it requires from the very start, tried technical personnel that is difficult to recruit. How can we develop this nation with its huge dimensions without fully using the resources of modern technology? And, how can we gain access to these resources without paying the price they cost?

In looking at the results of our analysis, we come to the conclusion that in order to be able to profit from the real benefits of foreign capital, those derived from the influx of constantly updated technology, we need a policy that regulates the inflow of this capital. To allow a disorderly influx of such capital would undoubtedly deprive the country, in the future, of the real advantages of cooperating with this capital in less accessible technological sectors. On the other hand, to create conditions of generalized hostility to foreign capital would mean increasing the price that we will always have to pay for the indispensable contribution of alien technology, and thus, making it more difficult for our country to develop.

We should now consider another aspect of the problem. In a developed country, as we have already seen, the rate of growth achieved under the condition of full labor force employment can be considered as optimum. It would be difficult to surpass this rate without compromising the normal functioning of the system, unless the country benefits from an influx of foreign capital. There is nothing further from the reality of an underdeveloped nation than this statement. What accounts for the low pace of growth of an underdeveloped country is less the problem of low volumes of investments and more the problem of inadequate allocation of this investment.

It is for this reason that those adepts of laisser faire economics appear to be so far outside reality in a country like ours, especially in poorer regions. In these poorer regions, laisser faire simply means the perpetuation of misery. Resources available for investment are allocated to luxury homes, sumptuous clubs or exported. Such investments do not create permanent jobs for the population and, therefore, contribute nothing to changing the economic structure. In a good year, of good harvests and great exports, investment can double without any fundamental change occurring. To put a stop to a system of this kind, we need to fundamentally modify the allocation of investments, which always requires firm action on the part of the public authorities. In the first phase, investment must be concentrated on the infrastructure sector, for which private initiative cannot be counted upon to contribute in any significant way. In the second phase, incentives have to be created to enable private investment to redirect itself. It is difficult for a modification of this order in the structure of investments to take place spontaneously.

The basic problem of underdeveloped countries is increasing the efficiency of their investments. This problem almost didn’t exist at the stages when development took place under pressure from growing external demand. The dynamic element then acted from the outside inward, where the allocation of investments reflected, on one hand, a growing external demand and, on the other, the action of diversifying domestic demand through its own growth. Investment in infrastructure could be carried out by private groups, such as those interested in financing foreign trade in clear expansion.

The present situation is totally distinct. There is no dynamic factor acting from outside inward. Infrastructure investments cannot be allocated on the basis of defined export lines. Not only is financing of infrastructure investments a complex task but allocating these investments is too. The government, whose task is to raise the funds to finance these investments, has not as yet equipped itself however, to adequately allocate them. The result is therefore, that we have a very low efficiency level in these investments. And it is from this inefficiency of basic services that we get external diseconomies for the private sector as a whole.

I believe that the most important step to be taken in improving our economic policy is to discipline public investment with greater rigor. Such discipline presupposes careful analysis of the tendencies and potential of the national economy. The supplementary actions of the State should be present in all sectors if this discipline is to be effectively enforced. Private initiative can broadly increase its efficiency if it can develop its projects on a playing field thus illuminated by longer-term projects of infrastructure investment.

We need to make a big effort to review all that we teach in our universities about investment theories. In no sector of economic theory has the concept of laisser faire been as prejudicial as it has been in investment. We readily accept that the State accounts for a third or more of investment in the economy, but we don’t seem concerned by the fact that the State does not have objective criteria to guide these investments.

We thus come back to the initial question of objectivity in economic science. How can we formulate an objective investment theory, be it public or private, if we don’t first accept certain principles related to the State’s guidance of social development? These principles are implicit in our fiscal, monetary and foreign exchange policies or are altered when we create credit organisms to finance certain types of long-term investment. What has really been lacking is mere open discussion on these principles, discussion from which could emerge an authentic doctrine of national development capable of agglutinating the constructive effort of men of learning.

If we had these directives, it would be much easier to direct the men of action to a clearer understanding of the problems they confusingly face in this rapidly changing country. Thus subject, evidently transcends the exclusive responsibility of economists. Political science, sociology and other disciplines should be equally mobilized. The ideals of social coexistence, especially in a society with a high degree of class differentiation, cannot be strictly subordinated to the criteria of economic development. The final goal of all of us who work in the areas of social sciences, is to create conditions for the improvement of man, harmonically developed. One cannot ignore the fact that in an underdeveloped nation, the economic aspects of social development take on a high degree of urgency. It is not possible to educate a man before you have satisfied his hunger. Nevertheless, to relegate other aspects of the social problem to a second level would be to compromise the subsequent development of a culture that should mold the man of the future.

The Faculty of Economic Sciences at the University of Minas Gerais and its Economic, Political and Social Sciences Institute, have achieved exceptional prestige throughout the country as research centers and centers of analytical and interpretive work on our economic development. Economists who have graduated from here are already contributing across the country to raising the standards of out centers of research and learning.

The class that has just completed its university curriculum belongs to the generation educated under the sign of economic development and, especially under the sign of transformation of this state into one of the country's most industrialized regions. The economist who has just graduated will no longer have to fight, as those who left schools ten or fifteen years ago had to, against those remnants from the 19th century, who dug in against industrialization, against state participation in the economic field, and against the independence of thought vis-à-vis ideas that had been consecrated in old texts. Nevertheless, the battle for these new economists will still be long and arduous. It will be up to them to consolidate the independence of thought and objectivity in the interpretation of our problems. It will be their duty to raise that which has previously been done by others in the heat of improvisation, to a level of scientific work and to the serenity of university activity. The imaginative audacity of yesterday should be completed and corrected by the in-depth work of men whose scientific education has already benefited from clearings opened up in the old orthodoxies. The path you take is long, but fascinating. I would like to express my wishes of happiness to you all and I predict that you will have a fruitful journey.

Speech given as class valedictorian by Celso Furtado on the occasion of bestowal of BA degrees at the Economic Sciences Faculty of the University of Minas Gerais, on December 4th, 1959. This transcript, with minor alterations, in *Subdesenvolvimento e Estado Democrático* ("Underdevelopment and Democratic State") - 1962, by C. Furtado. Recife: Condepe.