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Effects of Neoliberal Reforms on Small-scale Agriculture in Brazil

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Abstract

Following the 1980s debt crisis, many developing countries like Brazil were pushed by the International Monetary Fund to adopt a variety of neoliberal reforms which limited government interventions, reduced subsidies, and opened up the economy to international trade and competition. This article reviews the effects these neoliberal reforms had on small-scale agriculture in Brazil, by looking specifically at coffee farmers. It shows that even though production increased initially for all coffee producers, market competitiveness soon favored capital-intensive landowners and foreign interests but marginalized small rural farmers. The reforms also had the unintended consequences of an accelerated urban migration and environmental degradation.

I. Introduction

Brazil underwent major economic shifts as it began to industrialize quickly after World War II. The military government, which took power in 1964, intensified Brazil's industrialization, using a stepped up import-substitution strategy.[1] When inflation and slow economic growth hit in the late 1970s, the government was forced to borrow externally. That external borrowing was not to invest more in industrialization, but to avert a balance-of-payments crisis. When the world economy went into a recession in the early 1980s, the large external debts of Brazil and many other developing countries became unsustainable and triggered the 1980s debt crisis. Brazil and many other developing countries were forced to go to the International Monetary Fund (IMF), which imposed strict conditions (known as structural adjustment) and attempted to control the macroeconomic policies of their loan recipients.

Neoliberal reforms, which reduced subsidies and government intervention as well as liberalized markets, had complex repercussions for Brazil's agricultural sector. The impact

[1] See Perz (2000), p. 845.

on Brazil's coffee market is illustrative. Initially, production increased for all coffee producers. However, soon market competitiveness favored capital-intensive landowners and foreign interests, and thus marginalized small rural farmers. Exposing the small-scale farmers of Brazil to the world economy, at a time when world coffee prices fell dramatically low, forced them out of the market. The new policies also encouraged mass production, expansion of farmland, and mono-crop coffee planting, which adversely affected the environment in Brazil, causing soil degradation, which has hurt the agriculture sector's promise today.[2]

This article examines the effects of neoliberal reforms on small-scale agriculture in Brazil. Following this introduction, the next section provides a brief review of the literature. The third section presents some empirical background, while the fourth section examines the effects and unintended consequences of neoliberal reforms in more details. The fifth section offers a broader critique of neoliberal reforms (mostly based on Stiglitz, 2002), before the last section provides some conclusions.

II. Brief Literature Review

There are various contributions looking at the impact of Brazil's neoliberal reforms from various perspectives. A mostly descriptive report by the Food and Agriculture Organization of the United Nations (FAO) (2002) provides detailed data on the major characteristics of agriculture for developing countries. For instance, it shows that the prices of agricultural products, especially food, fluctuated sharply during the 1980s and 1990s, which had important implications for the economies of developing countries and especially their small-scale farmers. The report also shows that neoliberal reforms adopted during that time made the situation worse for small-scale farmers.

Watson and Achinelli (2008) look into the effect of Brazil's neoliberal reforms specifically on coffee producers, and conclude that Brazil's neoliberal reforms have hurt its most vulnerable people (i.e., the small-scale rural farmers) the most. The Brazilian government adjusted its import-substitution strategy to development in the late 1980s because high inflation and external debt were beginning to plague Brazil's macroeconomic health. Like many other parts of the world, Brazil began to implement neoliberal economic reforms, including in the agricultural sector. These neoliberal reforms reduced subsidies and government intervention and liberalized the market. They also encouraged greater production and increased efficiency for coffee producers and exporters.[3]

Perz (2000) examines the connections between neoliberal reforms and rural-to-urban migration. He concludes that Brazil experienced a mass urban migration as a result of neoliberal reforms and the economic conditions of the 1980s. The rural populations in Brazil lost over 1.4 million residents annually between 1980 and 1991. As economic recession, urban migration and globalization took root in Brazil, the government continued to invest in agricultural capital and mechanized farming. Yet, this did not have a positive effect on small famers as it hurt their ability to compete with large farms.

[2] See Watson and Achinelli (2008).
[3] Watson and Achinelli (2008).

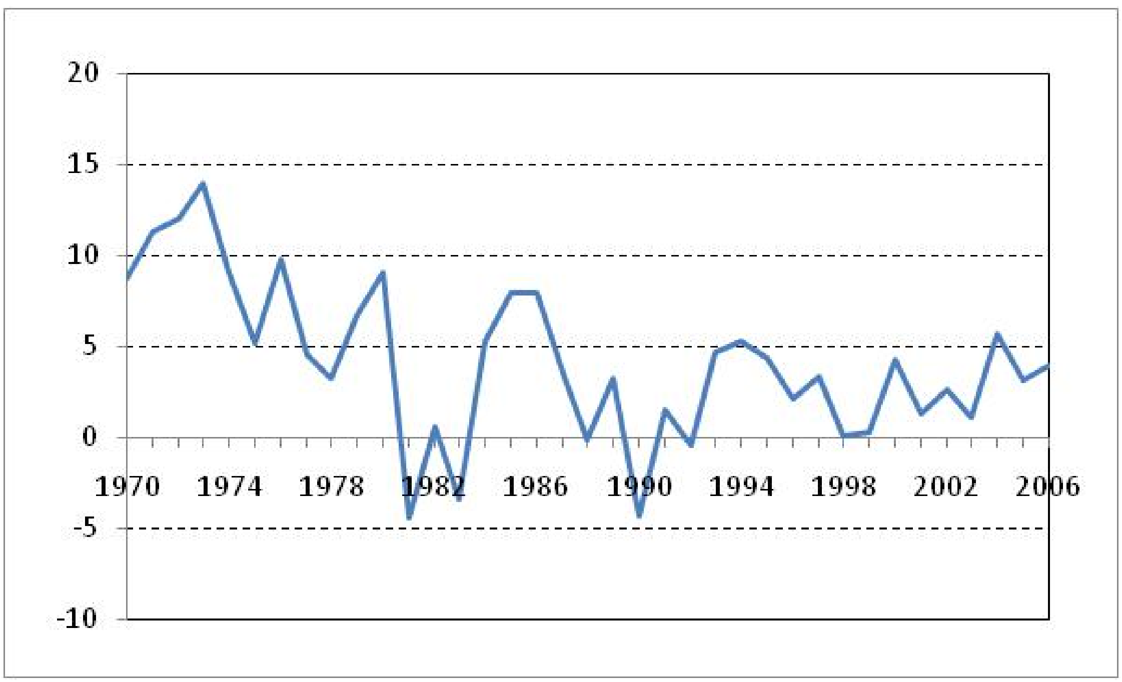
Stiglitz (2002) is one of the most influential critics of the neoliberal reforms that the IMF and World Bank imposed on the developing countries such as Brazil in the 1980s. The IMF focused on macroeconomic conditions like a country's budget and its inflation rate, while ignoring other major indicators such as economic growth and unemployment rates. In this famous critique, Stiglitz (2002, p. 27) accuses the IMF of confusing means with ends by focusing exclusively on the reduction of inflation rates.

Most recently, Araujo (2009) reviews a study by the Brazilian Institute of Geography and Statistics (IBGE) that highlights the benefits of small-scale agriculture in Brazil. The report implies that small-scale farming is more efficient than large agribusiness in terms of land use. This has important implications for international development. Based on the IBGE report, Araujo argues that supporting small-scale farmers is a key strategy to improve food security.

III. Empirical Background

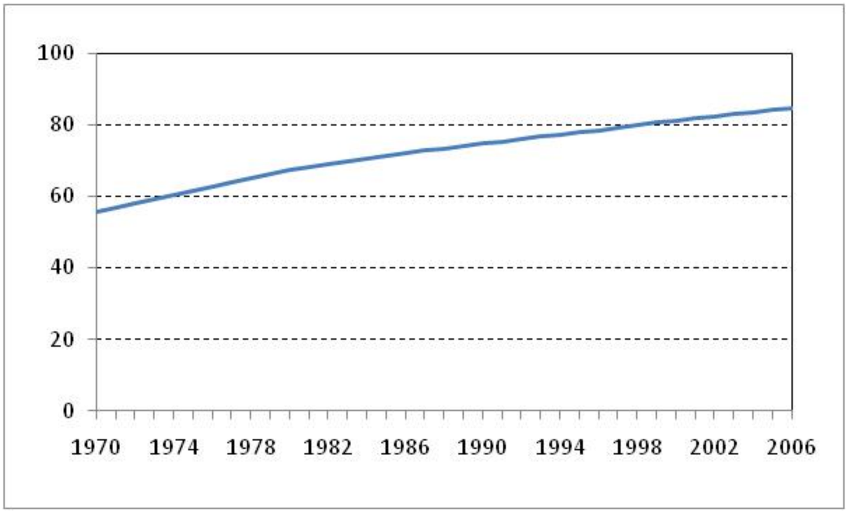
As Figures 1 and 2 show, Brazil experienced intermittent growth in its gross domestic product (GDP) and rapid urbanization since the 1970s. While the rural population accounted to 44.2 percent in 1970, it accounted for only 15.3 percent in 2006.

Figure 1: Brazil's GDP Growth, 1970-2006



Source: World Bank (2008) *World Development Indicators 2008*, CD-Rom.

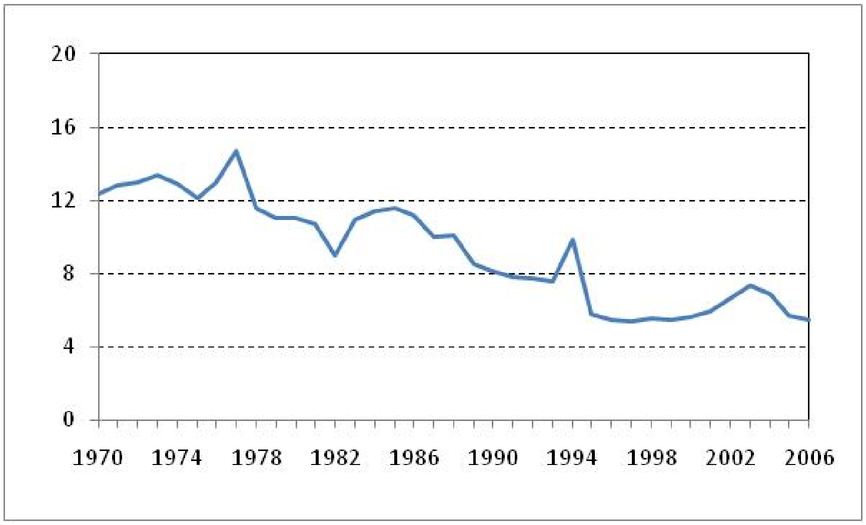
Figure 2: Brazil's Rapid Urbanization, 1970-2006
(percent of urban population in total population)



Source: World Bank (2008) *World Development Indicators 2008*, CD-Rom.

The rural exodus is also reflected in the overall decrease of the agricultural sector relative to GDP. As Figure 3 shows, the share of agriculture decreased from an average of about 12.7 percent during the 1970s to only 6.3 percent during 2000-2006.

Figure 3: Share of Agriculture in GDP, 1970-2006 (in percent)



Source: World Bank (2008) *World Development Indicators 2008*, CD-Rom.

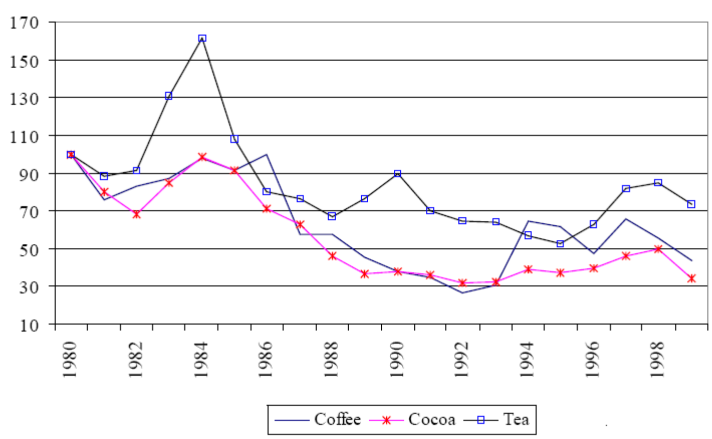
Despite the decrease in the share of agriculture in Brazil's GDP, agriculture remains an important development issue for Brazil as about 15 percent of all female employees and about 23 percent of all male employees were in the agricultural sector in 2006. The people depending on agriculture are on average also poorer than those depending on nonagriculture. In terms of merchandise exports, food exports were as high as 46.3 percent in 1980, dwarfing food imports of 9.6 percent.

One of the most telling statistics is that external debt, which soared from 35.2 percent of gross national income (GNI) in 1982 to 51.5 percent of GNI in 1983. In 1984, Brazil's external debt rose to its highest level (52.7 percent of GNI) since 1980. This heightened external debt forced Brazil to borrow from international institutions which imposed strict conditions. Patel and Cassel (2003) explain that Brazil adopted its first structural adjustment deal with the IMF in 1982, and then had to make another deal in 1988. The liberalizing measures that the IMF forced on its loans to Brazil drastically reduced the role of the government, especially in agriculture. While trade barriers were lowered to open up Brazilian agriculture to the world market, the government's price supports, subsidies, credit and marketing services were all taken away. Thus, poor rural farmers lost the ability to compete and were pushed out of the market.

This is supported by the data, which shows that during the late 1980s and most of the 1990s, real prices that producers received for both domestically bought and exported agricultural goods fell to about half of what they were before. It is also reflected in Figure 4 below, which shows that coffee prices took a sharp decline after the liberalizing reforms took place in Brazil and elsewhere, flooding the market with goods and increasing competition to push down prices.[4]

Figure 4: A. Real Agricultural Commodity Price Trends, 1980-1999

(1980 = 100; deflated by the price index of manufactured exports of industrial economies)



Source: Food and Agricultural Organization of the United Nations (2002), Figure 1-A, p. 221.

[4] The International Coffee Agreement, which was a cartel of coffee-producing nations, suspended its price control clause. Immediately after that, coffee prices began to drop dramatically. Brazil and other coffee-producing nations could not agree on export quotas, encouraging all of them to dump their coffee onto the world market, and thus exacerbating the problem. Coffee prices fell to all-time lows in 2004, allowing corporate interests to gain a greater share of coffee's export revenues, and further reducing the ability of small-scale farmers to compete and survive. As a result, small-scale producers faced decreasing returns to scale; see Watson and Achinelli (2008), pp. 227-229.

Furthermore, the FAO (2002) report identified coffee as the most volatile of all agriculture crop prices between 1986 and1989. Raw agricultural goods seem to be more vulnerable to market price fluctuations than other goods. The report (p. 219) points out that: “The sluggish demand for primary agricultural commodities and the recurring conditions of boom and slump in their exports have created problems for commodity-dependent economies. Unstable commodity prices and export earnings are well known to make development planning more difficult and to generate adverse short-term effects on income, investment and employment.” Thus, aside from the effect price instability has on small-scale agricultural producers, it also hurts the government’s ability to invest in development. In addition, those that specialize in production of primary commodities will lose their share in world trade unless they have a major cost or quality advantage over their competitors.

As will be shown in more details below, Brazil’s rural poor were disproportionately harmed by neoliberal policies. Rural poverty is now twice as high as urban poverty. Inequality in Brazil also affects the rural population severely. The poorest decile of Brazil’s population gets about 0.7 percent of Brazil’s total income, while the richest decile of the population gets almost 50 percent of Brazil’s total income. Land distribution figures mirror the high income inequality as about 20 percent of the rich rural dwellers own 88 percent of the land (Patel and Cassel, 2003).

IV. Effects and Unintended Consequences of Neoliberal Reforms

IV.1. Effects of Neoliberal Reforms on Brazil’s Coffee Production

Brazilian agriculture has undergone major transitions in the past 30 years, and it is important to understand the history and examine the causation of these trends in order to help support Brazil’s agricultural sector today. Because Brazil is the world’s largest coffee exporter, Watson and Achinelli (2008) chose to examine coffee production in the context of the 1980 neoliberal reforms, to see how these reforms affected small-scale coffee farmers. The neoliberal reforms in Brazil liberalized trade, privatized certain industries and services, intensified agriculture, and reduced or eliminated state-funded interventions. As a result, trade barriers were reduced, foreign investment increased, and transnational involvement increased. These transitions dramatically affected coffee producers.

Governments in South America had intended to capitalize on their comparative advantage in agriculture—with climate, labor, and opposite seasons from the Global North—to increase their agriculture exports and improve the plight of the rural poor. However, these good intentions had the opposite result; market liberalization altered rural livelihoods in a way that favored the large, capital-intensive farmers and marginalized the small-scale farmers and rural poor. It is important to remember that neoliberal reforms affect “[d]istinct social, political, cultural, and environmental contexts”.[5]

For Brazil, the following factors shaped the coffee farmers’ ability to adapt to these neoliberal reforms: the countries longstanding leadership in the global coffee market, the increased mechanization of production, high inequality of land distribution, and the state’s historical heavy role in the coffee sector. Within this context, Watson and Achinelli (2008,

[5] See Watson and Achinelli (2008), p. 224.

p. 225) deduce that in "attempt to mitigate socio-economic constraints, [small-scale farmers] often inadvertently become enmeshed in a cycle of increased coffee production, land degradation, and poverty."

With the neoliberal reforms, the government reduced its role in most sectors, but continued to invest in mostly large-scale coffee production, and the supported coffee producers became more efficient (see Watson and Achinelli, 2008, p. 224). For example, the state offered low-interest credit for land and modern inputs, as well as subsidies for modern technology such as tractors, which benefited mostly medium and large scale producers. This is evident as medium to large scale producers received about 66 percent of state credit to expand their landholdings and investment. As a result, those who had enough collateral for credit gained even more of an advantage over smaller productions. According to these coffee policies, the competitiveness of producers and exporters increased, but at the cost of marginalizing small-scale farmers, increasing environmental degradation, and increasing poverty.[6]

The unfortunate consequences of these policies are easy to oversee. From the traditional economic point-of-view, these neoliberal reforms succeeded in reducing the role of the government, opening-up to the global market, and increasing production and efficiency. But these statistics do not tell the whole story, where the rural farmers and their whole communities lose their entire livelihoods, especially as there are no other jobs for them. Traditional economists view the neoliberal reforms positively because of the overall increased efficiency, which means that inefficient producers must fail and exit the market.

Exiting one market and entering another may not seem terrible difficult for those of us who reside in highly complex, industrialized areas. However, forcing entire communities out of work by favoring large-scale farmers, and offering no assistance or guidance for these farmers is devastating. Their knowledge and skills as coffee farmers, which may be the only human capital that community has collected, is now rendered to be useless. This is where neoliberal reforms hurt underdeveloped markets, and where traditional economics should recognize that market imperfections force laborers into economically unproductive, socially devastating unemployment.

IV.2. Unintended Urban Migration

A serious implication of the neoliberal reforms was mass-migration from rural to urban areas. Perz (2000) studies the sources and consequences of this migration. While 44.6 percent of the population lived in rural areas in 1970, the rural population fell to 24.5 percent in 1991. The government focused heavy-capital investment on subsidies of modern inputs, such as fertilizer, tractors, and chemicals rather than focus on land reform, which was highly unequal. Perz (2000) also points out that capital penetration in agriculture reduces land availability and labor demand, thus fueling rural-urban migration. This is because increased productivity and profit opportunity draws the large, mechanized farms to expand production via land expansion, and because of the increased mechanization reduces the need for laborers.

[6] See Perz (2000), p. 848.

Another reason why the government invested heavily in agriculture and pushed the demand for rural laborers down is the growth of agricultural-related industries. Perz (2000, p. 853) explains, “[d]uring the 1980s, a new linkage further integrated agriculture and industry, as capitalized agricultural operations began to produce crops and livestock to be processed by industry into value-added goods, largely destined for export.” The government’s desire to expand both raw and value-added agricultural exports encouraged it to invest in modern agricultural input, which cut the demand for rural labor even more dramatically.

Again, this policy encouraged large-scale farmers to become more powerful and left small-scale farmers to go out-of-business and move to urban areas for jobs. This has serious implications for the environment also. Not only are modern inputs and large-scale farming considered to be harmful to the environment, but also the urban areas were not planned well enough to absorb the mass migration of people, and poor environmental standards persisted from overcrowding and lack of sanitation (see Perz, 2000, p. 843).

IV.3. Unintended Environmental Harm

Unlike the rest of the world which uses shade-grown coffee, Brazil employs a sun-grown coffee strategy with high-yielding modern coffee seed varieties. This is a highly exploitative method. On Brazilian farms, coffee trees are planted in close proximity to one another across steep slopes. The steep slopes which the profit-maximizing farmers chose to work on are precarious because heavy rainfall induces soil erosion of the unstable topsoil from over-planting of coffee trees. Soil erosion limits the average lifespan of a Brazilian sun-grown coffee tree to fifteen years, so every fifteen years, farmers move on to new land.[7]

Intuitively, the pressure on land expansion puts pressure on small-scale farmers to seek new land, which is often done by forest clearing. As a result, the forest coverage next to Brazil’s most important coffee-growing state has been reduced to about 2 percent in the late 1990s. If the international community is serious about issues such as deforestation and environmental sustainability, it must consider the consequences of the economic policies that it pushes onto the developing world. [8]

It is not only the fault of the small-scale farmers who are struggling to make ends meet. The Watson article discusses how farmers have to continue to grow coffee, despite rapidly declining soil fertility and continually decreasing returns. In order to offset the losses from soil erosion, the government proposes quick fixes such as fertilizers, but these are not sustainable fixes and further erode soil in the long run. Economic policies and the structure of agriculture in developing countries affect more than just the world’s rural poor. [9]

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[7] See Watson and Achinelli (2008), p. 228.
[8] See Watson and Achinelli (2008), pp. 228-229.
[9] See Watson and Achinelli (2008), p. 231.

V. A Broader Critique of Neoliberal Reforms

Brazil was heavily affected by the global recession of 1980. Inflation rose to 100 percent in 1980, and peaked at 1000 percent in 1988. Thus, the international institutions gained influence over Brazil's macroeconomic policy because Brazil depended on them to finance its external debt and everyday expenditures. Because of the rampant inflation, "[n]ew structural adjustments were implemented, under the guidance of the International Monetary Fund, the World Bank, and the World Trade Organization, to transform the nation from a closed, state-supported economy to a liberalized, market-based economy".[10]

The IMF loaned to countries under the conditions that they cut fiscal spending and cut inflation by restricting the money supply.[11] This is contractionary economic policy, used to induce an economic slowdown to curb inflation. Yet this is completely inappropriate for a developing country with a slow growth rate. The IMF made low inflation rates and balanced budget its end objective, while completely ignoring the development of the countries it loaned to. Inflation, as long as it is not in excess, is a sign of economic growth! Thus, inflation is a positive indication that should merely be monitored and slightly maintained. The IMF's policy to cut inflation and government spending directly harmed the economic growth of its loan recipients, such as Brazil and Ethiopia.

Using Ethiopia as an example, Stiglitz (2002) explains where the IMF went wrong with its approach towards developing countries. When Stiglitz was the World Bank's Chief Economist and Senior Vice President in 1997, he traveled to Ethiopia to discuss its economic policy. At the time, the IMF had suspended its lending to the government, even though Ethiopia was experiencing growth without inflation, because the IMF worried that if Ethiopia's foreign assistance dried up that it would have a balance-of-payments crisis and run out of its currency reserves. This is illogical, as Stiglitz points out, because foreign aid cannot contribute to a countries' reserves; it goes directly to build schools and health clinics, etc.[12]

Another policy item that the IMF pushed developing countries to pursue was financial liberalization. Opening up national markets to the global financial system endangers the local banks. When the IMF forced Kenya to open up its financial markets, fourteen bank failures occurred within the first year, interest rates increased, and the rural residents were unable to buy seeds or fertilizer with the expensive credit that resulted from reform (Stiglitz, 2002, p. 32). These are the types of neoliberal reforms that the hugely influential international finance institutions imposed on the developing world. Intuitively, it is clear that the IMF was acting in its own best interest and in the best interest of the Western world that dominates its board. It is in the IMF's interest to keep the developing world dependent on its loans with such high interest rates on the loans. The West was profiting off of the developing worlds' debt.

[10] See Watson and Achinelli (2008), p. 226.
[11] See Stiglitz (2002) p. 27.
[12] See Stiglitz (2002) pp. 28-29.

> Globalization today is not working for many of the world's poor… The problem is not with globalization, but with how it has been managed. Part of the problem lies with the international economic institutions, with the IMF, World Bank, and WTO [World Trade Organization], which help set the rules of the game. They have done so in ways that, all too often, have served the interests of the more advanced industrialized countries—and particular interests within those countries—rather than those of the developing world.[13]

Furthermore, these international institutions have served the interests of the developed world with a narrow-minded approach that not even Western governments would ever employ. The United States is battling one of the greatest economic recessions in its history and is it employing fiscal austerity and contractionary monetary policy to curb interest rate? No, it is deficit spending and reducing interest rates dramatically so that it may grow its way out of the recession.

VI. Conclusion

Based on our analysis, we come to the conclusion that the neoliberal reforms in Brazilian agriculture, adopted in the late 1970s and early 1980s, were illogical and unhelpful. The IMF pushed its policy agenda on the Brazilian government forcefully, and the small-scale rural farmers were hurt the most. Some of the unintended consequences of these reforms were an increase in income inequality and land-holding concentration in Brazil, rapid urban migration, and environmental degradation. Even in recent years, about three decades after the reforms took place, these consequences are apparent in the agricultural structure of Brazil, as inequality and rural poverty persist.

Changes in Brazil's agricultural policies, which would benefit small-scale farming, would help correct some of these negative consequences of neoliberal reforms. For example, according to Araujo (2009), the Brazilian Institute of Geography published a report in 2009, claiming that small-scale agriculture in Brazil produces over 50 percent of Brazil's domestic food supply, and that it does so using much less land than modern agribusinesses. The small farms are more productive in terms of land use, and have other important benefits such as employing about 75 percent of rural labor. Araujo (2009) also argues that we must fight to secure the land rights of small-scale farmers, especially because they focus on feeding the domestic population, whereas large agribusinesses focus on exports.

Brazil's economic reforms affect not only the agriculture sector, but also poverty, inequality and the environment in Brazil. The country should shift away from capital-intensive agriculture production towards small-scale, environmentally-friendly and sustainable strategies in order to reduce rural poverty, increase domestic food security, and improve the environmental conditions within Brazil. If the Brazilian government continues to neglect these problems, environmental degradation and rural decline is likely to cause it to lose both, the long-term ability to export agricultural products and domestic food supply. Hence, Brazil must undertake the hard task of land reform and investment in small-scale and sustainable agriculture.

[13] Stiglitz (2002), p. 214.

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