

Notes



INTRODUCTION

1. This view should not be confused with the “development approach *from within*” proposed by Sunkel and Ramos (1993:24). They oppose both the *inward-looking* structuralist strategy and the *outward-looking* strategy now dominant, offering an intermediary alternative that Sunkel (1993:46) defines as based on an “initial creative impulse [that] gives rise to industries such as iron and steel, electrical machinery and engineering, and basic chemistry and petrochemicals, and infrastructure for energy, transportation and communications.” Development always comes “from within,” but today a development strategy must necessarily be export-led—that is, internationally competitive. The old concern with infrastructure is still valid, but the concern with heavy industry does not deserve the same attention national developmentalism gave it in the past.

CHAPTER 1

1. The current account deficit for Latin America was 35.0, 44.9, and 53.2 billion U.S. dollars in 1992, 1993, and 1994, respectively. The source is ECLAC, *Panorama Económico de América Latina 1994* (Santiago, Chile: Economic Commission for Latin America and the Caribbean of the United Nations).

2. My basic discussion of the interpretations of Brazil is found in “Six Interpretations of the Brazilian Social Formation” (Bresser Pereira 1984b).

3. For an analysis of recent political pacts, see Chapter 17.

4. If this chapter is compared with the Introduction, the reader will note that I eliminated two interpretations (the functional capitalist and the imperialist superexploitation) and make only a reference to the new dependency theory. The reason for this is that here I am dealing with interpretations and strategies that were put into practice. The functional capitalist and imperialist interpretations were only interpretations. The new dependency approach was more than that, but in this chapter it fell between the national-developmental and crisis of the state interpretations. For this reason and also because it was more an interpretation than a strategy, I decided to exclude it from the present analysis.

5. This policy was still practiced at the end of the 1980s, notwithstanding all the criticism the import substitution model was subject to. In the last half of the 1980s FINEP carried out a study to determine the sectors in which Brazilian technological development was deficient. These sectors were supposed to have priority in receiving FINEP loans. An export-oriented technological policy, such as that in Japan or Korea, would have selected those sectors in which the country had the possibility of competing for international technological leadership.

6. Rather than a theory, economic populism is a very widespread economic policy practice. Thus it is not a prerogative of the Latin American national-develop-

mentalist approach. I edited a book on the subject, *Populismo Econômico* (Bresser Pereira 1991), with chapters by Canitrot, O'Donnell, Díaz-Alejandro, Sachs, Dornbusch and Edwards, Cardoso and Helwege, Dall'Acqua, and myself.

7. PT is the leading workers' party, headed by Lula; PDT is a labor party tied to Leonel Brizolla; PMDB is the populist center-left party that commanded the transition to democracy; PSDB is the social-democratic party that split from the PMDB in 1985; PFL is a center-right populist party, splintered off of the PDS in 1985; and PDS is the right-wing party that governed with the military. In September 1995, the PPR (formerly the PDS) combined with the PL (Liberal Party) and received a new name: PPB. Originally, PDS was called ARENA, and was the party that supported the military regime between 1964 and 1984.

CHAPTER 2

1. One of the first economists to study the crisis of the state was Rogério F. Werneck. In the 1980s he wrote several articles published in book form in 1987. Probably the first political scientist to study the crisis of the state was José Luiz Fiori (1984) in his Ph.D. dissertation, "Conjuntura e Ciclo." See also Brasília Salum, Jr. 1988. My first attempt to analyze this crisis was an article on the changing pattern of financing investment in Brazil (1987), which corresponds to Chapter 5 of this book.

2. At that time the crisis was viewed as a liquidity crisis rather than a structural crisis of the state's finances. My experience as finance minister nursed the diagnosis of the Latin American crisis as a fiscal crisis of the state. For an account of this period, see Bresser Pereira 1992a, 1993a, 1995.

3. The state in Brazil is financed internally by the overnight market. Each day, economic agents transform their deposit accounts in the banks into loans to the state with a one-day maturity. In this way, financial assets are indexed and protected from inflation, whereas the state is financed with a bond that is quasi money. The Collor Plan I (March 1990) was an attempt to cope with this problem (see Chapter 13).

4. It is important to distinguish lack of creditworthiness of the state from lack of credibility of the government. A state without credit is an institution to which economic agents feel reluctant to make loans; a government without credibility is a government that does not keep its word, making economic agents feel insecure about its economic policy. Mainstream economics—which is taught in the best universities—usually confuses these two categories.

5. We could exclude the state-owned enterprises from current revenues and expenditures. In such a case the simplest way to consider their savings (or dissavings) is to add the profits (savings) to the identity or deduct the losses (dissavings).

6. I have no knowledge of any study of public savings in Latin American countries. As for Brazil, the information exists, but, as everywhere, it excludes state-owned enterprises. See Rogério Werneck 1987 for a pioneering study of the public savings concept.

7. It is curious to observe how the expression *structural* was co-opted by neoliberalism. In the 1950s and 1960s it was used by structuralist, national-developmental economists who asked for structural reforms; of these, agrarian and progressive tax reforms were the most popular. In the 1980s structural reforms meant market-oriented reforms of the state.

8. See Chapter 6, where I discuss the perverse character of the present capital flows to Latin America and the vanishing motivation to effectively solve the debt crisis.

9. On the fiscal character of the crisis, see also Sachs 1987; Bresser Pereira

1987 and Part 2 of this book; Fanelli and Frenkel 1989; and Reisen and Trotsenburg 1988.

10. Economic populism has some classical contributions, including Canitrot 1975; O'Donnell 1977; and Díaz-Alejandro 1979. These works plus contributions by Sachs (1988), Dornbusch and Edwards (1989), Cardoso and Helwege (1990), and myself with Fernando Dall'Acqua (1989), were put together in a book, *Populismo Económico* (Bresser Pereira, ed., 1991).

11. For example, an oil tax to finance road construction and oil prospecting; an electric energy tax to finance power-generating plants.

12. In Brazil most of the investments in the oil industry by Petrobrás and in the telecommunications industry by Telebrás were financed by internal profits.

13. The average income tax in Latin America in 1988 was only 23 percent of total government revenues. And this figure is inflated because of the oil producers, like Ecuador and Mexico (Cheibub 1991).

14. Williamson's qualification of the Washington consensus in his article "Democracy and the 'Washington Consensus'" (1993a) is a good demonstration of this fact.

15. As I observed to John Williamson, he identified but did not invent the Washington consensus. Once he did so, he lost control of his creature, which started to have an independent life. He may continue to specify what he understands by the consensus, as he did in his 1993 article, but the consensus itself is (or was) another thing.

16. On the loss of interest in the dependency theory in the 1980s, at exactly the time foreign influence in Latin America increased greatly, see Stallings 1991.

17. The literature on the theory of inertial inflation is already vast. It is an essential part of the crisis of the state approach because it provides the most important Latin American theoretical critique of the conventional economic theory the Washington consensus adopts. See Pazos 1972; Bresser Pereira and Nakano 1983, 1987; Arida and Resende 1984; Baer 1987; and Dornbusch, Sturzenegger, and Wolf 1990. Chapters 5 and 13–15 in this book are examples of applications of the theory.

18. This is not consensual in Washington. Recently, the World Bank has been stressing the importance of increasing taxes to balance the budget and also to finance antipoverty programs that would make fiscal adjustment and structural reforms compatible with democracy. The IMF is increasingly concerned with how to achieve stabilization with growth. See particularly Vito Tanzi's chapter (1989) in the IMF book edited by Mario Blejer and Ke-young Chu.

19. This critique was originally developed by Sachs (1987).

20. There is obviously an alternative: to finance growth with foreign savings, particularly foreign direct investment. This is in part the route presently being followed by Mexico. Foreign investment and capital repatriation permitted Mexico to overcome stagnation and begin economic recovery.

21. See, for instance, Fajnzylber 1990.

22. The populist nationalist approach shuns any type of adjustment, proposes that fiscal deficits and higher wages invigorate aggregate demand and growth, and denies that state intervention has been too extreme and that the protectionist import substitution strategy is exhausted. The number of proponents of these ideas in Latin America has been drastically reduced in recent years. The corresponding practices, however, continue to be widespread.

23. Japan, Korea, and Taiwan did not have to be particularly concerned with income distribution because the reforms imposed by the United States in these countries after World War II, particularly agrarian and tax reform, coupled with the high educational levels already existing, provided the basis for a reasonably fair income distribution.

24. Yet, a new stabilization plan, led by Finance Minister Fernando Henrique Cardoso, was under way. This plan, analyzed in Chapter 15, has competently controlled inertial inflation in Brazil.

CHAPTER 3

1. Note that I am not equating capitalists with the upper class, and technobureaucrats with the middle class. There are many middle-class capitalists and a growing number of upper-class technobureaucrats.

2. The hypothesis that the state's growth follows a cyclical pattern was originally presented at the symposium "Democratizing the Economy," Wilson Center and the University of São Paulo (1988), and was published in Portuguese in *Revista de Economia Política* 9(3), July 1989.

3. The literature concerning state intervention in Brazil is fairly extensive. See, for instance, Suzigan 1976, 1988; Martins 1985; Evans 1979; and Rezende da Silva 1972.

4. See "The Tokyo Symposium on the Present and Future of the Pacific Basin Economy—A Comparison of Asia and Latin America," sponsored by the Institute of Developing Economies, Tokyo, July 25–27, 1989. The papers were published in Fukuchi and Kagami 1990.

5. Actually, some were competent theoretical economists.

6. On this point see, among others, Naya 1989.

7. This attack on the technobureaucracy was part of the long Brazilian transition to democracy. The alliance between the bourgeoisie and the military and civilian technobureaucrats was first broken in Brazil in the mid-1970s. In my book *O Colapso de uma Aliança de Classes* (1978), I analyzed this political process.

CHAPTER 4

1. I discussed the first two variables in an earlier work (Bresser Pereira 1986).

2. Joseph Schumpeter (1911) felt finance had a decisive role in the investment decision. Kalecki (1933) and Keynes (1937) also thought the financial system played a crucial role in the increase of investment. A recent debate among post-Keynesian economists (Asimakopulos 1983, 1986; Kregel 1984–1985, 1986; and Davidson 1986) follows the same line. For underdeveloped countries, the role of external finance has been recognized since the first studies of development economics were conducted in the 1940s. In this chapter I am taking for granted the role of finance and am emphasizing the role of primitive accumulation and forced saving in the early stages of development.

3. At this time Antonio Delfim Netto, who created the CIP in the late 1960s, assumed the Planning Ministry.

CHAPTER 5

1. The original articles on the fiscal crisis of the state in Brazil are Werneck 1983, 1985, 1986, 1987; and Bresser Pereira 1987. Werneck's work on the fiscal crisis was pioneering. My contribution was to define, first in an article and then through

the Macroeconomic Control Plan (Ministério da Fazenda 1987), the fiscal crisis of the state as the basic cause of the Brazilian crisis in the 1980s. Chapter 4 essentially corresponds to this 1987 article, which was presented at a seminar in Cambridge shortly before I took office as finance minister (April 29, 1987).

2. A populist developmentalist economic policy adopted by the rightist authoritarian government during these two years achieved GDP growth rates above 8 percent, whereas the external debt increased from \$38 to \$60 billion. Populism may be distributivist when its origin is in the left or developmentalist when its origin is in the right. Its results are little different in terms of internal and external unadjustment.

3. Between 1980 and 1984 state expenditures on personnel were reduced from 6.18 to 5.59 percent of GDP; in 1988, however, total government expenditures on personnel were back to 7.80 percent of GDP. It is interesting to note that a considerable part of the reduction was reached at the municipal and state levels. At these levels the expenditure decreased from 2.71 to 2.39 percent of GDP between 1980 and 1984 and increased to 3.30 percent of GDP in 1988.

4. Brazilian economists realized this in early 1985. See Arida 1984 and Neto and Resende 1985.

5. On the validating character of the money supply in Brazilian inflation, see Rangel 1963 and Bresser Pereira and Nakano 1983. It is interesting to observe the pioneering character of Rangel's contribution, which was published seven years before Kaldor's well-known article (1970).

6. After and as a result of the 1981–1983 recession, the public deficit was not eliminated, but it achieved its lowest level of the decade—2.7 percent of GDP—in 1984 (see Table 5.2).

7. The positive change in 1990 was a consequence of the extraordinary measures involved in the Collor Plan I (March 1990), including the freeze of almost 70 percent of financial assets in Brazil (see Chapter 13).

8. The interest rate did not necessarily increase because of the trade-off with maturities. In 1986 the creation of the Letras do Banco Central, which had a very short maturity (practically one day), was a recognition that with very large rates of inflation it was impossible to have long-term financing for the Brazilian state, but it was also a form of controlling speculation and reducing the interest rate to nearly zero in open market operations.

9. Bacha (1989) showed that the real transfer of resources from Latin America was the main factor in the drop of the gross formation of capital in the region from 23.4 percent of GDP in 1979 to 18.8 percent in 1986 because internal savings remained almost constant in this period.

10. Real transactions include the trade balance plus real services minus interests.

11. For a general presentation of this theory, including a survey of the main initial contributions to it, see Bresser Pereira and Nakano 1987.

12. The term *inertial* is not the best to define this high and chronic type of inflation. In Nakano's and my first articles on the subject, we used the expression *autonomous* inflation.

13. For an interesting analysis of the endogenous acceleration of inflation based on a rational expectations (but not monetarist) approach, see Antonio Kandir 1988:170: "In conditions of financial fragility of the public sector, the expectational dimension of prices, which usually has a fundamental role, becomes dominant in the process of acceleration of inflation."

14. For a very interesting critique of this view, see Baer and Beckerman 1989.

15. These equations were originally developed in Phillip Cagan's classic arti-

cle on hyperinflation (1956). But he did not conclude from these relations that the character of the money supply was essentially endogenous.

16. The rate of inflation, p' , can also be expressed as dp/p . If we define real seigniorage as dM/p , we have

$$\begin{aligned}dM/p &= (dM/M)(M/p) = d(M/p) + p' M/p \\p' M/p &= dM/p - d(M/p)\end{aligned}$$

See the application of these concepts to the Brazilian economy in Cardoso 1988a and Dall'Acqua 1989.

17. It is relevant to note that one of the outstanding Brazilian economists who helped to formulate the industrialization strategy through protection and state investment, Ignácio Rangel, has become a supporter of privatization of public services to promote needed investments in this area since he wrote the Postface of the third edition of *A Inflação Brasileira* (1978).

18. Figures on capital flight are always imprecise, but according to estimates made in the Brazilian financial market, capital flight, around \$1 billion in the 1970s, increased to around \$3 billion when the debt crisis became evident in 1983; in 1988 it doubled, and in 1989 it was over \$10 billion. According to World Financial Markets (December 1988), the accumulated flight of capital assets from Brazil was \$6, \$8, and \$31 billion in 1980, 1982, and 1987, respectively. From a relatively low level, it was growing at a faster pace than, for instance, was the case in Mexico, whose respective figures were \$19, \$44, and \$84 billion. In 1980 accumulated capital flight was more than three times higher in Mexico; in 1987 it was 2.7 times higher. In both countries the relationship between capital flight and the internal crisis that followed the debt crisis is fairly clear.

19. The capital-output ratio, around 3 in the 1970s, averaged 5.5 in the 1980s if we take the investment rate in constant prices.

CHAPTER 6

1. William Cline, who in the 1980s insisted that the debt crisis was only a liquidity crisis (1984), recently published a book (1994) and an essay in *The Economist* (1995) in which he acknowledged that the 1980s debt crisis eventually became not a liquidity problem but a solvency crisis. He stressed that this crisis is over because the net debt relative to exports for the seventeen highly indebted Baker countries (most in Latin America), which in 1986 was 384 percent, had fallen to 225 percent in 1993. Yet he insisted that the December 1994 Mexican crisis was really only a liquidity crisis. Let us hope Cline is now being realistic. Washington economists tend to be optimists when policies are originated in the developed countries, whereas they are pessimists whenever decisions arise in developing countries.

2. Estimates of the reduction achieved by Mexico vary from 11 to 18 percent, according to the method used.

3. Dornbusch (1989:350), examining the data on the debt and on the U.S. balance of payments, observed that "it is quite apparent that the large size of the U.S. external deficit is at least to some extent a counterpart of the ability of debtor countries to service their debt by noninterest surpluses."

4. These two ideas were the core of the Brazilian strategy for dealing with the foreign debt in 1987, when I was finance minister. After a "nonstarter" from Secretary Baker (September 1987), the two ideas received wide acceptance. See Bresser Pereira 1992a, 1993a, 1995.

5. At the beginning of September 1987, when, speaking for Brazil, I proposed the securitization of part of the Brazilian debt and received a “nonstarter” from Secretary Brady, the only support I received came from Kiichi Miyazawa, then finance minister of Japan, who said “he felt attracted by the idea of converting the old debt into new securities as proposed by Brazil [and] suggested that an international financial agency—such as the World Bank, through the IFC [International Finance Corporation]—present a precise project on the subject” (*Gazeta Mercantil*, September 15, 1991, reproducing a *Financial Times* report). At the 1988 IMF–World Bank meeting in Toronto, Miyazawa presented a plan for debt reduction that was a direct antecedent to the Brady Plan.

6. The exposure of the nine top U.S. banks in Latin America, as a percentage of primary capital, was reduced from 179.8 percent in June 1982 to 74.9 percent in September 1989 (ECLAC 1990:43).

7. On the self-defeating character of fiscal adjustment for the highly indebted countries, see Chapter 5.

8. It cannot be said that a straightforward relationship exists between debt and inflation because there are some highly indebted countries with low inflation. The trend, however, is clear. Highly indebted countries tend to suffer high inflation. According to the IMF (1990:61), among the net debtor developing countries that had high inflation between 1983 and 1989, 89 percent had debt-servicing difficulties.

9. For an original overview of the theory of inertial inflation, see Bresser Pereira and Nakano 1987. The complete original statements on the theory are found in Bresser Pereira and Nakano 1983, Resende and Arida 1984, and Lopes 1984. On the need for combining orthodox and heterodox policies to control this type of inflation, see also Ramos 1986, Bacha 1988, Kiguel and Liviatan 1988, Beckerman 1991, and Bruno 1991.

10. The failed coup d'état in Venezuela in February 1992 is a good example of the political instability associated with tight fiscal and monetary policies while foreign creditors are spared the adjustment burden. There is a large body of literature on the relationship between stabilization policies and the consolidation of democracy. A partial survey of this literature is found in Bresser Pereira, Maravall, and Przeworski 1993.

11. On the limits of the Brady Plan, see Bacha 1989, 1991; Bresser Pereira 1989b; Devlin 1989b; and Sachs 1989b.

12. The view of the banks, which evolved toward voluntary debt reduction beginning in September 1987, is well described in the December 1988 issue of *World Financial Markets*, published by Morgan Guaranty (“LDC Debt Reduction: A Critical Appraisal”).

13. This section was originally written with Jeffrey Sachs.

14. The IDDC was the name of the debt facility proposed in a pioneering way by Peter Kenen (1983), when the discount in the secondary market did not yet exist. Felix Rohatyn (1983) made a similar proposal at that time based on the financial strategy he had used to solve New York City's debt crisis. James Robinson III, chair of the American Express Bank, made a similar and very detailed proposal (1988).

CHAPTER 7

This chapter was written with Yoshiaki Nakano.

1. Transference of real resources is equal to the current account minus factor payments (interest and dividends), or it is equal to the real transaction surplus: the surplus in the trade account plus the balance in the real services account.

2. We exclude the Bresser Plan from these consequences because it was an emergency plan enacted to control the deep crisis ensuant on the Cruzado Plan's failure. It did not intend to end inflation but only to halt it for a time. It did not include monetary reform, the deindexation of the economy, or the freeze of the exchange rate, unlike the other plans. Launched in June 1987 it assumed that by December of that year inflation would reach 10 percent; in reality, it reached 14 percent (Bresser Pereira 1993a).

3. In Table 7.3 we use the IGP/FGV because it is an index with a long and consistent series, whereas the official consumer price index IPC/IBGE—which we often use in the text, was subjected to methodological changes (vectors) during the 1986, 1987, and 1989 freezes.

4. In fact, this spread varied greatly during the year, as successive speculative attacks against the novo cruzado raised it. The government responded with its only and self-defeating weapon: increased interest rates.

CHAPTER 8

1. The term *left* in Latin America is often confused with the extreme left. In this work I am speaking only of the left and the right, without using the concepts of moderate left and moderate right. I am also not using the idea of “center,” which is generally a euphemism for the right to hide behind. In this chapter the left extends from the far left to the centrist left.

2. The left intends to have its base among the workers, the proletariat, but to a greater or lesser extent, intellectuals or, in a broader sense, technobureaucrats always constitute the base and the leadership of the left.

3. I make the assumption that the state develops through a cyclical process similar to long economic cycles. The state and the market are complementary agents in coordinating the economy. Faced with the limitations of the market, the state tends to increase its intervention in the economy. This intervention is initially successful, but distortions later emerge that ultimately produce fiscal crisis and the necessity to again reduce the role played by the state.

4. This is just the opposite of what occurred with the left, which often tended to be nationalistic based on the fact that the imperialist countries are also capitalist. Ultimately, this nationalism became anti-North Americanism, just as the right's “selling out” or cosmopolitan position was a way for it to identify with the capitalism of the countries of the center.

5. In the United States the term *left* applies only to the Marxist or neo-Marxist left. The moderate or progressist left is called *liberal*. I prefer to use progressive or social-democratic to avoid confusion with the European meanings of *liberal* and *liberalism*. A liberal in the U.S. sense is a democratic social reformist who opposes the conservatives—the European and Latin American liberals. Galbraith is the ultimate U.S. liberal. President Franklin D. Roosevelt is the prototype of the U.S. liberal politician. To avoid misunderstanding, the English, who are placed between the United States and Europe, very appropriately began to use the term *neoliberal* to define today's radical liberals in the European meaning. They may also be called neoconservative. B. Schneider gets confused and calls neoliberals the “new liberals”—that is, the new progressive politicians who appeared in the Democratic Party beginning in the 1970s, stressing market coordination of the economy, as opposed to the “old liberals” in the Roosevelt-Galbraith tradition.

6. This began with the speech I gave when I took office (April 1987) in the midst of the crisis caused by the Cruzado Plan. I was called “conservative” when I

spoke of the necessity to make adjustments in the Brazilian economy and to increase exports. From that day on, it became clear to me that one of the Latin American left's important tasks was to define progressive thought and economic policy.

CHAPTER 9

1. The inefficiency or incompetence of economic reforms—not only because they are populist but also because they are orthodox, ignoring the specificities of the Latin American countries and particularly the abnormal times the region underwent in the 1980s—is a basic assumption this book adopts. The theme is discussed especially in Chapter 12.

2. On populist literature, see Weffort 1965, 1980; Di Tella 1966; Ianni 1968; Bresser Pereira 1984; Erickson 1975; and Touraine 1988.

3. The original version of this chapter was presented at the seminar "L'Internationalization de la Démocratie Politique," University of Montreal, September 1988. In the same year in Venice, Jeffrey Sachs presented an excellent paper on economic populism, "Social Conflict and Populist Policies in Latin America" (1988). Three years later, Dornbusch and Edwards (1991) and Bresser Pereira (1991), in the United States and Brazil, respectively, edited similar books on economic populism.

4. See the first Brazilian editions of Bresser Pereira 1984.

5. I further developed this new interpretation of Latin America, which would later be called the dependency theory, in Bresser Pereira 1984. Chapter 4 in this book describes the collapse of the populist pact as some of its tenets were being refuted. The most important tenet was the belief that multinationals would oppose Brazil's industrialization. The imperialist interpretation took this view for granted; the new dependency theory challenged it. Investments coming from the multinationals could distort the economy and the distribution of income, but they had indeed been realized in the manufacturing industry since the early 1950s.

6. Alexandre Barbosa Lima Sobrinho (1963:11, 19) said "the substance of nationalism is an antagonism of interests or ideals." And adds, quoting Boyd C. Shafer (*Nationalism: Myth and Reality*), "the true nationalism is also *anti* something foreign to the nation."

7. Developmentalism and economic populism were later also an attitude and a practice adopted by the right, as the economic policies of the military regime (1964–1984) demonstrate. The National Plan of Development II (1974) is an example of developmentalism, and the 1979–1980 attempt to produce a new economic miracle rather than adjusting, an example of economic populism.

8. The 1989 Summer Plan was a typical attempt to control inflation by adopting a very orthodox monetary policy. The resulting high interest rates were a major cause of the subsequent hyperinflation. In May–December 1990 the second phase of the Collor Plan—the Eris Plan—was a fully monetarist attempt to control inflation.

9. The last edition of Samuelson and Nordhaus's classical introductory textbook on economics has a full section on inertial inflation.

CHAPTER 10

1. I use "legitimacy" in the Weberian sense, which has nothing to do with legality. A government that has legitimacy is one that is supported by civil society.

Civil society is the complement of the state in a nation-state or a country. It is the society operating in the market and in politics, made up of classes, groups, and individuals with differentiated political powers depending on their organization, their control of the economic means, and their intellectual competence.

2. Marcílio Marques Moreira adopted a conventional or orthodox plan to fight Brazilian inflation. The plan received formal IMF approval but obviously failed. I analyze this failure in Chapter 14.

3. See Cardoso 1991.

4. This political pact is analyzed in Chapter 17.

5. Collor borrowed the concept of social liberalism from an outstanding Brazilian political thinker, José Guilherme Merquior. Merquior's source was probably Norberto Bobbio, who has debated this contradictory concept in his books. The idea was initially proposed in Italy at the beginning of the century. For a survey, see Bobbio 1990.

6. On the new neoliberal right, see Bosanquet 1983, Levitas, ed., 1986, Dunleavy and O'Leary 1987, and Barry 1987.

7. For example, Andrés Perez in Venezuela, de la Madrid and Salinas in Mexico, Fujimori in Peru, and Menem in Argentina.

8. President Collor's popularity, measured nationally by Datafolha, consistently declined. In April 1990, after its first month in government, 67 percent of the population evaluated the Collor administration as very good or good. After one year in office this rate fell to 16 percent. Two years later it fell to 10 percent. In April 1992, after he changed his cabinet, the percentage of the population viewing Collor's administration as good or very good increased to 12 percent. Two months later, after the new political crisis, this rate remained at 12 percent, but the percentage of the population considering the administration bad or very bad reached an all-time high of 65 percent. After one year in office this percentage was 42 percent, and after two years it was 58 percent (*Folha de S. Paulo*, June 25, 1992).

9. I am indebted to the collaboration of Philippe Faucher on this section.

10. On the net costs of adjustment and reform, see Bresser Pereira 1993c, Abud 1992, and Bresser Pereira and Abud 1994.

CHAPTER 11

1. I am well aware that many people who call themselves social democrats and who are members of social-democratic political parties are, in fact, liberal democrats.

2. Note that I always use the term *liberal* in the European sense.

3. See World Bank, *World Development Report* 1991.

4. The sources for these figures are the Instituto Brasileiro de Geografia e Estatística (IBGE) and the World Bank, *World Development Report* 1991.

5. The poverty line in these studies, in terms of monthly dollar income, varies according to the cost of living in each region or city. The poverty line was \$54 in the urban north and center-west, \$35 in the urban northeast, \$48 in the urban southeast, and \$39 in the urban south.

6. I developed this theme in the book *Estado e Subdesenvolvimento Industrializado* (1977: Chapter 2). This theory was one of the assumptions I used to predict the transition to democracy in Brazil as an outcome of the bourgeoisie's decision to quit its political alliance with the military (Bresser Pereira 1977).

7. This problem could be solved or circumvented by a minimum-income social program, based on the idea of the negative income tax, as Senator Eduardo

Matarazzo Suplicy proposed in Congress (see Suplicy and Cury 1994). The effectiveness of such propositions, however, is limited, and they fail to address the fiscal crisis of the state.

CHAPTER 12

1. The Soviet Union was the extreme case of a dominantly statist social formation. I wrote extensively on this subject in the 1970s: the statist or technobureaucratic mode of production, the bureaucratic organization as the correspondent relationship of production, the bureaucratic class as the collective owner of the means of production, high direct and indirect salaries as the form of appropriation of the surplus, and so on. See Bresser Pereira 1980.

CHAPTER 13

This chapter was written with Yoshiaki Nakano.

1. This consensus was held by everyone except a few populist economists, who either insisted that a budget deficit was acceptable when there was no full employment (actually, Brazil was near full employment in 1989) or said that reducing the stock of public debt was more effective in stabilizing the economy than cutting the budget deficit, which was essentially a financial or structural deficit.

2. The real interest rate on Treasury bills was high between 1981 and 1984 and in 1988 and 1989, when monetarist policies prevailed. It was low or negative in 1985–1986 for populist reasons. At the end of 1986, with the creation of a new system of Treasury bills whose rate of interest was defined daily (the Letras do Banco Central and Letras Financeiras do Tesouro, which replaced the Obrigações do Tesouro Nacional), it was possible to limit speculation and to reduce the rate of interest on the overnight market. In 1987 the government was able to pay low interest rates while maintaining a positive interest rate in the financial market. The trade-off was that the money supply became additionally endogenous.

3. The figures in Table 13.1 overestimate the interest on the internal debt and the public deficit. They were calculated by the Central Bank using as a deflator the IPC of the month, t . The acceleration of inflation was very strong in 1989, and so this methodology is unacceptable. Since the IPC measures inflation with a lag of about one month, an alternative deflator ($t + 1$ IPC) can be used. According to this more correct methodology, the interest on the domestic debt will probably fall to 4.3 percent of GDP in 1989; for the other years it will likely turn negative. The public deficit in 1989 should fall to 7.2 percent of GDP.

4. In the German monetary reform of June 1948, for instance, the conversion factor between reichsmarks and deutsche marks was 10 to 1. Thus 90 percent of the old reichsmarks were confiscated, whereas in Brazil the novos cruzados (the old money) have only been blocked.

5. $M4$ was NCz \$4.2 trillion (US\$100 billion, considering the official exchange rate on March 16 of 42.3 cruzeiros per dollar). Around US\$33 billion was converted in cruzeiros; thus initially US\$77 billion in novos cruzados was blocked.

6. There are no official figures for the operational deficit in 1989, but the estimates are around 7 percent. Part of this increase can be explained by the extraordinary acceleration of inflation and the active interest policy adopted by the former government.

7. For financial asset holders who made their investments at the end of February, this did not represent a loss because the rate of inflation “point to point”—from February 28 to March 31—was around 40 percent. Investors who bought assets earlier, however, may have suffered a loss (that is, the government won a debt reduction) because an underestimation of inflation would be compensated for by the official rate of inflation of 84 percent in March.

8. See Rangel 1963, Kaldor 1970, Merkin 1982, Bresser Pereira and Nakano 1983, and Davidson 1984. Merkin’s chapter includes a survey on the subject.

9. I am considering a GDP of US\$365 billion.

10. The stabilization plan did not change the rules of the financial market regarding overnight deposits. It continued to be possible to transfer part of the cash deposits to overnight deposits every afternoon (until 1 P.M.) and have them be automatically transformed to cash deposits the next morning. Thus the increase of *M1* and the reduction of the overnight deposits were smaller than would have been the case if the government had established a minimum maturity of one week for Treasury bills. Doing something in this direction would have reduced the confusion about what is money and what is not, although confusion would not have been eliminated.

11. The real interest rate immediately following the plan was very high. It went down because the nominal interest rate was lowered by the authorities (or by monetary policy). In early May it was still very high. In June, as inflation accelerated and the Central Bank did not acknowledge this fact, the real interest rate became increasingly lower and finally negative.

12. The consumer price index in March, utilizing the traditional methodology of comparing the average prices for the month against average prices in the previous month, was 84 percent.

13. Average real wages decreased 22.6 percent from February 1989 to February 1990, according to the FIESP index of real wages (indexed by inflation of the next month [$t + 1$] because the consumer price index [IPC/IBGE] has a lag of one month). In March the real wage reduction had fallen to 10 percent. In June, given the pressure of unions, the pressing public issue related to the plan was the “recovery of losses” suffered by workers.

14. Regular price indices are inadequate to measure inflation after a freeze. They include a heavy inflation residuum because they compare the present month’s average prices against the last month’s average prices. As a consequence, it takes some time for the index to reflect the end of the inflationary process. Thus end-to-end is a more realistic measure of inflation following a shock because it eliminates the carryover embodied in regular price indices that work with monthly averages.

15. Based on the previous wage law, which indexed wages according to the inflation (IPC/IBGE) of the previous month, workers demanded a wage increase of 84 percent for April and 44 percent for May (a total of 166 percent), whereas actual inflation, calculated according to the end-of-the-month/end-of-the-month methodology rather than the average-of-the-month methodology, was 3.3 percent in April and 6.2 percent in May.

CHAPTER 14

1. It should be noted that John Williamson (1993b), who coined the expression “Washington consensus,” feels strongly that in addition to political support, successful economic reforms require a competent and stable economic team and a comprehensive economic program.

2. In this chapter a “heterodox” stabilization policy is one that acts directly over prices, wages, or the exchange rate, whereas an “orthodox” one acts indirectly

over prices through fiscal and monetary policies that affect demand, change expectations, or both. According to this definition, income policy is a heterodox policy.

3. A shock may be heterodox (a price freeze combined with a social agreement) or may be based on a nominal anchor (usually the exchange rate, which will be fixated and made convertible). The alternative to shock therapy is gradualism, which may be orthodox (based on fiscal and monetary policies or on guidelines) or heterodox (also based on guidelines and on an income policy).

4. Given the high interest rates, only the state, the state-owned enterprises, and a few bankrupt firms are highly indebted in Brazil today.

5. The first opportunity was lost with the inauguration of the new administration in March 1990, when the Collor Plan I was implemented and failed to stabilize the economy.

6. Hélio Jaguaribe became the secretary of science and technology, Celso Lafer of foreign affairs, Adib Jatene of the Ministry of Health, Elieser Batista of special economic development projects, and José Goldemberg became the minister of education; all had been in the government since March 1990. Marcílio Marques Moreira had been in the government since April 1991.

7. In fact, even with small or moderate inflation the money supply is relatively endogenous. See Rangel 1963 and Kaldor 1970.

8. The explanation for the acceleration of previous inflation is found in Chapter 13.

9. For more on this, see Tokeshi 1991. In this work he looks for the “micro-foundations” of inertial inflation.

10. The distinction between expectations and decisions can be illustrated by the views of a rich Brazilian rice merchant, who once actually said to me, “Money is a serious matter. One should not play with it.” “Money” to him means profit. To “play with profit” is to make decisions according to volatile, unreliable expectations.

11. I owe this distinction between price decisions in the real sector and those in the financial sector to Fernando Hollanda Barbosa.

12. On my personal experience in the Finance Ministry, see Bresser Pereira 1992a, 1993a, 1995.

13. In a previous article on which this chapter is partially based (Bresser Pereira 1992b), I referred to eleven rather than twelve plans. The reason for this difference is that I decided to recognize the second phase of the Collor Plan I as a distinct stabilization plan—the Eris Plan, after the Central Bank governor Ibrahim Eris.

14. I developed this idea in Bresser Pereira 1989a.

15. According to Ffrench-Davis and Devlin (1993:4), “The Brady agreements represented a modest foreign cash flow relief, inferior to 1 percent of the GDP (it varied from 0.2 to 0.8 percent).”

16. I originally developed the concept of net transitional costs in Bresser Pereira 1993c. For further development of the concept, see Abud 1992 and Bresser Pereira and Abud 1994.

17. This last case was analyzed and formalized by Przeworski (1991) and Alesina and Drazen (1991).

18. From May to October 1992 the Marcílio Plan was the victim of the political crisis that led President Fernando Collor to resign. Yet the political crisis does not explain the failure of the stabilization program, which was already clear in April.

CHAPTER 15

1. The insufficient discount the Brady Plan provided was immediately signaled by Devlin (1989b), Sachs (1989b), and Bresser Pereira (1989b). Recently a Ph.D.

candidate at the Getúlio Vargas Foundation (Jairo Abud) critically evaluated Mexico's debt agreement and, more generally, its macroeconomic policy. According to Abud (1994:35), between July 1989 and December 1993 the average reduction in interest disbursements was 5.6 percent of the debt (equivalent to US\$759 million), which is smaller than the expected reduction for one year.

2. The best-known example of an orthodox, gradual stabilization of high inflation is the case of Chile (1973–1979). The social costs, however, were extremely high, compatible only with a fierce dictatorship like that of General Pinochet. Also in Chile, although inflation was high, it did not become inertial or have an informal indexation.

3. See, for example, Dornbusch and Fischer 1986; Kiguel and Liviatan 1988; and Bruno 1989, 1991.

4. Bresser Pereira and Nakano (1984) and Lopes (1984) were the first to propose a price freeze. Arida (1983, 1984) and Lara Resende (1984), individually and together (Arida and Resende 1984), were the first and only authors to propose the index money (Arida) or the second money (Resende) as a means to neutralize inertia.

CHAPTER 16

1. On the “anti” character of nationalism, see Lima Sobrinho 1963.

2. See Bresser Pereira and Thorstensen 1992; and Thorstensen, Nakano, Faria Lima, and Sato 1994.

3. This testimony is published in Bresser Pereira 1991.

4. This expression was used by Uruguay's president, Júlio María Sanguinetti, in his speech in Cancún, Mexico, in November 1987, when eight Latin American presidents met to discuss the debt crisis.

CHAPTER 17

1. I am not using the term *government* as synonymous with the state, as is usual in the Anglo-Saxon tradition, but as the people who direct the state in the executive, legislative, and judicial branches. Government here is the top of the state.

2. I analyzed the political pacts in Brazil in three books (Bresser Pereira 1978, 1984, 1985).

3. Bolívar Lamounier (1989, 1990) emphasized the 1974 election as the turning point in the transition, whereas I, although not ignoring the significance of that election, maintain that the bureaucractic-authoritarian coalition actually began to break down in 1977. I first developed this explanation for Brazil's transition to democracy in Bresser Pereira 1978. See also Bresser Pereira 1983, in which I analyzed the process of democratization within civil society, and Bresser Pereira 1984: Chapter 9, in which I discussed the dialectic of redemocratization—demanded by society—and *abertura*, an authoritarian strategy to postpone or limit the democratization process. Bresser Pereira 1985 is a collection of articles on the theme of political pacts and the transition to democracy.

4. See, among others, Martins 1983, O'Donnell and Schmitter 1986, Selcher 1986, and Mainwaring 1992. O'Donnell and Schmitter (1986:19), whose work was extremely influential, say “there is no transition whose beginning is not the consequence—direct or indirect—of important divisions within the authoritarian regime

itself, principally along the fluctuating cleavage between hard-liners and soft-liners. Brazil and Spain are cases of such a direct causality." Stepan (1986:19) originally adopted the same stand. Yet in the English version of his book, which was published later, fully revised, as *Rethinking Military Politics* (1988), he gave more relevance to civil society.

5. In April 1977 President Geisel closed Congress when it did not approve a law to reform the judicial system. The authoritarianism and gratuitousness of this act provoked national indignation that set off the transition to democracy because it broke down the political alliance between the bourgeoisie and the civil and military bureaucracy controlling the government. See Bresser Pereira 1978.

6. See Bresser Pereira 1977, 1978, 1980.

7. On the neoliberal paradox, see Haggard and Kaufman 1991; and Sola 1993.

8. For an analysis of the Brazilian state bureaucracy, see, among others, Martins 1976, 1985; Abranches 1978; Nunes 1984; Schneider 1991; and Gouvêa 1994.