
Bibliography

THE THEORY OF INERTIAL INFLATION

Luiz Carlos Bresser
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Index

- Accumulation, 124, 126, 139, 140(n11)
- Administered inflation, 27, 33, 47, 62(n9), 69, 122, 123-124, 128-129, 130, 134; characteristics, 52-53; defined, 40-41; economy, 127-128; oil prices, 43-44
- Administration, 59, 131; inflationary controls, 14-15; of prices, 22, 45-47, 53, 57, 74, 164-165, 172, 100-101, 103, 138. *See also* Administered inflation; Administrative policy
- Administrative policy, 93, 106(n10); gradualist, 96-97; price controls, 94, 97, 100-101, 102, 104; shock policy, 104-105
- Aggregate demand, 87, 90, 91, 93, 94, 159-160, 179. *See also* Demand
- Agriculture, 126, 148, 160; inflation rates, 143, 144; price elasticity, 126-127; prices, 17, 88, 101, 102, 153, 158-159, 163-164, 165, 166, 167, 170; production, 153-154
- Amplified consumer price index (IPCA), 171, 175-176(nl)
- Animal products, 101
- Anti-inflationary policy, 83, 86, 87, 121, 123, 124, 129, 137; adjustment, 94-95; administration, 93-94, 96-97; demand management, 91-93; monetarist, 88-91; price controls, 100, 104; wages, 84-85
- Argentina, 8, 15, 16, 48, 85. *See also* Austral Plan
- Arida, Pêrsio, 15
- Austral Plan, 8, 15, 16, 177, 178, 183
- Balance of payments, 85, 95; adjustments, 56, 57; deficits, 92, 94. *See also* Debt; Deficits
- Black market, 106
- Bresser Pereira, Luiz, 15
- Buffer stocks, 101
- Businesses, 38, 157. *See also* Cartels; Corporations; Multinational corporations
- Buying power, 17
- Capital, 36, 37, 48. *See also*

- Capital flight; Capitalism
- Capital flight, 175
- Capitalism, 66, 67, 96;
 - corporations, 36, 144;
 - inflation, 27, 65, 80; money supply, 75-76; stagflation, 51-52; technobureaucratic, 42-43, 49-50, 57, 59
- Cartels, 119, 128. *See also* Corporations; Multinational corporations
- Castelo Branco administration, 121, 122-123
- Chile, 48, 85
- CIP. *See* Interministerial Price Control
- Commodities, 70, 75
- Compensatory inflation, 47, 49, 50-51
- Consumer price index (IPC), 2, 4, 17, 176(n1). *See also* Amplified consumer price index
- Consumers, 42-43, 44
- Consumption, 21, 154
- Corporations, 41, 51, 52, 81, 100, 102, 119, 132, 144; consumers, 42-43; costs, 148-149; margins and, 54, 61-62(n8), 171; oligopolization, 36-37, 53, 78-79, 80, 129, 130; price controls, 106(n6), 97, 124; prices, 37, 39-40, 44, 182; profit margins, 69, 112, 114, 145, 148; public, 137-138; wages, 136-137. *See also* Businesses; Cartels; Multinational corporations
- Corrective inflation, 46-47, 52, 53, 62-63(n13), 69, 87, 156, 170
- Cost inflation. *See* Administered inflation
- Costs, 63(n17), 122, 128; pass
 ons, 148-149; prices, 40, 148-149
- Credit, 95, 124, 133, 137, 156; money supply, 75-76; subsidized, 131-132. *See also* Credit policy
- Credit policy, 124, 158
- Cruzado Plan, 15, 21, 177, 179; effects, 16, 22-23, 180, 183; measures, 2-3; problems, 180-182
- Cruzados; conversion, 3-4, 6, 17. *See also* Cruzado Plan; Cruzeiros
- Cruzeiros; conversion, 6, 17; devaluation, 3, 131, 157, 160, 166
- Currency, *See* Cruzado; Cruzeiros; Devaluation; Exchange rate
- D Day, 2, 3, 5-6, 15, 16, 17, 105, 174
- Debt, 56, 62(n12), 77-78. *See also* Deficits
- Deceleration, 54
- Deficits, 56, 95, 104, 125, 136; balance of payments, 92, 94; inflation rate, 77-78; public, 7, 22, 47-48, 63(n15), 76-77, 78, 80, 84, 95, 182. *See also* Debt
- Deflation, 22, 29
- Deindexation, 14, 96, 101; economic, 2, 4, 15, 94, 104. *See also* Indexation
- Delfim Netto, Antonio, 123, 156
- Demand, 116, 123, 134, 143, 148; expansion, 180-181; inflation rate, 121-122. *See also* Aggregate demand; Demand inflation; Demand management; Demand shock; Supply
- Demand inflation, 54, 134. *See also* Demand

- Demand management, 88; policy, 91-93
- Demand shock, 110-111, 128
- Devaluation, 16, 88, 90; cruzeiros, 131, 160; exchange rates, 56, 95, 161. *See also* Maxidevaluation
- Development programs, 123
- Dias Leite, Antonio, 15
- Dictatorships, 48-49
- Dissynchronization, 12
- Distributive policy, 140(n5)
- Dornbusch, Rudiger, 15
- Economic growth, 7, 21, 34, 103, 137, 171; inflation, 10, 129; rates, 3, 67. *See also* Economic policy; Economic systems; Economy
- Economic policy, 3, 14, 55-56, 67, 82, 138; austerity, 154-156; demand, 121-122; effect, 56-57, 58, 60; inflation, 1, 2, 12, 39-40, 55, 58-59; recession, 133-134; state and, 49-50; validity, 38-39. *See also* Macroeconomic policy
- Economic systems, 75; defined, 36-37; government, 49-51. *See also* Economic growth; Economic policy; Economy
- Economy, 11, 56, 74, 119, 131, 156, 180; deindexation, 2, 104; inflation rate, 66-67; oligopolization, 96, 103, 127-128; stabilization, 125-126; stimulation, 123-124. *See also* Economic growth; Economic policy; Economic systems
- Employment, 34, 66, 84, 91. *See also* Trade unions; Underemployment; Unemployment; Workers
- Exchange rate, 69, 84, 95, 97, 153, 165, 172; devaluation, 56, 159, 161, 175; freeze, 1, 2, 14; indexation, 100, 158; setting, 45, 46-47; variations, 85, 114-115
- Expenditures, 136
- Exports, 158, 164, 170; credit subsidies, 131-132; price setting, 43, 44, 46. *See also* Imports; Import substitution; Trade; Trade balance
- External debt, 3. *See also* Debt
- "Feedback components," 71-72
- Figueiredo government, 2
- Financial assets, 100
- Fixed margins, 52, 53
- Food, 154, 156. *See also* Agriculture
- GDP. *See* Gross domestic product
- General price index (IGP), 137, 160-161, 162, 163, 168(n1); agriculture, 166, 175(n1); inflation rates, 169-170, 171
- Getúlio Vargas Foundation, 137
- GNP, *See* Gross national product
- Gouveia de Bulhões, Octávio, 15
- Gradualist policy, 122, 173
- Gross domestic product (GDP), 7, 10, 34, 47
- Gross national product (GNP), 30, 122, 161, 166, 182
- Heterodox shock, 1, 2, 7, 15, 106-107(n11), 173, 174
- IGP. *See* General price index
- IMF. *See* International Monetary Fund
- Imported inflation, 44, 130
- Imports, 94, 123, 124, 126, 131, 158, 161. *See also* Exports; Import substitution; Trade;

- Trade balance 129, 138, 156, 159, 175,
179; lowering, 94, 171
- Import substitution, 130-131. *See*
also Imports; Trade; Trade
balance
- Income, 41, 67, 71, 72, 93, 98,
104, 119; money supply, 60,
75; transfer, 131, 138-139.
See also Income distribution;
Salaries; Wages
- Income distribution, 3, 41, 70, 72,
119. *See also* Income
- Indexation, 96, 101, 110, 114,
115-116, 156, 158, 172;
alternative, 99-100; effects,
72-73; prices, 97-98, 174;
process, 70-71; wages, 55-
56, 98-99. *See also*
Deindexation
- Indexed currency, 15
- Industry, 8, 123, 131, 180;
inflation rates, 143, 144;
prices, 17, 156, 160, 163,
166
- Inertial inflation, 12, 13, 21, 27,
83; theory, 8-9, 10, 11
- Inflation; theories of, 1-2, 8-9,
10-12, 28-29, 33-34,
63(n18). *See also* Inflation
rates; *individual types of*
inflation
- Inflation rates, 16, 22, 28-29, 30,
87, 88, 104, 110, 111, 120-
122, 124, 138, 139-140(nnl,
4), 141(n15), 143, 151, 162,
171, 179; components, 115-
116; credit subsidies, 131,
132; deficits, 77-78;
economy, 66-67; general
price index, 169-170;
indexation, 99-100;
recession, 133-134; sectorial,
174-175; wages, 78-79, 90
- INPC. *See* National consumer price
index
- Interest rates, 8, 22, 45, 91, 114,
129, 138, 156, 159, 175,
179; lowering, 94, 171
- Interindustrial relations, 17, 21
- Interministerial Price Control
(CIP), 103, 123, 124, 137,
140(n9), 156, 171
- International Monetary Fund
(IMF), 167
- Investment, 8, 51, 134
- IPC. *See* consumer price index
- IPCA. *See* Amplified consumer
price index
- Kaleckian theory, 14
- Keynesian theory, 33, 34, 66, 73,
85, 95; fiscal policy, 50, 69;
model, 79, 80, 116
- Kubitschek government, 131
- Labor. *See* Employment; Trade
unions; Workers
- Lara Rezende, André, 15
- Law 6708, 156
- Legitimacy, 48-49, 54, 56, 103
- Liquidity, 32, 47-48, 54, 133, 136
- Lopes, Francisco, 15
- Macroeconomic policy, 38-39, 66
- Margins, 61-62(n8). *See also*
Profit margins
- Market, 36, 37, 69, 81, 91, 101,
127, 164, 178; competitive,
96-97; economic policy, 58,
59; inflation, 37-38, 52,
61(n3); price control, 22, 45
- Maxidevaluation, 115, 116, 153,
157-158, 159, 160, 166-167,
172
- Mexico, 85
- Mineral industry, 101
- Modernization, 153-154
- Modiano, Eduardo, 15
- Monetarist model, 82(n2), 91, 92,
93, 122, 127, 143; theory,
88-90, 95

- Monetary policy, 94, 136, 154, 156, 158. *See also* Monetary reform
- Monetary reform, 1, 2-3, 4, 14, 15, 154. *See also* Monetary policy
- Money supply, 35, 52, 60, 75, 84, 90, 95, 133, 139(n2); capitalism, 75-76; demand, 22, 31-32; inflation, 11, 12, 32-33, 54, 61(nn2, 3), 73-74, 127, 136; need, 12-13; prices, 13, 73; public deficit, 76-77, 78
- Multinational corporations, 36. *See also* Cartels; Corporations
- Nakano, Yoshiaki, 15
- National consumer price index (INPC), 156, 159, 160, 175-176(n1)
- National treasury bonds (OTNs), 4
- Neostructuralist theory, 11-12, 14
- Oil prices, 43-44, 54, 56, 124, 130, 151, 154. *See also* Petroleum products
- Oligopolies, 144-145, 149. *See also* Corporations, oligopolization
- ORTNs. *See* Readjustable national treasury bonds
- OTNs. *See* National treasury bonds
- Petroleum products, 156, 161, 162. *See also* Oil prices
- Phillips curve, 10, 11, 34, 61(n6), 79, 81, 85, 86, 88, 116; function, 110-111; inertial inflation, 109-110; inflation rate, 112-113
- PIP. *See* Prices and income policy
- Planning system, 36, 37, 38, 39-40, 45
- Policies, 58, 59, 60. *See also* individual policies
- Post-Keynesian model, 14
- Price controls, 59, 74, 104, 105, 124, 138, 154, 156, 165, 172, 177; administrative policy, 94, 96, 97, 100, 101; effectiveness, 102-103, 106(n6), 137. *See also* Price freezes
- Price elasticity, 126-127
- Price freezes, 1, 2, 5, 14, 15, 134, 169, 170, 174, 178, 179. *See also* Price controls
- Prices; adjustments, 5-6, 71, 125, 143, 151, 153; administration, 43, 45-47, 129, 164-165; agricultural, 126-127, 160, 163-164, 165, 166, 167, 170; controls, 14, 53, 57-58; corporations, 37, 39-40, 53, 182; costs, 40, 148-149; distortion, 101-102; formation, 144; growth rate, 17, 18(fig.); imbalances, 16-17, 21; increases, 28-30, 71-72, 120, 128, 129, 130, 137, 157; indexation, 97-98; industrial, 160, 163, 166; inflation, 12, 31, 35, 144; money supply, 13, 22, 52, 54, 73; readjustments, 161-162, 174; shocks, 158-159, 162-163; stabilization, 4, 7; theories, 33-34. *See also* Price controls; Price elasticity; Price freezes
- Prices and income policy (PIP), 103
- Private sector, 51. *See also* Businesses; Corporations; Multinational corporations
- Production, 39, 54; agricultural, 153-154, 160; costs, 148-149; expansion, 179, 180-

- 181; market and, 38, 164.
See also Productivity
- Productivity, 85, 129, 140(n12), 173; prices, 39, 45; wages, 68, 69, 100. *See also* Production
- Profit margins, 69, 71, 74, 84, 85, 106(n3), 130, 157, 180; corporate, 69, 80-81, 109, 114, 130, 144, 148; increasing, 68, 112, 134, 149, 162; inflation, 70, 78-79, 87; reduction, 81, 95
- Profits, 67, 68, 128, 148. *See also* Profit margins
- Programa estratégico de desenvolvimento, 123
- PSBR. *See* Public sector borrowing requirements
- Psychological inflation, 130
- Public sector borrowing requirements (PSBR), 87
- Raw materials, 69, 143, 148, 180, 181
- Readjustable national treasury bonds (ORTNs), 4, 159, 168(n3)
- Recession, 15, 16, 61-62(n8), 91, 92, 133, 148, 149, 159; cost controls, 122-123; inflation, 33, 87-88, 122
- Remonetization, 6
- Resources, 73
- Retail companies, 181-182
- Salaries, 63(n17), 131. *See also* Wages
- Simonsen, Mário Henrique, 15, 124, 133, 134, 138, 154
- Stabilization Plan, 2, 6, 8
- Stagflation, 9, 29-30, 35, 39, 51-52, 83, 92, 96, 103, 113
- Structural inflation, 9, 33, 54, 55, 61(n7), 69, 132-133, 136, 140-141(nn8, 14); theory, 10, 35, 126-127
- Supply, 160, 134, 179. *See also* Demand
- Supply and demand. *See* Demand; Supply
- Supply shock, 62(n11), 116, 124, 128, 174
- Taxation, 50-51, 126, 129, 159
- Technobureaucracies, 51, 63(n15), 131; capitalism 42-43, 57, 59; development, 36, 37; state, 49-50
- Terms of trade, 44. *See also* Trade balance
- Trade, 95, 158. *See also* Exports; Imports; Import substitution; Terms of trade; Trade balance
- Trade balance, 56, 123. *See also* Exports; Imports; Import substitution; Terms of trade
- Trade unions, 37, 55, 81, 114, 128-129, 181. *See also* Wages; Workers
- Underemployment, 137. *See also* Employment; Unemployment
- Unemployment, 35, 50, 61(n7), 74, 78, 86, 87, 109, 112, 116, 136, 149; demand shock, 110-111; price controls, 103, 106(n10); wages and, 34, 61(n6), 79, 81. *See also* Employment
- United Kingdom, 29, 30, 103
- United States, 29-30, 106(n6), 154
- Wages, 17, 95, 128, 159, 165; adjustments, 3, 55-56, 71, 114, 156-157; bargaining, 70, 181; controls, 14, 97, 102-103, 105, 106(n6); freezes, 1, 2, 5, 14, 174; increases, 84, 90, 98-99, 134, 136-137, 162, 170;

- indexing, 9, 42, 55, 98-99;
- inflation, 62(n10), 78-79, 129, 131; negotiations, 4-5;
- prices, 45, 97; production, 54, 69; profit margins, 84-85; real, 68, 90;
- unemployment, 34, 61(n6), 79, 81, 86, 149. *See also*
- Salaries
- Workers, 41-42, 64(n19), 67, 69, 70, 131. *See also*
- Employment; Trade unions

About the Book and the Authors

The theory of inertial inflation explains a phenomenon that neither monetarist nor Keynesian economics is able to illuminate. In addition to its roots in upward pressure on prices, inflation under contemporary capitalism has an inertial component. Given the distributive conflict, which leads economic agents automatically to pass cost increases through to prices, the level of inflation experienced in the past continues to be anticipated, and is therefore carried into the present. The level of inflation will be maintained even in the absence of such traditional explanatory factors as public deficits and excess demand. This book clarifies the analytical concepts and variables necessary to understand inertial inflation and its policy implication.

The authors emphasize the distinction between the accelerating (supply or demand shocks) and maintaining (inertial) aspects of inflation. They perceive an increased money supply as a consequence rather than a cause of inflation—a validation of inflation that has already taken place—and demonstrate that the inertial component becomes more pronounced as the rate of inflation increases. When faced with high levels of inflation, policymakers must adopt a policy of heterodox shock: the instantaneous freezing of all prices, wages, and exchange rates. It is this theory that served as the basis for the Austral Plan (1985, Argentina) and Cruzado Plan (1986, Brazil), which interrupted annual rates of inflation of 1000 percent and 350 percent respectively. The chapters on Brazil's economy provide an analysis of the Brazilian inflation based on this theoretical model.

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