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Alfredo Saad Filho

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CURRENCY STABILISATION UNDER CONDITIONS OF INTERNATIONAL CAPITAL MOBILITY: THE CASE OF BRAZIL¹

Alfredo Saad Filho

Abstract

This paper challenges conventional interpretations of the real plan in two different ways. First, it argues that the contractionary monetary and fiscal policies that adorned its launch were largely irrelevant. Inflation was reduced primarily by the elimination of inertia and the repression of the distributive conflict through the internationalisation and liberalisation of the economy. Second, it shows that the plan is inconsistent, because it relies heavily on permanently high domestic interest rates in order to attract foreign capital. However, they destabilise the balance of payments and worsen the fiscal deficit endogenously.

¹ I am grateful to Howard Cox, Grazia Ietto-Gillies, Maria de Lourdes R. Mollo and Eduardo Maldonado Filho for their stimulating comments. They are not, however, responsible for the views expressed here.

Introduction

Brazilian inflation increased gradually from 19 per cent in 1972 to a peak of 5,154 per cent in mid-1994. Inflation was subsequently drastically reduced to under 5 per cent by the real plan. Enthusiasts argue that its ingenious conception and creative enactment have interrupted at the lowest possible cost a seemingly relentless drift towards hyperinflation. The plan has also been praised for improving the distribution of income, allowing the resumption of growth, and reinforcing the modernisation of the Brazilian economy after decades of import-substituting industrialisation (ISI).

This paper challenges these claims and, in five sections, offers an alternative interpretation of the real plan and its economic consequences. Section one reviews the causes of the inflationary process eventually controlled by the introduction of the real. Section two shows that the diagnosis of the causes of inflation underlying the real plan was largely inadequate, and that the ensuing policy measures were blunt and relatively inefficient. Section three demonstrates that, in order to ensure the survival of the plan in the face of adversity, it has been necessary to abandon important principles, and gradually shift its policies towards heterodoxy, primarily along neo-structuralist or neo-Keynesian lines. Section four shows that the real plan has brought limited gains at an unnecessarily high cost, and that it has potentially highly negative implications for growth, employment, and income distribution. Its weaknesses have also made the currency increasingly vulnerable to speculative attacks. Section five concludes the paper,

arguing that although pragmatism may be sufficient to control inflation in the short run, it is unable to restore growth and improve Brazil's dismal human development record on a sustained basis. In order to achieve these objectives, a substantially different course of action would be necessary.

I. Inflation and Stabilisation

In spite of the conventional view, Brazilian inflation was not primarily caused by excess demand (unemployment tended to rise gradually, and capacity utilisation tended to decline, since the early 1980s), 'populist' government policies (state expenditures unrelated to the domestic debt increased only marginally since the mid-1980s), or the government's need to exact seignorage (the non-financial public deficit has been negative throughout the 1990s; see table 1).

Brazilian inflation between the 1970s and early 1990s had two main causes, distributive conflicts and the expansionary impact of the growing, and increasingly liquid, domestic public debt.² Until the mid-1980s, Brazilian inflation was relatively stable (or inertial) because of the dissemination of backward-looking indexation. Inflation generally increased only when the economy was buffeted by

² Silva & Andrade (1996) survey the debate about the causes of inflation in Brazil. For stimulating non-mainstream analyses, see Baer (1993), Cardim de Carvalho (1993), Kandir (1991), and Parkin (1991); see also Saad Filho & Mollo (1998).

negative shocks. The relative stability of inflation collapsed in 1986 with the cruzado plan. Inflation subsequently acquired a persistently upward trend, which was provisionally interrupted only by a succession of (mostly heterodox) shocks between 1987 and 1992 (see table 2 and graph 1).³ These failed attempts at inflation control contributed to the depression of economic growth rates, directly because of the accompanying contractionary monetary and fiscal policies, and indirectly because these policies tilted the rewards towards financial speculation rather than productive enterprise. Inertial inflation and the financial rules and institutions developed to accommodate it⁴ fully endogenised the money supply and, consequently, the seignorage collected by the government.

The real plan was designed to tackle this highly complex process, and bring inflation down at the lowest possible cost. The plan resulted from a synthesis between the monetarist diagnosis of inflation (which attributed its cause to the persistent fiscal disequilibria) and the neo-structuralist analysis of its perpetuation through indexation.⁵ In order to eliminate simultaneously the causes of inflation and its propagation

³ The theory and policy of heterodox shocks is discussed, from different angles, by Arida & Lara-Resende (1985), Bacha (1988), Bresser Pereira (1996), Bresser Pereira & Nakano (1985), Cardoso & Dornbusch (1987) and Dornbusch & Simonsen (1983). For an alternative analysis, see Feijó & Cardim de Carvalho (1992).

⁴ Especially the automatic provision of compulsory reserves by the central bank, or *zeragem automática*; see Barbosa (1996), Carvalho (1993), Garcia (1995) and Pastore (1990).

⁵ See Amadeo (1996), Bacha (1997), Dornbusch (1997), Nogueira Batista (1996) and Sachs & Zini (1996). The policies in the real plan were first advocated by Arida and Lara-Resende (1986), perhaps inspired by a similar (but failed) experiment in Hungary in 1946 (Anderson et.al. 1988, Bomberger & Makinen 1983).

mechanism, it was perceived to be necessary to liberalise further the trade and capital accounts. This would provide the resources necessary to stabilise the exchange rate, finance the public sector, and supply the domestic market with cheap imported goods, bypassing the relatively inefficient domestic oligopolies.⁶ It is important to point out that liberalisation was *not* an instrument supporting stabilisation. Rather, the stabilisation plan was designed *in order to accommodate* this on-going process, which was broadly approved by many industrialists, the media, academics, and politicians.

Having put in place the basic conditions for stabilisation, the real plan itself was launched in January 1994. Phase one of the plan was an attempt to secure fiscal stability through tax increases, expenditure cuts, and the reduction of compulsory transfers to local administrations, through the emergency social fund (FSE). Phase two, starting in March 1994, eliminated the problem of the uneven indexation of prices and wages in the economy. This was achieved through the creation of the URV (unit of real value), a stable unit of account whose nominal value increased daily according to the rate of inflation in the old currency, cruzeiros reais. Although wages, and most prices, were rapidly transformed into URV, transactions still took place in cruzeiros reais. Phase three was the transformation of the URV into the real. It took place in June 1994, after a new system of relative prices had been established. In order to ensure monetary stability, the real was subject

⁶ The Brazilian capital account was substantially liberalised since 1988, and imports since 1990. In 1991 the central bank quietly began stockpiling foreign currency reserves because it was perceived that any stabilisation programme would require substantial balance of payments support (Levy & Hahn 1996).

to tight emission limits. In the medium term, other neoliberal reforms were perceived to be necessary to consolidate economic stability, such as further trade and financial liberalisation, the deregulation of the labour market, privatisation, and tax and social security reforms.

Inflation declined drastically in the wake of the real plan. However, this was not due to the orthodox features of the plan, and this achievement does not validate the plan's inadequate diagnosis of the causes of inflation (Saad Filho & Maldonado Filho 1998). In order to demonstrate this point, let us analyse each aspect of the plan in turn.

First, the presumption that inflation was caused primarily by the fiscal deficit is demonstrably false. Simply put, the operational deficit was non-existent in the early 1990s, when inflation was at its peak, and it has grown enormously since 1995, with no perceptible effect on the continuing decline of inflation. It follows that reducing the public deficit was not necessary for a successful stabilisation (deficit control is important, but for reasons unrelated with excess demand or excess money supply; see section 4).

Second, inertial inflation was eliminated because the exchange rate, wages and key public prices such as electricity, telecommunications, oil and gas, were frozen in URV. They provided the nominal anchors necessary for the gradual emergence of a coherent system of relative prices, uncontaminated by the distortions of past inflation. The unification of the various units of account (US dollars, treasury bills, and several price indices), and their institutional separation from the

medium of exchange, rendered a price and wage freeze unnecessary to abolish inertial inflation. However, the URV did not eliminate inflation. Inflation after the introduction of the URV reflected primarily the imposition of higher profit margins or, in other words, the attempt by certain industrial groups to shift the distribution of income in their favour, while their competitors were manacled.

Third, the rigid controls on the emission of reals were ineffective, and were quietly abandoned later. This anachronistic inheritance from failed monetarist experiments was singularly unsuitable for a country undergoing a radical change in monetary regime, when the demand for money and credit increases sharply, but unpredictably (Carvalho 1996). The systematic breach of the monetary targets had no discernible effect on inflation's declining trend.

In sum, fiscal stability and the monetary anchors were a red herring, while the URV was insufficient to eliminate inflation. Something is clearly amiss in the conventional explanation of the real's success. In my view, inflation was controlled by a combination of the URV with trade and financial liberalisation, accompanied by high domestic interest rates.

II Liberalisation and Inflation Control

Brazil has liberalised imports rapidly, unilaterally, and carelessly, since 1988. Average tariffs have declined from 51 per cent to 14 per cent, and non-tariff barriers have been slashed. This was not accompanied by a devaluation of the real exchange rate, temporary support for domestic producers, or anti-dumping measures. The potential benefits of free trade are only one of the reasons for liberalisation. Increased foreign competition was part of the broader anti-inflation strategy, because it depressed tradables prices by threatening domestic producers with bankruptcy, and organised labour with unemployment (especially in heavily industrialised São Paulo State).

In addition to lowering trade barriers and attracting foreign direct investment, the government has used the domestic interest rate to control domestic demand and to attract portfolio capital in order to achieve the balance of payments and exchange rate targets. The use of one instrument to achieve several targets is fraught with difficulties and, in Brazil, the interest rate necessary to achieve the external target has generally been higher than that necessary to achieve the domestic target. This has induced severe dislocations, including unemployment, below-potential growth, fiscal deficits, and financial fragility (McCombie & Thirlwall 1994). Internally, in striking similarity with their use as anti-inflation tools in the 1980s, high interest rates have reduced domestic credit and investment, fostered speculation, and led to regressive transfers through the tax system (see section 4).

Moreover, they are only partly efficient to contract aggregate demand, because of the countervailing wealth effect (Kane & Morissett 1993).

High interest rates and financial liberalisation have stimulated the substitution of foreign for domestic loans. The external debt has expanded by US\$76.7 billion between 1991 and 1997 (see table 3), which has increased considerably the foreign currency exposure of industry and the financial system. This mode of expansion of the foreign debt may not correspond to the generation of mechanisms to repay it, and it can be a source of instability. High interest rates have also attracted portfolio capital inflows, which are the main cause of the ballooning domestic public debt and debt interest payments since 1995. The excessively contractionary monetary policy under the real automatically relaxes the fiscal policy stance, because it increases the interest payments on the (mostly short-term and variable-rate) domestic public debt. The contradiction between fiscal and monetary policy can be eliminated only through the reduction of the domestic interest rates – which is limited by the external targets – the continuous reduction of the non-financial state expenditures, or privatisation, both of which are necessarily limited.⁷

⁷ For a similar argument, see Calvo (1992) and Pastore (1994). Bacha (1997, pp.195-196) has argued that privatisation revenues worth at least 1.5 per cent of GDP every year are necessary in order to achieve the inflation target.

III The Abandonment of Orthodoxy

In spite of the expectations to the contrary, Brazil did not fix the exchange rate of the real against the US dollar. Instead, a one-sided peg was introduced, with the floor rate fixed at US\$1. The currency was left free to appreciate, first, in order to preserve the central bank's control over the interest rates and, second, to reduce the costs of sterilising the expected capital inflows, attracted by the optimistic turn of expectations and the contractionary monetary policy. Finally, the appreciation of the real would put additional pressure on the tradables sector, and accelerate the convergence of domestic inflation to international levels.

Capital inflows raised the exchange rate relentlessly towards a peak of R\$0.83 to the dollar early in 1995. These largely speculative flows, and the fact that the real was 'stronger than the dollar' were gleefully presented by the authorities as the proof of the confidence of the financial markets, and the symbol of Brazil's belated recognition as a First World country. They figured highly in the 1994 elections, when the minister of finance in charge of the real plan, Fernando H. Cardoso, was elected president by a large majority. The nominal parity change, and the relatively slow decline in inflation, led to a 30 per cent appreciation of the real and the effective exchange rates in the first six months of the plan.⁸ This was a grave policy error, with serious

⁸ See Nogueira Batista (1996, p.34). For alternative estimates of the overvaluation of the real, see Bacha (1997, p.201), Dornbusch (1997, p.375), Fishlow (1997) and Kilsztajn (1996).

consequences for the current account and for domestic industry and employment, as will be shown below.

The 15 per cent increase in dollar wages in less than one year is one of the reasons why aggregate demand increased sharply with the real. Other reasons were the availability of consumer credit, which had virtually disappeared under high inflation,⁹ and the reduction in inflation tax by some US\$16 billion (which explains most of the estimated 30 per cent increase in the real income of the poorest 50 per cent of the population after the real).¹⁰ Between June 1994 and March 1995, the economy expanded at the annual rate of 14 per cent. This rate was clearly unsustainable, because the relative cheapening of tradables¹¹ channelled a large part of the increased demand to imported goods, leading to a sharp deterioration of the trade balance (see graph 2).

The combined onslaught of high interest rates, currency overvaluation, and trade liberalisation put unprecedented pressure on the tradables sector. The substitution of speculative foreign capital for exports led to plant closures and unemployment, affecting especially the car parts, textile, toy, food, and shoe industries (see table 4;

⁹ Between June and December 1994, personal loans increased by 150 per cent, while loans to the private sector as a whole increased by 37 per cent (Bacha 1997, pp.180-181).

¹⁰ This gain was transitory, since their share of the national income declined from 12.2 per cent to 11.6 per cent between 1993 and 1995; see Neri & Considera (1996, pp.52-54) and Simonsen (1994).

¹¹ Between January 1994 and January 1996, the price of tradables declined by a third relatively to non-tradables (Bacha 1997, pp.196-97).

180,000 manufacturing jobs – 7.7 per cent of the total – were lost in São Paulo alone in 1995; see Lacerda 1996, p.19). The erosion of the industrial base, and the concurrent deterioration of the trade and current accounts, perpetuated the need for capital inflows and prevented the reduction of the domestic interest rates, creating a potentially disastrous vicious circle. It has increased the financial fragility of industry, the banking system, and the state, and limited long-term growth rates because of the tighter balance of payments constraint. In the short- and medium-terms, the dependence on foreign capital inflows has increased the vulnerability of the currency to speculative attack.¹²

The Brazilian economy was badly hit by the Mexican crisis. The sudden reversal of capital flows early in 1995 reduced the country's international reserves by US\$10 billion between December 1994 and April 1995, and 'threatened the stability of the real plan' (Bacha 1997, p.183).¹³ Three sets of emergency measures were adopted, which shifted the real plan sharply towards heterodoxy.

¹² Foreign competition has helped to foster investment and productivity growth, especially in the consumer durables sector (e.g., car assembly). However, this has been accompanied by net job losses, especially among unskilled workers (Amadeo 1996, CNI/Cepal 1997, and Saad Filho & Mollo 1998).

¹³ This was not an isolated incident. In November 1997, the central bank was forced to push interest rates to 43.5 per cent, in order to stem the outflow due to the Asian crisis (in quieter times, in May 1998, rates were 'only' 21.7 per cent). And in the aftermath of the Russian crisis in 1998, the central bank's reserves declined by over US\$25 billion, while interest rates reached 50 per cent, following the collapse of the São Paulo stock exchange.

First, import controls were temporarily restored, especially for durable goods, while tariffs rose from 20 per cent to 70 per cent in selected lines. Second, the exchange rate regime was modified in March 1995. The one-sided peg was abandoned, the real was devalued by 5 per cent, and a regime of bands (initially between R\$0.86 and R\$0.90 to the dollar) was introduced. The real has subsequently been devalued by a few tenths of a percent every month in excess of the domestic inflation. It was expected that this would gradually correct the overvaluation of the currency. However, this policy has committed the central bank to defending an overvalued exchange rate for several years to come (Andrade et.al. 1997).

Third, monetary policy became strongly contractionary in order to cool the economy, with immediate effect. Compulsory reserves of up to 100 per cent were imposed on deposits and bank loans, and interest rates increased sharply. In May, interest rates on personal loans reached 237 per cent, and on short-term commercial loans 176 per cent (Nogueira Batista 1996, p.48; see also Dornbusch 1997, p.375). The expansion of credit and demand was swiftly halted, and the economy contracted by an annual rate of 10 per cent in the second and third quarters of 1995. The trade balance improved rapidly and the resumption of loan and portfolio capital inflows led to a renewed cycle of international reserve accumulation with declining inflation.

The combination of currency overvaluation, high interest rates, and depressed economic activity has undermined the financial position of many industries, especially those affected by foreign competition and

those which had engaged in debt-financed expansion (Bacha 1997, Kilsztajn 1996). Bankruptcies increased sharply in 1995, while the share of nonperforming bank loans rose from 7.9 per cent to 13.9 per cent (Levy & Hahn 1996, p.31). These difficulties exacerbated the problems of the financial sector, which had already lost annual transfers worth approximately 2.5 per cent of GDP with disinflation (Cysne 1994). In order to stabilise the financial system the central bank intervened in two large private banks (Econômico and Nacional) and in several smaller institutions in the second quarter of 1995.¹⁴ By March 1997, supporting loans to the financial system under the PROER programme had reached US\$20 billion, leading to a corresponding increase in the domestic public debt.¹⁵

IV Destabilising Stabilisation

The cost of stabilisation has been very high, and the reduction in inflation rates has been associated with increasing instability elsewhere in the economy. Reckless trade liberalisation and currency overvaluation has led to bankruptcies and unemployment. Their broader impact has been disregarded by the ‘theologians of speculation’ in government, for whom unprotected exposure to the international marketplace is the deserved penalty for the ‘sin’ of past

¹⁴ Between 1994 and 1997 the central bank intervened in 43 financial institutions (Mollo 1997, p.12).

¹⁵ Bacha (1997, p.190); see also Nogueira Batista (1996, p.56). Official data are not available, but anecdotal evidence indicates that at least US\$10 billion are irrecoverable.

protection under ISI.¹⁶ High interest rates have increased the pressure on domestic producers, but they are affected differently, depending on size, degree of internationalisation, and financial management. For example, large conglomerates heavily involved in international trade can obtain cheap funds from state-owned development banks or the international financial system, which are not available to smaller firms producing non-tradables. The combination of trade liberalisation, currency overvaluation and contractionary monetary policy generates a heterogeneous growth pattern, which may fragment further the country's industrial base. It also helps to concentrate the economic and financial power, reduces the employment prospects and the real wage of unskilled workers, worsens the distribution of income and wealth, and reduces the country's ability to grow rapidly and equitably in the future.

High interest rates have attracted large portfolio capital inflows, totaling US\$115.6 billion between 1994 and 1997. They have helped to compensate the current account deficits under the real, which will exceed US\$100 billion by the end of 1998. The combination of deep external imbalances and volatile inflows is unwise at the best of times, and it can be sustained only while international liquidity is abundant and interest rates are low, both of which are variables that Brazil is powerless to influence (Calvo et.al. 1993). Capital inflows have mostly been sterilised at great expense. Brazilian and foreign banks and industries have often borrowed funds abroad paying, say,

¹⁶ These expressions are Delfim Netto's (1997, p.38).

12 per cent annual interest, and invested in treasury bonds paying around 30 per cent, which can be hugely profitable even after paying taxes and hedging costs. In contrast, the central bank usually earns less than 5 per cent interest on its newly acquired reserves (Simonsen 1994). The difference between what the central bank earns and what the treasury pays is the cost of holding the desired reserves, and it reflects the transformation of the tax system into a mechanism to transfer domestically produced value to the owners of speculative foreign capital. Partly in response to the relentless accumulation of reserves since 1991, the domestic public debt and interest payments, have increased sharply (as shown in table 2).¹⁷ As a result, the operational public deficit worsened by 6.1 per cent of GDP in one year, from a surplus of 1.3 per cent in 1994 to a deficit of 4.8 per cent in 1995, and it has remained stubbornly high since then.

The growth of the public debt has been the main factor responsible for the rapid increase in domestic liquidity. Consequently, although the international reserves increased by US\$9.3 billion between June 1994 and December 1997, their ratio to M4 declined from 23.8 per cent to only 12.1 per cent. This declining ratio is worrying, because it increases the probability of destabilising speculation against the

¹⁷ They have also increased because of the deterioration of the economic performance since 1995, the cost of restructuring the financial sector, the higher foreign debt repayments after the 'new' agreement with the Paris Club, and because of the increasing incompressibility of the remaining non-financial expenditures in the budget. Tax revenues have reached an all-time high of 30 per cent of GDP after the real, but this has been insufficient to rein in the growth of the operational deficit.

currency (much like the decline in US gold reserves contributed to the collapse of the Bretton Woods System; see Garcia 1995). It is for *this* reason that the nominal fiscal deficit matters (rather than because it may create excess demand), and this is why the current value of the real cannot be sustained indefinitely without major policy changes. In sum, high domestic interest rates attract volatile foreign capital to close the balance of payments and maintain large international reserves. However, the sterilisation of these inflows increases the domestic debt and puts upward pressure on the deficit, and the growing volume of central bank bills in circulation *requires* a further increase in the international reserves in order to preserve the confidence in the currency. *This is a dangerously unstable vicious circle.*¹⁸

Even if Brazil is unaffected by adverse capital movements in the short- and medium-term, inflation stability is unsustainable if it is accompanied by mounting external disequilibrium and by the permanent depression of domestic activity because of the tighter balance of payments constraint. In addition, the central bank's commitment to defend the currency within pre-announced bands has reduced the degrees of freedom for monetary and fiscal policy, and the government's ability to intervene in the economy to foster growth and to engage in a comprehensive poverty reduction programme. The strategy of using trade and financial liberalisation and privatisation to contain the distributive conflict and repress inflation is inherently

¹⁸ Nogueira Batista (1996) makes a similar point. The depression of the tradable sector is another source of instability, although its implications depend on the quantity and productivity of new investment, and its export propensity.

limited, and it may lead to the further fragmentation of the Brazilian economy and society (Rocha 1994, Saad Filho 1998).

V Conclusion

This paper has shown that the real plan had two components, the generalised indexation by the URV (which eliminated inflation inertia and allowed the stabilisation of the exchange rate), and the internationalisation and liberalisation of the economy (which has repressed the distributive conflict). Whilst the former is a useful weapon against high inflation, the latter is a blunt instrument, with uneven and unpredictable effects across the economy. However, permanently increasing the degree of 'globalisation' of the Brazilian economy was an important aspect of the political agenda underlying the stabilisation plan. The paper has also shown that this anti-inflation strategy is inconsistent, because currency stability depends on permanently high domestic interest rates and liquid international financial markets. Even if these conditions are satisfied, the ensuing capital inflows are destabilising because they lead to a declining ratio between the international reserves and broad money. More generally, even though the plan has transitorily raised the living standards of the poor, the overvaluation of the currency, the tighter balance of payments constraint, and the high domestic interest rates point to persistently low growth of employment and output, and to the further concentration of income and wealth in the future.

The real plan has also failed to solve the contradiction between monetary and fiscal policy that was typical of the period of high inflation. Now, as then, contractionary monetary policy endogenously generates an expansionary fiscal policy, with sharply regressive implications for income distribution. For this reason, low inflation has not reversed the trend towards the endogenous deterioration of the public finances. However, it has increased the dependence of real accumulation on the whim of the foreign and domestic financial markets.

In spite of this, the real may avoid a Mexican- or Korean-style run on the currency. The government has already demonstrated its pragmatism by reinforcing the heterodox features of the programme whenever excessive orthodoxy threatened the stability of the currency. Policy flexibility, and the large reserves accumulated by the central bank, should be sufficient to ensure a 'soft landing' in all but the most disastrous circumstances. However, persistent attrition and frequent bouts of instability are likely for long periods.

This depressing prospect was avoidable. It would have been possible to use the political and economic proceeds from disinflation to support selective industrial and other policies to foster exports and growth, and to build the social and economic infrastructure necessary to attend the basic needs of the majority. Rather than across-the-board trade and financial liberalisation, it would have been wiser to employ selective controls over foreign capital, and permanent intervention on the foreign exchange market, in order to avoid excessive current account deficits

and destabilising shifts in capital flows. The ensuing preservation of ability to take constructive policy initiatives. The main problem with this alternative is not the scarcity of finance, but the lack of political, ¹⁹ However, measures merely repressed it), permanently improved the prospects for macroeconomic stability, and helped to build a more inclusive society. option from being considered seriously. Instead, neoliberal policies purported inevitability.

¹⁹ These points are made, in another context, by Fine & 253); see also Varsano (1996).

Table 1 Brazil: Macroeconomic indicators (1989-97).

Year	GDP growth (%)	Inflation rate (%)	Government Budget Deficit (%GDP) ⁺			Seignorage (%GDP)
			Prim.	Oper.	Nom.	
1989	3.2	1,304.5	1.0	6.9	83.1	5.5
1990	-4.3	2,595.6	-4.6	-1.3	29.6	5.2
1991	0.3	421.4	-2.9	-1.4	23.3	2.6
1992	-0.8	988.5	-2.3	2.2	43.1	3.2
1993	4.2	2,086.5	-2.7	-0.2	59.0	3.3
1994	6.0	2,312.1	-5.3	-1.3	45.5	4.6
1995	4.3	74.9	-0.4	4.8	7.2	0.5
1996	2.8	11.1	-0.1	3.6	5.8	0.0
1997	3.0	7.9	-0.1	2.4	6.1	1.4

Prim.: primary; Oper.: operational; Nom.: nominal.

Sources: Boletim do Banco Central do Brasil and Conjuntura Econômica.

⁺ The nominal or total deficit (PSBR) is the difference between total government expenditures and total revenues, including all levels of public administration and the state enterprises. The primary deficit is the difference between non-financial expenditures and revenues, while the operational deficit excludes only the nominal interest paid on the public debt. It is usually more informative than the nominal deficit, because the latter tends to rise with inflation, regardless of a simultaneous improvement in government finances.

1990	3.3	18.1	-4.9	3.3
1991	2.9	15.9	3.6	1.6
1992	1.9	21.2	34.1	4.5
1993	1.2	21.6	7.1	2.4
1994	3.2	21.0	24.4	3.8
1995	3.1	25.5	38.9	5.2
1996	3.7	29.3	23.9	3.8
1997	5.3	30.2	21.8*	3.7 ⁺

*: April; ⁺: Year to July.

Sources: Boletim and Relatório do Banco Central, Anuário do IBGE and Conjuntura Econômica

Table 3 Brazil: Selected Balance of Payments Data, International Reserves and Foreign Debt, 1989-97 (Selected Data, US\$ billion)

Year	X	Z	TB	CA	FDI	PK	BP	IR	XD
1989	34.4	18.3	16.1	1.0	0.1	0.0	-3.4	9.7	115.1
1990	31.4	20.7	10.7	-3.7	0.0	0.1	-8.8	10.0	123.5
1991	31.6	21.0	10.6	-1.4	0.2	0.6	-4.7	9.4	123.9
1992	35.8	20.6	15.2	6.1	3.0	1.7	30.0	23.8	136.0
1993	38.6	25.3	13.3	-0.6	6.2	6.6	8.4	32.2	145.7
1994	43.5	33.1	10.4	-1.7	8.1	7.3	12.9	38.8	148.3
1995	46.5	49.9	-3.3	-18.0	4.3	2.3	13.5	51.8	159.2
1996	47.7	53.3	-5.6	-24.3	10.0	6.0	8.7	60.1	179.9
1997	53.0	61.4	-8.4	-33.4	17.1	5.4	7.9	52.2	200.6

X: Exports, Z: Imports, TB: Trade Balance, CA: Current Account, FDI: Net Foreign Direct Investment, PK: Net Portfolio Capital Inflows, BP: Balance of Payments, IR: International Reserves (international liquidity), XD: External Debt.
Source: Boletim do Banco Central do Brasil and Conjuntura Econômica.

**Table 4 Unemployment in Greater São Paulo
(per cent)**

Year	Open	Hidden	Total	Index (1985=100)
1989	6.6	2.2	8.8	78.4
1990	7.2	2.8	10.0	90.4
1991	7.9	3.7	11.6	109.6
1992	9.1	5.8	14.9	145.3
1993	8.7	6.0	14.7	146.4
1994	8.9	5.4	14.3	143.6
1995	9.0	4.2	13.2	135.9
1996	10.0	5.0	15.0	159.1
1997	10.2	5.6	15.8	169.9
1998*	12.4	6.5	18.9	208.1

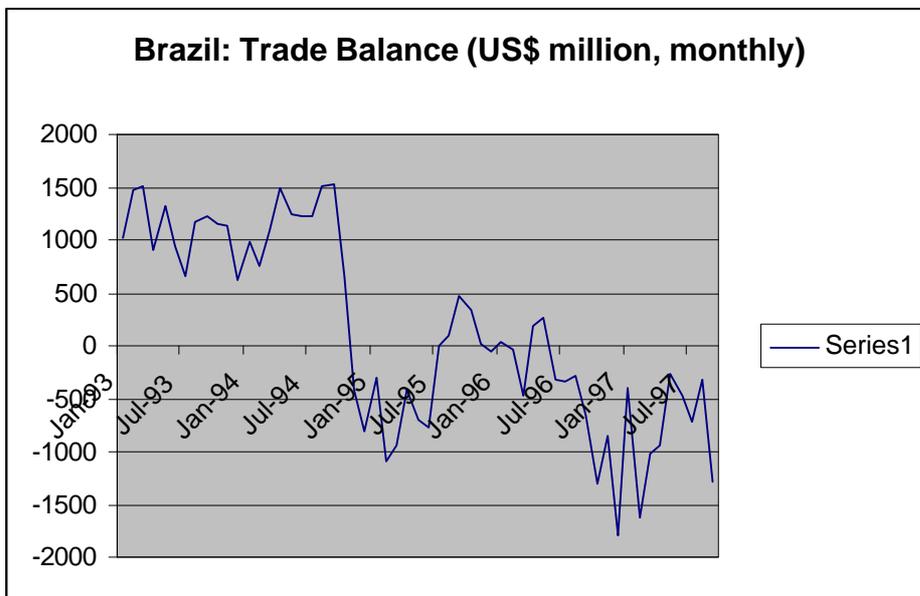
*: May.

Source: Dieese.

Graph 1



Graph 2



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