

POPULISM AND ECONOMIC POLICY IN BRAZIL

by LUIZ CARLOS BRESSER PEREIRA

POLITICAL OR IDEOLOGICAL OBSTACLES have proved of paramount importance in Brazil's ability to adopt sound, consistent economic policies — the kind of policies the country needs if it is to overcome economic crisis and consolidate modern capitalism and democracy. Brazil's recent democratization was based on solid economic and social reality, representing the victory of civil society rather than a gift from the military regime. Nevertheless, it failed to tackle some of the basic ideologies and political practices which are typical of middle-income, industrialized, yet underdeveloped countries like Brazil: such as economic populism, developmentalism, anachronistic nationalist beliefs, political clientelism, unrealistic worker demands, conservatism, the orthodoxy of neoliberal monetarism, and the inability of short-sighted business elites to define the national interest. The combination of these beliefs and political practices create serious impediments to development, and acquisition, of those sound,

Luiz Carlos Bresser Pereira is a former Minister of Finance in Brazil who has also served as Chairman of the State Bank of São Paulo, as well as Secretary for Science and Technology of São Paulo. He is presently associated with the Getúlio Vargas Foundation (in São Paulo) as both Professor of Economics and President of the Centro de Economia Política (publisher of *Revista de Economia Política*) and, in addition, serves as coordinator of the Board of Directors of Pão de Açúcar. He is the author of several books in both Portuguese and English including, among the latter, *DEVELOPMENT AND CRISIS IN BRAZIL: 1930-1983* (Westview Press) and (with Yoshiaki Nakano) *THE THEORY OF INERTIAL INFLATION* (Lynne Rienner).

progressive policies that are needed if Brazil is to resume economic growth and achieve price stability.

What we have seen in Brazil, ever since the transition to democracy was completed in early 1985, was a succession of economic policies — developmentalist, populist, orthodox — alternating with one another. The result has been economic stagnation, high rates of inflation, and a continued concentration of income. During its first six months in office, the Sarney government pursued a conservative economic policy; it did not work. This was followed by the Cruzado Plan (intended as a progressive, but later revealed as a populist, policy) which ushered in, during the first half of 1987, a period of acute financial and economic crisis. It was in the midst of this crisis that I assumed the post of Minister of Finance and initiated an emergency plan designed to control inflation. This emergency plan was to have been followed by a definitive stabilization plan, projected for the beginning of 1988 and designed to combine heterodox (a new freeze and a quasi-unilateral reduction in the foreign debt) with orthodox (fiscal and monetary) policies. The lack of support for fiscal adjustment led me to resign in December 1987. Over the next two years (1987-89) a mistaken orthodox monetary policy — oriented to very high interest rates, a continued inability to control the budget deficit, and a new freeze — deepened the fiscal crisis and provoked, first, a crisis of confidence and, finally, hyperinflation, in February 1990. When President Collor took office in March 1990, the new government introduced the Collor Plan, another heterodox emergency plan. Inertial inflation followed. Two months later, the government returned to a policy of orthodox fiscal and monetary measures, a policy which was still in place in September 1990 when this paper was under review. This latter policy produced two positive outcomes — a budget surplus plus the government's firm determination to resist economic populism — with three negative outcomes: (1) a 12% monthly rate of inflation that showed no signs of diminishing, (2) an overvalued cruzeiro, and (3) deep recession. The government responded by giving serious consideration to a new social pact, e.g., a new heterodox policy.

During the early 1980s, economic crisis was a major factor that led to the end of the authoritarian regime. Now, stubbornly resisting solution, economic crisis is a threat to the present

democratic regime. Recession and high inflation will always be destabilizing factors for any political regime, whether authoritarian or democratic. In the early 1990s, when most Latin America political regimes are democratic, it is democracy that is being jeopardized by economic crisis.

Although economic crisis is the problem, this discussion will focus upon the political problems that underlie, and impede resolution of, this crisis. It is common to hear that Brazil's present economic crisis has political origins and should be solved in the political arena. Actually, in Brazil today, economic and political crisis co-exist independently of one another, although always interacting and impacting the other. The economic crisis is of longer duration, having originated at the end of the 1970s. The political crisis, in its present form, is a phenomenon of the second half of the 1980s. It was defined by the inability of the Sarney government and, more broadly, of the Brazilian elite to face the challenge of establishing those political practices and ideologies in Brazil that are consistent with a modern and democratic capitalism.

Though the election of Fernando Collor produced a wave of renewed hope, thus far there is no assurance that his government will be able to overcome the economic crisis. The new government has the political will to solve the problems, but to say that economic problems have political origins or that their solution depends on political will alone is to reduce economic policy to an all-powerful device of social engineering. The original name of our discipline — political economy — underlined the political and social character of the economic process. This, however, does not justify the transformation of real economic problems into political problems, nor does it justify the belief that Brazil's present economic problems can only be resolved subject to overcoming the political obstacles. It is also necessary to diagnose the crisis correctly and to adopt economic policies appropriate to that crisis. Political practices and ideologies contrary to rational policymaking do exist, and will be analyzed in the discussion to follow, though it must be kept clearly in mind that these do not represent the *only* causes of Brazil's economic problems.

A. ECONOMIC CRISIS AND DEMOCRACY

TODAY, BOTH CAPITALISM and democracy have basically been consolidated in Brazil. There is no doubt about the dominance of a modern, industrial, capitalist mode of production, nor about the political and ideological hegemony of the business class in Brazil. But there are many doubts — doubts that never existed before — about the prospects of economic growth in Brazil. In other words, capitalism may be assured in Brazil but not self-sustained growth. At one time I believed that, once a country had completed its industrial and capitalist revolution, self-sustained growth would automatically follow as a consequence of the demands imposed by accumulation of capital and incorporation of technological progress. Today I am no longer so sure. After ten years in which Brazil's per capita income has stagnated, accompanied by incredibly high rates of inflation, one is forced to concede that Brazil's continued economic development depends on adopting a number of short-run (adjustment) and long-run (reform) economic policies which involve decision and initiative.

On the other hand, democracy in Brazil is more solidly entrenched in the economic and social system than is usually acknowledged, for the following reasons: (1) modern industrial capitalism is able to appropriate economic surplus through the market, thus dispensing with the direct force needed in pre-capitalist and mercantilist societies; (2) the bourgeoisie, or business class, does not feel threatened by the Left; (3) since the revolutionary Left is in crisis worldwide, not least in Latin America, it is in no condition to mount a revolutionary project threatening to the bourgeoisie; (4) neither do the military nor, more broadly, the authoritarians have an alternative project for Brazil (being as perplexed as the bourgeoisie as to how to resolve the economic and political crises); (5) the United States no longer resorts to strenuous tactics (such as *coups d'état*, overthrowing governments) as part of its strategy to consolidate capitalism in Latin America.

However, it is not possible to say that democracy is consolidated. Guillermo O'Donnell emphasized that, if a military *coup* is not likely, the "slow death" of democracy — i.e., the continued loss of effectiveness and credibility of political institutions due to

failure of government to meet, or resolve, socio-economic problems — is another possibility (O'Donnell, 1988: 85).

The failure of government to address these problems directly cannot be attributed solely to country-specific limitations nor to the sheer size of the economic obstacles. Real economic obstacles do exist. It is not by chance that Latin America has stagnated for ten years, ever since the foreign debt crisis manifested itself. However, the failure of Brazil's government to lead the country out of this crisis is clearly related to political practices and beliefs which are not conducive to the adoption of bold, coherent and firm economic policies.

What are some of these political beliefs and practices? They will be discussed in greater detail below, classified according to political category as follows: as part of (1) the opportunistic Right, (2) the moderate Left, or (3) the ideological Right.

B. THE OPPORTUNISTIC RIGHT

IT IS IMPORTANT to distinguish the opportunistic Right from the ideological Right. Of course, opportunists exist all across the political spectrum from Right to Left. An opportunist is, by definition, a politician without firm ideological convictions.

In Brazil, opportunists dominate the country's Right-wing only because capitalism is dominant in Brazil. In a capitalist country like Brazil, a political opportunist, whatever the ostensible political persuasion (even if the pretension is Left or Center-Left), will — in the last analysis — be basically conservative because his/her fundamental interests will demand that all possible and imaginable concessions be made to the ruling class.

The characteristics that distinguish the political practices of this category are those which influence economic policy most directly, such as:

1. Economic Populism

Economic populism is a basic political disease in Brazil. Because "populism" has several meanings, the adjective "economic" is appended in order to distinguish it from other connotations. For political scientists, "populism" carries a different meaning in Latin

America where it is usually tied to the “populist pacts” which preceded import-substitution industrialization. Such pacts were/are based on some kind of alliance between industrialists, workers, and the new techno-bureaucratic middle-class (Weffort, 1965, 1980; Di Tella, 1966; Ianni, 1968; Bresser Pereira, 1968; Erickson, 1975; Touraine, 1988). Economic populism refers to a general political practice that is related to naïve distributivism and fiscal laxity.

The first economist to write on economic populism was probably Adolfo Canitrot (1975). Guillermo O'Donnell, although a political scientist, has also written admirably on the subject (1977). Carlos Díaz-Alejandro (1981) has addressed economic populism specifically in connection with the “populist cycle.” Populist policies usually precede economic crisis, which then — particularly in Southern Cone countries — gives rise to orthodox stabilization policies in response.

There are two types of economic populism: (1) populism of the Left, often characterized by redistribution of wages or unwise redistribution of income and with what I term the “refusal-to-adjust” attitude; and (2) populism of the Right, a phenomenon that is very close to developmentalism. It is a kind of fiscal laxity, defined by a tendency to acquiesce to most demands from both workers and businessmen. This course is invariably embraced by opportunistic and/or clientelistic politicians.

Populist economic policies lead, directly or indirectly, to increases in the public deficit and to an imbalance in the current accounts (balance of payments). Some of the more common populist practices include: increased wages and salaries for public sector workers and officials; increased private sector purchases; increased subsidies (of consumption as well as other private sector incentives, like tax breaks); artificial valuation of the local currency; and increases in subsidized credit offered by the official banks. These concessions offer something to everyone: public officials, businessmen, workers.

The result of these practices is the “populist cycle.” It begins with the government's adoption of a combination of the following policies: (1) setting a rate of exchange which encourages increased imports and which leads, indirectly, to increases in both wages and consumption; (2) direct increases in public sector salaries; (3) increases in public expenditures (which leads to

budget deficit); (4) setting artificially low, domestic interest rates; and (5) establishing artificially low prices and tariffs for state-owned enterprises. As a result, the first phase is characterized by a high rate of consumption and investment, an accelerated growth rate, and a decline in the rate of inflation — due to the changes in the exchange rate and the slowdown of public prices.

However, this stage proves to be a short-lived paradise as these practices generate distortions in the economy. Disequilibrium appears in the balance of payments as imports increase but exports, which have become unprofitable, decline. The budget deficit, in its turn, soon changes into a fiscal crisis, while devaluation of the currency, in real terms, begins to push up domestic prices and set in motion an (often dramatic) inflationary spiral. This stage of the cycle often leads to a severe crisis, sometimes accompanied by, at the least, a change of ministers if not a *coup d'état*, and inevitably ends with a radical change in economic policy.

The expansionist policies of 1979-80 (probably the worst mistake in the history of economic policy in Brazil) and of the Cruzado Plan (an excellent plan and a lost opportunity due to incompetent management) are typical recent examples of the populist policies in Brazil. The 1979-80 experience was conducted by conservative economists under the aegis of the military regime; the second experience was supervised by progressive economists soon after the democratic transition took place.

2. Clientelism

This is a political practice halfway between populism and sheer corruption. Populism, clientelism and corruption imply the use of public funds: in the case of populism, public funds are used impersonally to assure the good-will of those groups/communities who benefit from the public expenditure; in the case of corruption, public funds, often appropriated by an individual, are used both personally and directly. Clientelism also involves the use of public funds but in an intermediary way such that, though potential voters benefit directly, the politician engaging in the clientelistic practice benefits indirectly. The Brazilian term for this practice is *fistologismo*.

The *fistológico* politician is, by definition, an opportunist, a person who treats politics like a business, only a business in which political power is the means of exchange, usually to dispense or receive favors. He is *fistológico* because he puts his own personal and/or material interests first — above those ideas or principles, political and moral, which he has pledged to serve and which normally govern political action.

Both of these opportunistic practices are deeply embedded in Brazil's political system and are both a symptom and a consequence of the country's low level of citizenship. Lack of information, poor political education, mistrust of *popular* candidates are typical characteristics of the Brazilian average voter. Thus, in the words of Wanderly Reis,

given the characteristics of the Brazilian electorate, it is not realistic to expect that the stabilization of the democratic game takes place around parties that are defined in ideological terms; it is more likely that the process of formation of the political parties will continue to be based on traditional clientelism with an electoral appeal of populist tonalities (1988: 24).

C. THE MODERATE LEFT

DIFFERENT, BUT producing similar results, are the ideologies and political practices of the political Left. Although I personally identify with this group, I have long been convinced some of the ideas held by the Left are anachronistic. In the 1950s, I engaged in the campaign to industrialize *via* import-substitution and state intervention. Although I still believe this strategy was appropriate for 1950s Brazil, already, by the early 1960s, it became apparent — as I pointed out at the time — that the national situation had changed sufficiently to require a new analysis of the economy and a new strategy for economic growth (Bresser Pereira, 1968: Chapter 5; Bresser Pereira, 1984).

The moderate Left severely criticized the orthodox economic policies put forth by the authoritarian regime. Sometimes this criticism was justified but, on other occasions, this criticism represented no more than old-fashioned slogans which are today linked to issues of developmentalism and economic populism,

issues which made sense in the 1950s but fail to remain relevant to the needs of the 1980s. Let us review some of these ideas:

3. Old-fashioned Nationalism

In the 1940s and 1950s, the Left espoused the proposition that “imperialists,” or foreign interests (including the multinational enterprises), had allied themselves with the interests of domestic agro-mercantilistic capital to prevent/oppose industrialization. However, in the mid-1950s, those same multinationals proceeded to make large investments in manufacturing, thus altering the situation and acting in contradiction to the earlier thesis (Bresser Pereira, 1968: Chapter 5; Cardoso and Faletto, 1969). If the analysis had once been true, it was so no longer. Nevertheless, old-fashioned nationalists remain who still think in terms of the early 1950s. These anachronistic nationalists fail to understand that to be a nationalist today in Brazil or, rather, to defend the national interest, requires opposing the irrational attempt, by at least some of the Brazilian elite, to pay the foreign debt in full. To be a nationalist today requires striving to develop a national scientific and technological community capable of progressing independently within the country. In other words, it is necessary to have a clear notion, in each case, of what the national interest really is, rather than to continue in automatic opposition to the multinationals, which may be able to make an effective contribution to economic growth.

4. Internal Market Orientation

In the mid-1960s, the authoritarian regime then in power opted for an export-led strategy of development. This strategy proved beneficial to the country though, in the short term, it produced the perverse effect of making sustained rates of internal demand compatible with concentration of income. From the beginning, the moderate Left opposed this strategy, failing to acknowledge that (1) not only had this growth model exhausted its virtues in the early 1960s, but (2) the alternative growth model — which was based on highly capital-intensive, import-substitution projects — was even more disposed to concentrate income over the long run

than one based on the export of labor-intensive manufactured goods.

During the 1970s, it was common for spokesmen of the Left to criticize Korea and Taiwan as mere "export platforms" for the multinationals, while Roberto Campos, one of Brazil's leading Right-wing intellectuals, viewed those same countries as liberal societies. Today we know that both were wrong. The extraordinary development of those countries was based on an export-led strategy in which the state played a decisive, and the multinationals a minor, role. Korea and Taiwan were neither export platforms nor liberal economies. Furthermore, their development strategy proved consistent with a much more even distribution of income than that existing in Brazil. One cause of this better income distribution was the agrarian reform undertaken by those countries following World War II; another factor was the export-led growth strategy which was, necessarily, based on labor-intensive industries.

5. Refusal-to-adjust Attitude

This resistance to adjustment — here called "refusal-to-adjust attitude" — emerged as a consequence of an entrenched commitment to "developmentalism" (in this case also a form of economic populism) which characterized Latin American economists on the Left, myself included, during the 1950s.¹ We severely criticized the adjustment of the 1960s. The fact that stabilization programs were usually based on reducing wages rather than on fiscal adjustment was, indeed, good reason for criticism. However, the Left predicated its criticism almost entirely upon a "no-to-recession" slogan and, in so doing, ran into economic populism. The only economic argument of the Left was a spurious adoption of Keynes ideas favoring budget deficits and a demand-led development strategy.

In 1979, when some form of economic adjustment became absolutely necessary, the developmentalist, populist economic policy adopted by the Right-wing military regime was, not surprisingly, supported by economists on the structuralist, moderate Left. When adjustment finally did take place in 1981, the Left took the position that adjustment was unnecessary. In actual fact, there was no other alternative. At the time, it was impossible — as well as undesirable — to maintain the large deficits in both trade and

current accounts. The only serious, innovative criticism of the orthodox adjustment policies to emanate from the moderate Left came from those economists who developed the theory of inertial inflation.³

6. Redistribution of Wages

A redistributive wage policy is typical of economic populism everywhere. Income concentration is, recognizably, a major problem in Brazil, which has one of the most uneven, unjust income patterns in the world. However, this fact alone does not legitimate unrealistic wage distributivism. A progressive economic policy in Brazil will necessarily have the achievement of a less uneven distribution of wages as one of its major objectives, but, at the same time, it will have to be very careful about increasing real wages above the level of productivity.

Whenever this has been tried, profits become threatened and the inflation rate accelerates. This is unavoidable. Wage policy should really be limited to three objectives: (1) to protect real wages from inflation; (2) to assure increases in productivity are transferred to the workers; and (3) to reduce wage and salary differences through a gradual increase in the minimum wage. There is no doubt that it is possible to increase wages more than productivity without affecting profits if either the price is paid by the rentiers or an increase in state efficiency allows for tax reduction. However, these alternatives are difficult to accomplish. More efficient means of redistributing income include (a) a labor-intensive industrial policy oriented to the production of wage goods, (b) an agrarian reform, (c) progressive tax reform, and (d) orientation of public expenditures to the poor.

However, these ideas are usually not acceptable to the populist Left. An oft-cited slogan is: "Wage increases are not a cause of inflation." For a long time, during the authoritarian regime, this was true since real wages either increased less than productivity or were reduced in absolute terms. Nevertheless, a different picture began to emerge at the end of the 1970s. In 1984, after the defeat of the authoritarian regime, unrealistic demands by the workers increased sharply. The salaried middle class, who were employed in the public sector, became particularly active in this

area. As the distributive conflict deepened, the budget deficit increased, prompting the rate of inflation to accelerate. Yet given this last fact, real wage gains tended to be short-lived. Increased inflation soon wiped out any real gains, and the only lasting result was the higher rate of inflation.

In conclusion, some ideas and political practices of the moderate Left — old-fashioned nationalism, internal market orientation, the refusal-to-adjust attitude, and wage distributivism — are not consistent with rational, coherent economic policies; nor are the political practices of the opportunistic Right. To the extent that these are the forms which economic populism assumes in Brazil, they represent obstacles to stabilization and growth.

D. THE IDEOLOGICAL RIGHT

THE IDEOLOGICAL RIGHT is also a major originator of irrational economic policies. In this category are included the neoclassical, or monetarist, economists who adopt a militant theoretical view opposing practically every kind of state intervention in the economy and who support only purely orthodox economic policies to stabilize the Brazilian economy. The bulk of Brazil's business elite falls into this category. Their leaders may not be opportunists, but they *are* ideologically conservative. In developing countries, conservatism means ideological subordination to the dominant value and belief system existing in the central countries, over and above those other typical conservative characteristics, such as placing order above social justice and resisting change.

The ideological Right is truly convinced that its views on economic policy are intrinsically rational, based, as they are, on both the logic of capitalism as well as their own logic. They rely on this sense of their own rationality to confront the irrationality of the populist Left and of opportunistic politicians. Since they control the means of communication, they are usually able to convey their ideas to the general public, thus reinforcing their ideological hegemony.

Unfortunately, not only are the ideas of the ideological Right not as rational as they are purported to be, but they also represent a major obstacle to the adoption of a consistent economic policy in Brazil, especially when the times call for bold, far-reaching

economic decisions. What are these views and political measures of the ideological Right?

7. Social Conservatism

Social conservatism is an obvious problem in a country where income levels are so sharply skewed, with so much going to so few. In Brazil, the tax burden is relatively low and the tributary system very regressive. Thus, progressive tax reform is an obvious tool for reducing the public deficit and making the distribution of income more equitable. The ideological Right systematically opposes tax reform that increases the tax burden in any way or that makes it more progressive. On the one hand, it refuses to recognize that the tax burden is indeed low in Brazil, while, on the other, it exhibits a sincere concern for the lack of incentives to savings and investment. In reality, tax renunciation and tax incentives to business enterprises are a major source of Brazil's budget deficits since they serve to reduce the effective tax burden. Most of these "tax breaks" or incentives lost their *raison d'être* long ago. Still, the ideological Right tends to ignore the problem and fight for lower taxes.

While the ideological Right professes its concern regarding income concentration in Brazil, it does nothing to solve the problem. A social pact, essential to control wages and curb inflation, would involve concessions to the workers in terms of social reform. However, as a rule, the ideological Right opposes any effort at social reform. Not only does this behavior serve their interests as a class, but it is also based on the firm conviction that social order takes priority over social justice. The former must never be endangered in the name of the latter.

8. Monetarism

Monetarism began as a conservative counter-action to Keynesianism. Monetarism originally developed in the Milton Friedman version and subsequently evolved through the theory of rational expectations of the "new classics" (Sargent, Lucas). It is based on a fundamental contradiction: it is a macroeconomic theory, necessarily oriented to economic policy, which professes radical abstinence from state intervention. However, this

abstinence is actually not put into practice. The stabilization policies that monetarism recommends tend to be both active and aggressive. On the other hand, when and if the economy stabilizes, the stability achieved is always so precarious that continued intervention by the state is required to maintain it.

At the present time, monetarism is the economic religion of the developed capitalist countries. Due to the ideological subjection of elites in the peripheral countries to those at the center, an almost unrestricted monetarism has been adopted by the ideological Right in a peripheral country like Brazil. Two examples will suffice. Though in Brazil inflation has structural origins and an inertial character, the Right believes that it can be controlled simply by the application of monetary and fiscal policies.³ In an underdeveloped economy, like that of Brazil, economic imbalances run very deep but, based on monetarism, the ideological Right believes that market forces alone will be able to solve all problems.

The successive failures of this approach to solve economic crises in Argentina, Brazil and Chile, contributed to a certain discrediting of monetarism in the early 1980s. However, after the failure of the heterodox Austral and Cruzado plans, monetarism recovered some of its lost prestige. Suddenly, as a result of a very interesting ideological maneuver by the ideological Right, conventional stabilization policies (based on fiscal and monetary policies, over which there is a relative consensus among good economists) were equated with "orthodox" monetarism and opposed to Keynesian theories and to structuralist "heterodoxy." Whereas the theory of inertial inflation was being coöpted by the countries of the Center,⁴ and an increasing number of economists came to admit the advantage of combining conventional or "orthodox" (fiscal and monetary) with "heterodox" (incomes policy) policies, the monetarist neo-liberal Right in Brazil still insisted on shunting incomes policies aside.

In fact, economic policies that are specifically monetarist in nature are often inadequate or plainly irrational. It is obvious that a dogmatic rejection of state intervention, including macro-economic regulation and incomes policy, prevents a monetarist policy from dealing with the real problems of the Brazilian economy. Monetarism also tends not to take into account certain characteristics specific to the Brazilian economy. Inertial inflation

may be a universal phenomenon, but the degree of formal and informal indexation in Brazil makes it very specific to the Brazilian situation, creating a particularly Brazilian problem requiring measures that are especially tailored to its solution.

9. Crude Neoliberalism

Neoliberalism is the complement of monetarism. The ideological Right knows (or should know) that the state played a pivotal role in Brazil's industrialization, though it persists in ignoring it. In the 1980s, after becoming heavily indebted to foreign interests, the Brazilian state was bankrupt. It entered into a severe fiscal crisis (Werneck, 1987; Bresser Pereira, 1987 and 1989) which immobilized the state's long-term policies and in which the economy was plagued, first, by high rates of inflation and, finally, in early 1990, by hyperinflation. For those who subscribe to a primitive, unvarnished neoliberalism, this indicates that the state should totally withdraw from any economic role and reduce itself to a "minimum state." Though it may, indeed, be a sensible alternative to reduce the role of the state, the primary task is to solve the fiscal crisis: not to expel the state from the economy but to enable it to assume new roles in promoting welfare and technological progress.

Today the country has been undergoing the worst crisis in its economic history. *Per capita* income has been stagnant since 1980. One reason for this is the fiscal crisis. Strong measures are needed to resolve the structural imbalance of the public sector which converted public sector savings into negative savings, thereby drastically reducing its ability to invest. Meanwhile, the ideological Right minimizes the problem — speaking of budget deficit, proposing to fire some public officials, advocating privatization — and refuses to recognize the magnitude of a fiscal crisis which demands basic structural reform, including public sector reform, a progressive tax reform, liberalization of foreign trade, and a drastic reduction in the foreign debt.

10. Subordinated Internationalism

A natural aspiration of Brazil's business community is to increase the internationalization of the Brazilian economy. Actually,

it really wants Brazil to be part of the First World. If Brazil could integrate its economy into the world market, Brazilian capitalism would be, economically and ideologically, less vulnerable. I will not argue about these objectives; they are quite consistent. If a clear economic and ideological hegemony of the bourgeoisie exists (as I believe it does), and if Brazilian capitalism is well established, this desire for greater integration with the developed world is quite natural.

The problem is how to realize this desire. Brazilian conservatives frequently believe this can be achieved by "being international." However, Right-wing internationalism often takes the form of an uncritical subordination to the interests of the developed countries. This attitude — here termed "subordinated internationalism" — is a phenomenon of everyday life in Brazil. It is a consequence of the economic and cultural domination that the developed world of the Center exerts over that of the Periphery. In the case of the ideological Right, this subordination takes on a militancy which is as inconsistent with the national interest as the old nationalism of the Left.

A dramatic example of this subordinated internationalism is the view of the ideological Right regarding the foreign debt. Ever since the early 1980s, Brazil's external debt has been the single greatest cause of its economic stagnation and high rates of inflation. The foreign debt has (1) reduced the national ability to save, since it led to huge transfers of real resources; (2) increased the budget deficit, given the fact that over 80% involves the public sector; and (3) accelerated inflation because it led to greater budget deficits on the one hand, and to real devaluations of domestic currency on the other. Clearly, Brazil's external debt is too high and cannot be paid. Reducing the debt is a necessary precondition for overcoming stagnation and inflation in Brazil. The alternative would be to reduce internal consumption so massively as to be neither feasible nor desirable. Nevertheless, the ideological Right refuses to acknowledge these facts. Given its natural desire to incorporate Brazil into the First World (a goal widely shared in Brazil), the Right, or, more generally, the business elite, shrinks from taking a firm position toward the creditor banks. It confuses the interest of the creditor banks with that of their countries of origin, fearing — wrongly in the opinion of this author — that any unilateral measures taken by Brazil to negotiate a

reduction in the foreign debt will endanger its relationship with the First World. What they fail to comprehend is that Brazil's integration into the world economy is much more dependent upon its ability to stabilize prices and stimulate economic growth than it is upon its ability to pay off the debt.⁵

E. CONCLUSION

TODAY, LATIN AMERICAN conservatives tout the Chilean experience as an example of a sound, successful economic policy. They point to Chile's low levels of inflation and positive growth rate since 1984. They do not mention that Chile's *per capita* income at the end of 1988 was still below that of 1980, that 1987 wages were 6% below the 1980 level (Piedra, 1988), nor do they discuss the increase in both poverty and concentration of income that accompanied this growth. The admirers of the Chilean experience ignore the fact that exports remained stagnant, in real terms, from 1982 to 1987, and that Chile's rate of investment only recently reached 20%. There is a tendency to overlook, or forget, the denationalization of the Chilean economy as local assets were swapped, on unfavorable terms, for the external debt. As one observer noted: "in the last 15 years there was no economic progress in Chile; instead the dictatorial regime promoted a savage redistribution of GDP" (Rodríguez, 1988: 3). Since the authoritarian regime took power, *per capita* wheat consumption fell by 8.3%; that of milk, 5%; of meat, 15%; of sugar, 8.3%; and of rice, 14%.

The mixed (positive and negative) results achieved by the Chilean economy were the product of orthodox policies and an authoritarian regime. John Sheahan notes that economic policies typical of authoritarian regimes in Latin America include the following: reduced price controls, lower protection, serious efforts to limit budget deficits, strict control of wages, and conditions highly favorable to foreign investors (Sheahan, 1986: 161). Sheahan mixes regime rhetoric with the action taken. In actual fact, Latin American authoritarian regimes do not necessarily adopt orthodox or neoliberal economic policies. Their rhetoric is invariably opposed to state intervention and protectionism. While they may preach fiscal austerity, they hardly practice what they

preach. The excessive external indebtedness and the corresponding public deficits of the 1970s were all incurred by authoritarian regimes in Brazil, Argentina, Chile, and Peru. Sheahan is on firmer ground, however, when he worries about the ability of Latin America's non-authoritarian governments to survive the increase in populist policies, a trend that has only intensified since redemocratization: wage increases above the growth of *per capita* income, increases in public expenditures, and a trend towards excessive protectionism.

To sum up: populist, developmentalist and orthodox political practices and ideologies are, together, major obstacles to the adoption of consistent, rational economic policies in Brazil and, more broadly, Latin America. The former lead to fiscal crisis, balance-of-payment problems, and inflation, while the latter lead to incompetent macroeconomic management, recurrent recession, and concentration of income.

Brazil needs economic policies that are from neither the Left nor the Right, distinctions which are of only minor significance given the seriousness of the present economic crisis. Populism, developmentalism and neoliberal orthodoxy have all made their contribution to present problems: the fiscal crisis of the state, the foreign debt crisis, inflation, the reduction in rates of savings and investment. These problems are of such dimension in Brazil that it is not enough to criticize the nationalism, the protectionism, the refusal-to-adjust attitude, and distributivism of the Left; the populism and clientelism of the opportunists; the social conservatism, monetarism, crude liberalism, and subordinated internationalism of the Right. In order to adopt consistent, rational, and pragmatic economic policies (which at times will appear orthodox, at others heterodox), men and women in public life will need political courage, technical competence, and vision. Only then will it be possible to adopt policies — however unpopular or unpleasant — capable of overcoming the fiscal crisis and permitting Brazil to resume growth with price stability.

NOTES

1. Developmentalism and economic populism were later also an attitude and a practice adopted by the Right, as the economic policies followed by the military regime (1964-1984) demonstrate, particularly the II National Plan of Development (1974) as an example of developmentalism and the 1979-80 attempt to produce a new economic miracle instead of adjusting, as an example of economic populism.

2. See Bresser Pereira (1987) for a review of the theory of inertial inflation.

3. The 1989 Summer Plan was a typical attempt to control inflation in Brazil by the adoption of a very orthodox monetary policy. The high interest rates then adopted were a major cause of the subsequent hyperinflation. In 1990 the second phase of the Collor Plan, which started in May, was again the result of a mistaken orthodox economic policy.

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

5. See Bresser Pereira (1988) on the attitude of the Brazilian elites in relation to the foreign debt.

REFERENCES

- BRESSER PEREIRA, L. (1989) "The Perverse Macroeconomics of Debt, Deficit and Inflation in Brazil," in T. Fukushi and M. Kagami (eds.) *Perspectives on the Pacific Basin Economy: A Comparison of Asia and Latin America*. Tokyo, Japan: Institute of Developing Economies.
- _____ (1988) "A Debtor's Approach to the External Debt," in Christine A. Bogdanowicz-Bindert (ed.) *The Global Debt Crisis*. New York, NY: The Ballinger Publishing Company. (A condensed version in English, of a paper entitled "Da crise fiscal à redução da dívida" which was presented to the Forum Nacional, Rio de Janeiro, in November 1988).
- _____ (1987) "Changing Patterns of Financing Investment in Brazil." *Bulletin of Latin American Research* 6, 2.
- _____ (1984) "Six Interpretations of the Brazilian Social Formation." *Latin American Perspectives* 11, 1 (Winter): 35-72.
- _____ (1968) *Development and Crisis in Brazil*. Boulder, CO: Westview Press.

- CANITROT, A. (1975) "La experiencia populista de redistribución de ingresos." *Desarrollo Económico* 15, 59 (October-December): 331-351.
- CARDOSO, F. and E. FALETTO (1969) *Dependency and Development in Latin America*. Berkeley, CA: University of California Press.
- DIAZ ALEJANDRO, C. (1981) "Southern Cone Stabilization Plans," pp. 119-147 in W. Cline and S. Weintraub (eds.) *Economic Stabilization in Developing Countries*. Washington, DC: The Brookings Institution.
- DI TELLA, T. (1965) "Populism and Reform in Latin America," pp. 47-74 in Claudio Veliz (ed.) *Obstacles to Change in Latin America*. New York, NY: Oxford University Press.
- ERICKSON, K. (1975) "Populism and Political Control of the Working Class." *Proceedings of the Pacific Coast Council of Latin American Studies* 4.
- IANNI, O. (1968) *O colapso do populismo no Brasil*. Rio de Janeiro, Brasil: Civilização Brasileira.
- O'DONNELL, G. (1988) "Hiatos, instituições e perspectivas democráticas," in F. Wanderley Reis and G. O'Donnell (eds.) *A democracia no Brasil: dilemas e perspectivas*. São Paulo, Brasil: Editora Revista dos Tribunais.
- _____ (1977) "Estado y alianzas en la Argentina, 1956-1976." *Desarrollo Económico* 16, 64 (January-March): 523-554.
- PIEDRA, M. (1988) "El componente social del ajuste económico en América Latina." Santiago, Chile: ILDES, UN/ECLA (June), Mimeo.
- RODRIGUES, M. (1988) "O cruel 'milagre' chileno." *Folha de São Paulo* (September 14).
- SHEAHAN, J. (1986) "Economic Policies and the Prospects for Successful Transition from Authoritarian Rule in Latin America," pp. 154-164 in Guillermo O'Donnell, Philippe Schmitter and Lawrence Whitehead (eds.) *Transitions from Authoritarian Rule: Comparative Perspectives*. Baltimore, MD: Johns Hopkins University Press.
- TOURAINE, A. (1988) *La parole et le sang: politique et société en Amérique Latine*. Paris, France: Editions Odile Jacob.
- WANDERLEY REIS, F. (1988) "Consolidação democrática e construção do estado," in F. Wanderley Reis and G. O'Donnell (eds.) *A democracia no Brasil: Dilemas e perspectivas*. São Paulo, Brasil: Editora Revista dos Tribunais.
- WEFFORT, F. (1965) "Política de massas," in Octavio Ianni *et al.* (eds.) *Política e Revolução Democrática e Construção Social no Brasil*. Rio

de Janeiro, Brasil: Civilização Brasileira. (Subsequently appeared as "State and Mass in Latin America," in Irving Louis Horowitz (ed.) (1970) *Masses in Latin America*. New York, NY: Oxford University Press).

_____ (1980) *O populismo na política brasileira*. Rio de Janeiro, Brasil: Paz e Terra.

WERNECK, R. (1987) *Empresas estatais e política macroeconômica*. Rio de Janeiro, Brasil: Editora Campus.