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.

Luiz Bresser Pereira, finance minister of Brazil since April 1987, has served also as chief of staff (Secretário do Governo) for the state of São

Paulo (BANESPA). Dr. Bresser Pereira is also professor of economics at the Getúlio Vargas Foundation. He began his professional life as a journalist in 1950 and was senior vice president of Brazil's Pão de Açucar Group from 1963 to 1983.

Yoshiaki Nakano is on the faculty of the School of Business Administration of the Getúlio Vargas Foundation and professor of economics in the foundation's Department of Planning and Economic Analysis. He has served as director of rural and industrial credit at BANESPA and vice president of the São Paulo State Development Bank. In April 1987 he became the head of the economic staff of the Ministry of Finance of Brazil.