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STABILIZATION POLICIES UNDER POLITICAL TRANSITION: REFORM VERSUS ADJUSTMENT IN BRAZIL, 1985–89

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INTRODUCTION

BRAZIL has had very high and accelerating inflation, but has avoided a collapse into hyperinflation. Investments plunge, production levels oscillate wildly from year to year, yet no deep recession takes place. In contrast to neighboring Argentina, the Brazilian economy still performs well on the "real side," despite financial instability. Successive "economic shocks" were implemented, including three price freezes, deindexation and reindexation, and various attempts to raise the fiscal drain. Indexation has still been capable of avoiding "dollarization."

Economic agents have learned to live with successive price freezes. Moreover, they know that in a delicate politico-institutional transitional period an extreme policy such as a wage and price freeze becomes a last resort against hyperinflation. Gradually an informal rule of thumb is asserting itself: high inflationary levels induce a new freeze. Since economic agents anticipate the freeze, they raise prices as a protection.

This accelerates inflation even further, making the freeze unavoidable. In short, nobody wants a general freeze, but it becomes so necessary that when it does arrive it is as if everybody had hoped for it. But the freeze works only as a brake on hyperinflation, never as a "solution" to the inflation problem. After three economic plans that resorted to the "heterodox" price freezing, with or without "orthodox" complements, inflation is still accelerating. The objective of this article is precisely to discuss with more detail what is inside the heterodox "black box" (beyond freezing and income policy) and provide a broader evaluation of the various policy alternatives within the Brazilian reality.

Our purpose is to review these attempts at stabilization and to identify the political impasses behind the policy options. In Section I a broad review of stabilization policies adopted from March 1985 to October 1989 is given. In Section II the orthodox approach is summarized. In Section III the meaning of "heterodoxy" is discussed and in Sections IV and V the heterodox approaches are reviewed. Section VI concludes with a general interpretation of the period and an abstract of the argument.

I. A PANORAMA OF STABILIZATION POLICIES

Brazilian economic development has been conducted, since the 1930s, by a State-led model. Either through State enterprises or protectionist policies the goal of import substitution was made a strategic guideline. In other words, the government had to foster new sectors and protect old privileges at the same time.

This is the basic explanation for the emergence of a dictatorship as early as 1937. The depth of economic changes and the velocity with which policies to that end had to be carried out were irreconcilable with the degree of political maturity at that time. Since Brazil had been an agrarian society for centuries, the political structure was dominated by representatives of the old order. This blocked any rapidly negotiated adjustment to face the 1929 crisis.

What emerged was a protectionist, State-led industrialization model that strived to face at the same time both the persisting demands from crop producers and emerging social demands from workers' movements. The political system thus created was called populism, because of its popular appeal, State-led initiative, and an anti-democratic flavor that relied on charismatic leaders.

Historically, accumulated special privileges tend to erode public finance. But the conditions of rapid growth (7 per cent annual average) softened the impact of those effects as inflation became a chronic built-in element. Chronic inflation has always been caused by the political difficulties in allocating the sectoral costs of structural adjustment, that is, difficulties of defining "who pays the bill" of growth.

Industry should be developed, but without slicing the subsidies granted to agriculture. Wages should be kept at the minimum levels determined by the State. State enterprises should lead the development of heavy industries and infrastructure. Chronic inflation was a quick proxy for development finance in a country with poorly organized capital markets. Chronic inflation relieved debtors and monetary expansion helped make up government expenditures.

For this model to easily work, the essential condition was that economic growth should dissolve basic tensions and create future opportunities to recover what inflation was continually wearing away.

A. *The Cruzado Plan*

Brazil's inflation after the mid-seventies has been not only chronic but accelerating because it is no longer an efficient substitute for an inefficient financial system. The ineffectiveness of development financing became evident by two facts: the halt in growth and the exhaustion of external sources of funds.

That is the reason why the Sarney government oscillated, after 1985, between a policy of direct shocks to halt inflation and one of attempts to recover public finance. No policy can be efficient, however, without a growth strategy. But the new growth strategy would imply reshaping priorities and tearing down old privileges. This is the political bottleneck of recent economic policies.

As the year of 1985 neared its end, then Minister of Finance Dilson Funaro extracted from Congress its approval of a tax reform bill. It reduced employee income tax withheld at the source and increased the tax burden on corporations. This tax reform was to reduce the public deficit. Then the Cruzado plan against inflation would be jeopardized neither by growing government demand for funds nor by financial restraints on growth through investment recovery.

Therefore, in February 1986 a shock treatment was devised, eliminating monetary correction and freezing all prices. A new currency was introduced, with conversion tables of present values for existing contracts. The general idea was to erase what was called "inflationary memory." According to the theory of "inertial inflation" there was a vicious circle while monetary correction existed: inflation would never come down, even with severe recessionary policies.

To discontinue monetary correction (indexation) it would be necessary to convince all economic agents that past inflation was nothing more than an illusion. To "convince" meant, in fact, tearing down wage indexation policies and, through freezing, "teaching" economic agents that it would be possible to live in a non-inflationary world.

Thus, the Cruzado plan was complemented by pro-growth measures, like wage bonuses, reduced real interest rates, public expenditures, frozen input prices (especially tariffs on electricity, fuel, and other State-produced inputs), and credit expansion. Profits and employment should come from growth. Instead of marking up prices to keep profit margins against an inflationary environment, even higher margins could be obtained by maintaining constant prices and increasing quantities sold in the domestic market.

In fact, the inflation level fell to near zero and the economy grew at an amazing 8 per cent in 1986. But, again, the whole policy was built around the idea that sweeping adjustment could be made without cost, if only high growth were maintained.

That was, in reality, a growth without priority definition. Since the burden of external debt remained unaffected, economic agents soon realized that a quick surge of domestic consumption was not compatible with the export drive necessary to keep up the payment of interest on external debt. Moreover, since for years domestic investment had been declining, the consumption outburst collided with serious bottlenecks in terms of installed capacity and distribution networks.

Therefore, after a few months inflation was already back, either through black markets and product redressing or through speculation on the exchange rate and falling exports. The situation became worse as the government tried to compensate for supply shortages by indiscriminately increasing imports, extending more credit facilities, or granting cursory tax reliefs.

The Cruzado plan was able to keep inflation below 10 per cent for nine months by one sole factor: popular appeal. This support, however, melted away as black market practices began to spread and accumulating inflation eroded real wages.

After July 1986, the government was forced back to the rescue of public finance. With no defined policy of price thaw and without technocratic structure sufficient to manage a case-by-case revision of supply/demand imbalances, the government resorted to a new form of funding public expenditures and rescuing public enterprises: a National Development Fund (FND) based on indirect taxation. After the November elections for the Constituent Assembly, a new fiscal shock was enacted. These measures only helped fuel inflation and were insufficient to compensate for the mounting government deficit.

A serious side-effect of the Cruzado plan was the exhaustion of international reserves, which led to a moratorium on external debt in February 1987. Although the government tried to reap political gain out of the partial suspension of external payments, it faced two basic obstacles. First, the moratorium occurred mainly because Brazil became insolvent, not because of political ideology. Without enough reserves, with exports dwindling and no support from other big debtors, Brazil would soon face serious problems in external accounts. Second, the moratorium came after the end of the freezing illusion, without domestic political support.

B. *Bresser Plan*

Bresser Pereira became Minister of Finance in May 1987, without any hope of repeating the long and once popular price freeze. His basic aim was to recover the export drive and, while avoiding hyperinflation, resume negotiations with external creditors. He openly shelved the growth priority and admitted from the start that annual growth in 1987 would not exceed 3 per cent.

In fact, exports resumed rapidly, but inflation also accelerated. The price freeze was less effective, but also avoided hyperinflation (the month before the Bresser plan it reached about 26 per cent). His price freeze was pragmatic. As a matter of fact, the Bresser plan included a completely different type of freezing, as opposed to the Cruzado plan. The idea was less one of ending with inertial inflation but mainly one of avoiding hyperinflation and trying to take the economy to a "soft landing" recession, compatible with debt service.

Creditors would then be more confident and might accept an innovative approach to gradual debt relief. The ensuing recession should highlight export capacity. A boost in the trade balance, ran the argument, would not require a complete compression of domestic consumption, but only a moderation of economic growth, so that industrial capacity would not be overburdened. The symmetrical effect should also be true: sustaining exports would avoid a sudden recession.

Bresser succeded in this respect, keeping the growth rate at 3 per cent in 1987 and avoiding a sudden slump. In many speeches, Bresser Pereira stressed the importance of sustaining the export performance along with the deceleration of growth. The currency was devalued and public prices were updated before the shock. Contrary to the Cruzado plan, wages were not boosted by any bonus and the wage policy was clearly restrictive, adjusting wages according to a moving average of quarterly inflation. As inflation accelerated, wages accumulated growing gaps.

The combination of new wage policy, exchange devaluation, and moderate-to-negative real interest rates gave a strong export inducement. Domestic consumption was kept to a level compatible with the resumption of external interest payments.

From October 1987, once the ghost of hyperinflation was avoided, the economic policy was shifted to delineate a solution to the knot of public finance. The problem was then twofold: cut the budget deficit and formulate a new approach for the external debt. Bresser Pereira was defeated in both endeavors: his fiscal reform package was rejected by President Sarney himself and his debt relief proposals were despised immediately by the creditor banks' committee.

As the year 1987 came to a close, a joint communiqué issued by Brazil and its creditors announced Brazil's payment of U.S.$1.1 billion in overdue interest from October through mid-December. After ten months and ten days, Brazil lifted its moratorium. The year 1987 ended with an inflation at 366 per cent, according to the officially defined restricted cost-of-living index in which foodstuffs account for 42.7 per cent, housing 14.5 per cent, personal expenses 11.2 per cent, and transportation and communications 10.7 per cent.

C. *Minister Nobrega*

Bresser Pereira resigned in December 1987, pointing to the presidential vetoes to his fiscal plans as the reason. He was blocked in the attempt to control the public deficit. The government had no credibility for another freeze.

The year of 1988 would be a politically decisive one for President Sarney, as the Constituent Assembly was to decide the term of his office. The heart of government action would then be placed on political stratagems rather than on the launching of another battle against inflation.

Mailson da Nobrega assumed the post in January 1988 promising no more economic shocks and assuring that his top priority would be a gradual supervision of the economy with emphasis on the public deficit. He started his mission with an immediate task to reach an agreement with Brazil's creditors. The negotiations came to an end in mid-June without much relief in terms of interest burden but with debt conversion targets. Stressing that no shock treatment would be adopted, he tried to avoid the cumulative effect of speculative expectations, for he knew that many firms would try to advance a precautionary price hikes if they felt that a new price freeze was in store.

Even reducing the public deficit, his strategy was not enough to avoid inflation. Prices accelerated along 1988 and a new freeze became necessary in January 1989.

D. *Contrasting Three Shocks*

While both the Cruzado and Bresser plans had affirmative economic objectives (resume growth, augment trade surplus) side by side with negative ones (end inflation, avoid hyperinflation), the Summer plan of January 1989 was the simplest and had no other objective but avoiding hyperinflation.

It is important to stress the differences among the three plans to avoid general assertions like "all they do is cosmetic." In Brazil the first two shocks were part of political strategies. They failed because there was no clear-cut political support to achieve important structural definitions, especially with respect to an external debt profile. Moreover, none of the plans was able to devise a new role for the State in the economy and a solution to the financial pressures on the public sector. Since this new role could not be defined, the political cycle of economic policy oscillated between price freeze and desperate attempts to trim public finance without reducing the foreign debt burden.

The Summer plan had no long-term goal. It aimed only at avoiding hyperinflation and tried to prepare the ground for smooth presidential elections due in November 1989. Nevertheless, the immediate results of the Summer plan were not far from what was attained by the Bresser plan. Two months after the shock the rate of inflation touched 6 per cent and there were expectations of a 7 per cent

TABLE I
THE POLITICAL CYCLE OF ECONOMIC POLICY, 1985–89
PUBLIC FINANCE VS. PRICE FREEZE

Minister of Finance	Period	Key Policies
F. Dornelles	1985 1st semester	Freeze (public prices)
D. Funaro	1985 2nd semester	Tax reform
D. Funaro	1986 1st semester	Freeze
D. Funaro	1986 2nd semester	National Development Fund Tax reform
D. Funaro	1987 1st semester	Debt default
L. C. Bresser Pereira	1987 1st/2nd semester	Freeze
L. C. Bresser Pereira	1987 2nd semester	Tax reform
Mailson da Nobrega	1988	Public deficit management
Mailson da Nobrega	1989 1st semester	Freeze
Mailson da Nobrega	1989 2nd semester	Tax reform

public deficit/GDP rate in 1989, due mainly to the burden of high interest rates on public debt. This explains the importance of negotiating with the IMF a new deficit measure, a "primary deficit," which excludes interest disbursements.

Nobrega's plan had no popular appeal nor political enthusiasm, but it avoided hyperinflation although it did not put an end to accelerating inflation. Furthermore, as long as the shock once more had no firm foreign support (debt rescheduling, foreign aid, or IMF support), the exchange rate freeze soon brought about a speculative jump in the dollar black market rate and new stimuli for capital flight. The gradual drain on reserves finally imposed a de facto moratorium (interest payment delays) and exchange centralization in July 1989.

The only important and probably definitive change introduced by the Summer shock was to discontinue the wage scaling rule inherited from the Bresser plan (the quarterly moving average scale), for this wage rule was putting hard strain on public finance. The Summer plan can be seen as a firm step toward free wage negotiations.

But despite the exchange rate freeze, the high real interest rates worked to sustain the export drive and many exporters anticipated shipments the proceeds of which they would invest in the open market. And despite the high real interest rate, consumption did not sink to recessionary levels, because of informal market activities, anticipation of consumption caused by fears of a sudden price thaw, and monthly wage corrections that closely followed the official price index.

Despite theoretical differences in stands concerning the nature of inflation in Brazil or the political differences between the three plans, the practical conclusion is that in the medium run any minister of finance will again resort to price freezes.

As other international cases show (Argentina, Mexico, Israel) the fight against inflation involves consecutive rounds and cannot be successful without structural

TABLE II

DIFFERENCES AMONG THE THREE ECONOMIC SHOCKS

Plan	Cruzado	Bresser	Summer
Date	Feb. 1986	June 1987	Jan. 1989
Goals	end inflation	avoid hyper-inflation	avoid hyper-inflation
	resume growth	resume trade surplus	
Measures:			
Freeze	hard	soft	soft
Surprise effect	total	low	none
Wage correction	bonus + 20% trigger	quarter average	none
Real interest rates	negative	low/negative	very high
Fiscal policy	permissive	mild	mild
Public debt	decreased	increased	increased
Public deficit	decreased	increased	increased
External friction	high	mild	low
Exchange rate	retarded	accelerated	retarded
Political support	strong	weak	none
Duration of inflation below 10%	10 months	4 months	3 months
Price-thaw	disorderly	foreseeable	explosive

change, especially in foreign debt. But, as discussed above, these changes must be politically negotiated, often superceding short-run economic measures.

The cyclical oscillation between freeze and fiscal measures is a clear demonstration that both the inflationary and growth problems arise out of the deadlock in government finance, the main cause of which is political in nature. Moreover, it shows that despite the theoretical conflict, there are important political deadlock which different economic theories have failed to explain. Our purpose in what follows is to review the different orthodox and heterodox approaches to Brazilian inflation in order to grasp their exact differences and political compromises.

In the following sections we discuss the reasons for the failure of the "heterodox expedient," mainly from a theoretical perspective. This means that basic ideas and arguments will be reviewed without further empirical analysis, taking for granted that the above review of the period 1985–89 is sufficient.

II. ORTHODOXY AND SAVAGE RECESSION

Orthodoxy is frequently understood as a synonym for neoclassical economic theory. Nevertheless, not all neoclassical economic theory is orthodox, and not everything in orthodoxy is neoclassical theory. Many recent developments in the neoclassical methodological tradition are theoretical innovations (rational expectations and disequilibrium theory are two examples), while some policies adopted within a general orthodox framework were clearly unorthodox (quantitative import controls and crafty changes in indexation rules, for example). Nevertheless it is possible to devise a basic orthodox adjustment approach that is theoretically and methodologically rooted in neoclassical theory as well as related to a kind of common assumptions.

The orthodox approach has been broadly associated with the IMF adjustment prescriptions (politically) and with the monetary approach to the balance of payments (theoretically). Besides, there is a short-run and a long-run version of the orthodox approach. The short-run view is translated in *stabilization* policies, while the long-run view corresponds to *structural adjustment* policies (see L'Heriteau [13], Ground [12], and Grellet [11]).

The starting point is the idea that the problem-economy has somehow outraged and outranged its real economic possibilities, internal and external. Internally, growth policies inconsistent with a given saving capacity may have been adopted. Externally, this economy may be overdrawn, with the result of deteriorating credit conditions. Developmentism or governmental irresponsibility can be blamed, but adjustment is needed in order to restore the long-run conditions for stable economic growth. From excessive growth to responsible or, one could say, natural growth, an intermediate period of austerity should be self-imposed, so that market mechanisms may at last come to equilibrium. In a sense, the orthodox approach is not against economic growth but stresses the logical necessity of equilibrium growth. But, as a consequence, in the short run it is necessary to somehow break down the vitiated and artificial growth pattern that results in inflation (internal disequilibrium) and balance of payments deficits (external disequilibrium).

In brief, this short-run strategy means restrictive fiscal and monetary policies. Restriction in the growth of the means of payment, limits on public deficits, and exchange rate depreciation are the passwords toward equilibrium. Assumed results of these policies would be deceleration of inflation and a sustainable relationship between domestic expenditure and income. A rise in interest rates would strengthen the balance of payments capital account and reduction in public deficit would avoid a crowding-out of private investment from the existing banking credit. Depreciation of exchange would reduce imports, thus favoring a reallocation of factors of production to the sectors producing tradeable goods and services. It would also compensate for the expansionary effects that could arise from a net inflow of capital due to monetary restriction. Finally, wage repression could help bring a real devaluation of the exchange rate, although that is not absolutely necessary. On the other hand, reductions in real wages would also help cut back on internal demand, reduce inflationary pressures, restore international competitiveness, and keep the balance between increases in real wages and increases in productivity.

These short-run instruments are essentially related to demand management policies. Structural adjustment, a long-run strategy that was gradually included in both IMF and World Bank recipes, extends the basic philosophy to the supply side. It means promotion of reforms that could provide more freedom for market operations and private initiative, financial liberalization and price liberation, and restructuring of and reduction in the size of the public sector. It also includes a restructuring of economic activities favoring those sectors having some comparative advantage.

The short-run "package" is basically monetarist. The usual monetarist causalities are assumed: inflation and balance of payments deficits are essentially a result of excess demand and expansionary money supply. Full employment is also assumed, so that the link between money supply/demand and the level of activity is broken [12, pp. 72–74]. The long-run prescription also has monetarist roots, but the comparative advantages argument is timely back on stage. But the argument now is not strictly associated with natural advantages but stems from the need to promote internal adjustments to external constraints. Nevertheless, as long as the adjustment relies on internal measures, it would be as if the implicit causality did not result from an external imbalance but rather from internal inefficiencies. In other words, both the short- and long-run prescriptions justify the management of external constraints through internal adjustment measures.

At last, it must be stressed that the orthodox approach, especially when associated with adjustment strategy, creates the illusion that recession or austerity is a door to order and, as a consequence, is an "organized retreat." But the fact that no development strategy is specified beyond the comparative advantages brought by the market makes organized retreat highly improbable. In this sense, orthodoxy could be associated not only with a recessive bias but also with a strategy that implies "savage recession."

It is savage, first, because behind the "free play of market forces" there is the crude reality of uneven power. Nothing is more unfair than equal treatment of unequal subjects. Second, the idea of comparative advantage implies complete liberalization and internationalization, policies that may prove not only disastrous but also to be opposed to a more active development strategy. Finally, as far as wage erosion would most likely result from an orthodox policy, such a policy would be socially disruptive and politically pernicious, especially in the context of the transition from military to civil rule. This means that, besides being savage, the orthodox approach does not take historical and political elements into consideration. It is, so to say, a timeless prescription.

III. NON-RECESSIVE ADJUSTMENT

The critical revision of the orthodox approach is not a recent phenomenon in Latin America. At least since the 1940s "developmentism" has been openly criticized for being an economic theory of the Center, especially in its approach to the mechanisms of the international division of labor. The birthplace of this attitude was the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), and the "heterodox" approach came to be known as "structuralism."[1] Although the opposition between Center and Periphery was

[1] See Furtado [10] for a vivid recollection of those pioneering times.

the core of structuralist thought, a structuralist theory of inflation was gradually developed and economic debate in Latin America polarized between monetarists and structuralists.

The recent heterodox approach can be traced back to the original "structuralist school," but this would be only part of the story. If the orthodox approach has an asymmetrical relationship with neoclassical theory, we can again say that heterodoxy and structuralism do not coincide. There are structuralist ideas that cannot be understood simply as heterodoxy as well as heterodox prescriptions that have no relation at all with structuralism.

The heterodox approach has been broadly associated with the ideas of non-recessive adjustment. According to these tenets, indebted economies should not undergo adjustment processes that imply setbacks to economic development and incur tough and politically unfeasible social costs.

This is the common assumptions behind heterodoxy. But more than that is necessary in order to characterize it as an economic school or doctrine, for it is too general as a principle. In fact, non-orthodox economists range from pragmatic neoclassical to enraged Marxists, all ready to condemn, in various degrees, the undesired consequences of recessive therapy.

In Brazil, at least, it is possible to depict four variants of heterodoxy: revisionist, reformist, heretic, and revolutionary. A sketchy review of these variants is given below in terms of four characteristics: theoretical, methodological, political, and institutional.

Revisionists are those who really deserve to be called "strictly heterodox" economists. After all, heterodoxy in a strict sense means disagreement but not complete denial. Even though it may be difficult to precisely measure distances between orthodoxy and heterodoxy, there are some features that define family limits, so to speak. A crucial one is that revisionist economists are ready to reject mainstream theories, but not their scientific methodology (for example, methodological individualism, distinction between real and monetary, reference to equilibrium, instantaneous temporality and formalization). In other words, this heterodox blend does not reject orthodoxy "in toto," but revises many of its theoretical conclusions and policy prescriptions.

Political indifference is another significant characteristic. In Brazil at least some of the most distinguished revisionists had never before engaged in party politics. Academia was their "habitat" before they came to perform government duties. Finally, it is sociologically relevant to acknowledge a common institutional ascendancy: many of these economists had academic connections with the Massachusetts Institute of Technology (M.I.T.) and have been concentrated mainly at the Catholic University of Rio de Janeiro (PUC-RJ).[2] Although this group has been also classified as "neostructuralist," it is useful to keep the "revisionist" label on them in order to emphasize their methodological link with orthodoxy.

Reformists depart from orthodox theory and methodology. These economists

[2] If it is true that important representatives of a given group are associated with some institution, it is not true that these institutions, i.e., all their economists, belong to the mentioned group.

are engaged in party politics and also have an institutional ascendancy, but no definite links with academic circles in the developed countries. Heirs to the ECLAC tradition, the main representatives of this group are associated with the Institute of Economics at the University of Campinas. Although they could be also classified as structuralists, it is useful to keep the "reformist" label on them in order to emphasize the political element in their thought and practice. They have been for many years engaged with the Party of the Brazilian Democratic Movement (Partido do Movimento Democratico Brasileiro: PMDB).

Heretics are those who, while also rejecting orthodox theories and methodology, have no direct political affiliation and are scattered among different universities and institutions.

The boundaries between heretic and reformist economists are somewhat blurred due to the fact that they are derived mostly from differences in political practice. Theoretically and methodologically it is almost impossible to draw precise limits, mainly because anti-orthodoxy is not enough to constitute a definite school. Economists who in numerous ways criticize mainstream economics and government policies may be neoricardians, Kaleckians, Schumpeterians, Marxists, institutionalists, and radical Keynesians, among others.

Finally, revolutionary economists are those who, while accepting some sort of heresy, may nevertheless pursue more radical political changes that go beyond "capitalism." In this case, again we can say that party politics plays a central role—some distinguished economists under this label are engaged with the Worker's Party (Partido dos Trabalhadores: PT).

The Cruzado plan was a combined result of revisionist and reformist ideas. Reformists were associated with the Minister of Finance, while revisionists were at the Planning Secretary and Central Bank. Many interpretations of the Cruzado plan have emphasized its lack of orthodox complements [18]. A central aspect in these interpretations is the "auto-critical exercise" recommended for heterodox economists in order to avoid irresponsible dreams. This exercise can be synthesized in a single advice, "no heterodoxy without orthodoxy."

The idea that heterodoxy can only be healthy when supplemented by orthodox policies is probably the most diffused interpretation of the Cruzado plan. It became so convincing that Funaro's successor, Professor Bresser Pereira, an economist far from orthodox in his academic and journalistic contributions, was openly committed to the adoption of orthodox corrections, such as reduction of the public deficit, growth deceleration, positive interest rates, exchange depreciation, and debt rescheduling through the IMF. After him Mailson da Nobrega also tried to remain orthodox, but in practice failed. These failures should at least stimulate further discussion of alternatives, so that we can avoid oversimplified pictures like the cne presented by Simonsen and Dornbusch.

IV. REVISIONISM: THE DREAM OF A TOTALITARIAN AUCTIONEER

Revisionists, strict heterodox or neostructuralists are those economists that depart from orthodox theories while accepting most of their methodology.

The basic revisionist tenet is to reduce inflation without recession. It may be called neostructuralist, because, among other reasons, it implies an inversion of the traditional monetarist causality from "money" to "prices." In other words, inflation is not a result of excessive credit creation or monetary expansion, but just the opposite; public deficit is not a cause of inflation but the result.

Now, if "money" does not cause inflation, where does inflation come from? Two answers are possible here: (1) inflation is the result of structural bottlenecks that could not be solved with economic growth, (2) inflation is a reiterative process that, through formal and informal indexation, becomes irresponsive to "real side" policies like recession.

Both alternatives may be traced back to the structuralist tradition and are to some extent included in revisionist discussions. Alternative (2) has been also related to the "propagation mechanism" already present in classical structuralist analysis [6] and which, as a matter of fact, has become a more distinctive contribution of the revisionist approach.

Analysis of indexation, specially of wage indexation, led to the definition of "inertial inflation" as a process simultaneously irresponsive to demand management and self-perpetuating, at least so long as economic agents keep an "inflationary memory" (see [3] and [16]).

Though self-perpetuating, inertial inflation is not cumulative or, in other words, the ideas of inertia and acceleration are not reconcilable. Rather, inertial inflation implies, in the absence of exogenous shocks, a sort of "equilibrium inflation."[3]

Although the concept of inertial inflation is not in itself a new economic theory, it is compatible and probably tributary to the contemporary revision of general equilibrium theories, while the expectational inertia is not foreign to recent revisions of the monetarist credo within that same doctrinal revision. In terms of economic policy choices, the crucial differences can be traced back to the opposition between those who see Keynes taking as a starting point a model different from the orthodox and those who say that Keynes was simply discovering states of the orthodox model that had not yet been studied [9].

Revisionists are Keynesians whose concern is the study of pathological states of a Walrasian model. Their theoretical structure and the language in which they are expressed assume that *rational behavior* is the absolute criterion for the evaluation of macroeconomic propositions. This means that a reconciliation is sought between rational behavior and phenomena like involuntary unemployment, macroeconomic fluctuations, and inflation.

Given this assumption, the "theoretical revival" results from two axioms: (1) Macroeconomic relations must have microeconomic foundations. (2) General equilibrium theory is the paradigm; that is to say, general equilibrium theory is not to be identified with a particular model—that of Arrow-Debreu—but should be considered as a method that allows the choice of the states of a model where individual decisions are mutually consistent.

3 Brisk exchange devaluation and agricultural catastrophes are examples of the exogenous inflationary shocks frequently assumed in the revisionist literature. The strategic distinction is between the concept of equilibrium inflation and a discussion of inflationary shocks and trends.

The Keynesian "short-run flavor" can be introduced by taking a temporary equilibrium theory as reference. But the idea of a *temporary* equilibrium immediately poses a question about the real time within which the auctioneer would promote the general equilibrium.

The way out of this flaw is to assume that price adjustment ceases before accomplishing its function of eliminating disequilibria. This procedure can be characterized as non-Walrasian so far as the auctioneer loses relevance. In its place, nevertheless, a tâtonnement process still operates, as if an auctioneer revised quantity signals instead of price signals. It is as if the macroeconomic regulation once performed by an auctioneer had given place to microeconomic rational decisions with constraints. Thus a reconciliation between rationality and disequilibrium is provided, so that pure price adjustment and pure quantity adjustment delineate a spectrum within which all combinations are possible. Macroeconomic problems thus become a result of microeconomic rational behavior.

Rigidity of prices does not mean invariance, but that prices are determined outside the model or outside the temporary equilibrium period. But again the dynamic problem arises: it is still necessary to reconcile this short-term "disequilibrium" with a dynamic path convergent to a true general equilibrium.

This passage from "quasi-statics" to dynamics requires an additional procedure, analysis of expectations. Introduction of expectations, nevertheless, makes it almost impossible to identify a limited correspondence between agents' behavior and allocation of goods through a rationing scheme. "In some sense, therefore, fixprice models do not really present a theory of quantity determination" [9, p. 15]. Instantaneous adjustment of quantities is something as unusual as instantaneous adjustment of prices.

These impasses, related to the fundamental challenge of passing from statics to dynamics (or from logical time to real time), lead to adoption of "ad hoc" behavioral hypotheses. One possibility is to assume the existence of some monopoly power, in the sense that agents can be price-makers with reference to some conjectural rule and thus relax the quantity constraints confronting them.

The rational expectations hypothesis is another alternative in terms of conjectural rules of rational behavior. It assumes that systematic forecast errors are not possible, since economic agents learn the theory or model used by the authorities and economic policy becomes ineffective (policy-neutrality proposition).

The distinction between "fixprices" and "flexprices," moreover, is compatible with a general theory of price formation in oligopoly through mark-ups. But the original Kaleckian concept of mark-up is rather ambiguous, as long as a certain "degree of monopoly" can mean different things. The inertial approach skips discussions of this kind, in order to underline what seems to be a rational reaction of economic agents to high inflation.[4]

In other words, the behavioral pattern envisaged by revisionists is not derived from any analysis of industrial organization but rather from a general picture of different markets not necessarily articulated through the price mechanism, that is

[4] Bresser Pereira [6] is inclined to see in this rationality hypothesis nothing more than a tautology.

to say, the price mechanism does not operate as an equilibrating factor. In this sense we can say that the theory of inertial inflation is linked to the reconstruction of general equilibrium theory sketched above.

The inertial approach combines a consciousness that temporary equilibria (or "disequilibria") are possible when the price system loses its allocating functions. But instead of price rigidity, there is a rational adaptation to inflation through indexation (although indexation can surely be understood as downward rigidity in basic prices). In other words, it is as if multiple equilibria were possible within one given framework of price formation.

Rational inflationary behavior, ratified by indexation, becomes irresponsive to recession and unemployment, especially when the rate of inflation is too high. This diagnosis justifies the rejection of a recessive therapy. But then a second point concerns the definition of non-recessive policy. Since the theory of inertial inflation is not in itself a theory of economic development, the idea of a non-recessive, anti-inflationary policy is restricted to some form of management of the process of price formation. The conceptual shift seems to be less from recession to non-recession but from adjustment through quantities (i.e., recessive demand management) to adjustment through prices that, as already noted with reference to disequilibrium theory, cannot strictly identify the correspondent quantity adjustment.

In this sense we can say that there is asymmetry between orthodoxy and revisionism. Orthodox policies operate through quantities demanded in various markets in order to achieve price stabilization, while revisionist policies operate directly through the management of the price system but without any prescribed result in terms of quantities supplied or demanded.

We deliberately choose the expression "management of the price system" because the revisionist proposal cannot be reduced to the price/wage freeze, but is associated with at least two basic policy prescriptions. The Larida (Lara-Resende and Arida) proposal was a monetary reform to create indexed money. This new currency would be pegged to the dollar and to the monthly definition of the value of public bonds (ORTNs). The old currency would depreciate in terms of the new indexed currency at a rate determined by the Central Bank in terms of past inflation.

This approach could be called "indirect management of prices," so long as price formation processes would have to be adjusted to new contractual relations. Wages would be converted to the new currency in terms of an average wage observed in the period previous to the reform. It is a strategy, therefore, that focuses on breaking the fundamental mechanism of indexation: wage contracts. It simulates a situation of hyperinflation, when all contracts (but especially fundamental ones) are simultaneously corrected. Thus, by definition, inflation in terms of the new currency would be zero immediately after the reform, since wages would be stabilized and contracts established in stable nominal values. Everyone would stop thinking of inflation based in the normal currency. In other words, there would be a synchronization of price adjustments of the economy.

The alternative to complete indexation is "direct management of prices," a general price/wage freeze. Instead of simulating the synchronization of price decisions, it assumes that all prices are already being readjusted at a common rhythm. So after the freezing shock, indexation could be discontinued.

Both strategies have one objective: to break indexation procedures in the labor market, thus creating conditions for general price stability. But while Larida proposed "total indexation," or a *neutralization* of indexation, Francisco Lopes proposed a "total de-indexation" supported by a price freeze, or *annulment* of indexation. Thus, it seems that the revisionist approach, besides being indefinite in terms of the real side-effects, is also ambiguous in terms of the choice between gradualism and shock.

The three shocks were at last a combination of both ideas. There were monetary reforms in February 1986 and January 1989. Indexation was discontinued while a general freeze was in effect. Only the Bresser plan, in June 1987, did not discontinue indexation but created new wage rules.

The shock, either as a price freeze or as a general contractual reform, can be seen as a temporary institution of an auctioneer. In the disequilibrium approach, price rigidity sets forth an empirical tâtonnement through quantities. After this tâtonnement it may be assumed that all economic agents have taken rational decisions leading to a temporary equilibrium. The price system was not responsible for this adjustment; it had become ineffective. If its rigidity is interpreted as total indexation, it then becomes possible to imagine that a forced rearrangement of prices will not spoil the quantity-constrained equilibrium already attained.

Thus, we can say that an instantaneous auctioneer may immediately provide a new price vector that will necessarily correspond to a structure of rationally adapted economic agents. Stressing the "propagation effects" in the analysis of inflation, the inertial approach thus neglects the traditional interpretation of structural inflation as a result of "bottlenecks."

Revisionist "structuralism" is still a faith in the existence of a real equilibrium based on microeconomic behavior, despite monetary disturbances or ineffectiveness of the price system. At the same time, nonexistence of an auctioneer means also that quantity adjustments are subject to a hierarchy of markets: clearing the labor market is a condition for the clearing the goods market. This may be an additional reason to give priority to de-indexation of the labor market, besides the fact that wages are a basic price.

Whoever disbelieves this "structural equilibrium," nevertheless, will certainly regard the "instantaneous intervention" of a compulsory auctioneer as highly suspicious. But the intervention is considered by revisionists as a rational procedure within a community of rational economic agents. If this rationality is not as relevant as assumed by revisionists, then it is reasonable to see in that intervention an act of utmost violence, as if promoted by a "totalitarian auctioneer" which suddenly became real.

This perversion of the liberal credo, nevertheless, still invokes a neutrality principle. But this sounds like a weird petition, since there is an asymmetry between orthodoxy and revisionism in terms of adjustment implications through prices and quantities. As already stressed, the orthodoxy adjustment is explicitly a quantity adjustment based on the causality from demand/credit reduction to price stabilization.

The revisionist approach takes for granted that a quantity adjustment has already been pursued by rational economic agents and moves on to recommend an intervention in the price/contracts system. But this intervention cannot be previously associated with any sort of cyclical configuration (that is, production and investment changes).

In this sense *neutrality* does not seem to be an appropriate characterization. The above-mentioned asymmetry points to a somewhat stronger hypothesis, namely, that the "heterodox shock" *ignores* so-called real effects. Neutrality can be a fair label only when the possible effects are known and deemed mutually balanced, something that is certainly not assured when we ignore those effects. Being non-recessive is not equal to being anti-recessive.

To recommend a policy that does not organize economic growth is to open the way for recession and, worse, for savage recession (as long as organized growth can be assimilated into organized investment). Adjustment without investment is not neutral, but potentially disruptive when neither economic agents nor economic authorities can be deemed "rational."

This apparent neutrality is as limited as the original Walrasian model, the coherence of the system as a whole is presupposed instead of being explained. It is a procedure even more dangerous when the State imposes an assumed coherence. This totalitarian imposition is a by-product of ultra-rationalism.

Since the theory of price determination is evanescent and the theory of quantity allocation is exogenous to the model, the academic ideal of equilibrium converts itself in some form of social engineering. Not surprisingly, Dornbusch and Simonsen have already stated that identification of an equilibrium is not what really matters, but rather "orchestrating the simultaneous action of wage and price-makers in order to achieve equilibrium" does. These authors assume that governments can play the role of the auctioneer.

Behind this vicious circle we still find the problem of temporality. Both revisionist proposals (Larida and price freeze) assume *synchronization* of price decisions. While many economists are prone to adopt a useful empirical analysis of "price spectrography" in order to detect the most appropriate moment for a freeze, it is even more opportune to ask if the ideal of synchronicity in itself is but a result of the perverted equilibrium logic. In other words, assuming a coherence that should be explained is the same as assuming a temporality (that of constrained rational decisions) with no intelligible correspondence with real time.

The aporias of the price thaw process are a clear illustration of this vicious circle. A previously defined freezing period implies speculative behavior, while an indefinitely long freezing period highlights investment uncertainties. Moreover, the existence of structural heterogeneity in the price system undermines both recessive and the synchronicity-biased proposals.

In brief, revisionists advocate inverting some basic orthodox causalities but preserving fundamental orthodox methodology. Methodological individualism (or a microfoundation for macroeconomics) is their starting point and, although attempting to acknowledge disequilibria, their analysis still takes general equilibrium and its metamorphosed auctioneer as the guiding reference. This finally leads to the same vicious circle implicit in the temporality of general equilibrium models.

Orthodoxy takes for granted that inflation is a result of excessive or irresponsible growth. But while the core of the orthodox approach is this concern with "natural" economic growth, it may seem that its main target is stabilization of prices. Inverting orthodox reasoning, revisionists just want to break inflation down, but then they "forget" to say what kind of growth is necessary and compatible with price stability.

V. REFORMISM AS THE LEVITATION OF A LEVIATHAN

The Latin American structuralist approach to inflation cannot be restricted to the study of "propagation effects." As already mentioned, another part of the story would be the "structural causes" of inflation interpreted as bottlenecks created or not superceded by economic development. From land concentration to structural heterogeneity, many crucial bottlenecks have been identified in different historical moments.

From this perspective it is possible to say that structuralism can open the way for a radical denial of orthodoxy. The orthodox approach seeks to stabilize growth and thus reduce inflation. Structuralism asserts that the question is not "how much growth?" but rather "what pattern of growth?" In other words, structuralism does not assume any given equilibrium rate of growth, so that development strategies have a relatively diverse profile. Besides, uneven development has been a structural feature of peripheric economies, so that apart from the speed with which it is pursued growth naturally requires a strategic approach.

Moreover, it is highly probable that a reduction of growth will be even more harmful in terms of inflation. So instead of skipping the question of growth to concentrate on prices, as the revisionist approach does, structuralism poses the question on the same ground as the orthodox, but gives an opposite answer. Inflation becomes again a result of imbalances, but these imbalances are evaluated with reference to a complex of information that includes a diagnosis of the international division of labor, an interpretation of each economy in historical terms and eventually some kind of political diagnosis.

In other words, structuralism is essentially a theory of economic development. There is a long history of theories derived from this basic concern, from the original Center/Periphery approach to a still growing family of Dependence theories. Their methodology is clearly distinct from the orthodox approach since theory and history inevitably mingle. This also means that the structuralist tradition is akin to a long-run, internationalist approach.

Reformism is one possible elaboration of the structuralist heritage and, in a sense, is a political consequence of structuralism. The starting point is a historical revision of the classical structuralist interpretation in order to provide a new periodization of Brazilian economic development in terms both of its internal evolution and standing in the international division of labor.

In this sense, their approach is an extension of the "industrialization thesis" and

Brazilian economic development is interpreted as a process of successive and cumulative deepening of the industrial sector. The skeleton of economic history is, so to say, industrial evolution and its fundamental consequences, especially in the financial sphere.

Industrialization had been the basic prescription derived from the ECLAC debates of the 1950s. Roughly stated, it prescribes industrialization as a weapon against unfavorable terms of trade and, therefore, against underdevelopment. Its historical reference was the import substitution process that took place in some Latin American countries during the 1930s and 1940s, mainly under populist regimes. The "ECLAC spirit" may be characterized in a few words as "industrialize and emancipate." This starting point naturally leads to an analysis of the production structure in each country, its potential for endogenous development and the correspondent limits imposed by the prevailing international division of labor. As a result of this type of analysis, governments should adopt strategic policies that would help organize domestic institutions compatible with a deepening of industrial growth and change the country's standing in the international context.

The revision of this heritage proceeded along two basic lines of inquiry. First, the standard interpretation of the import substitution process should be criticized and a new periodization elaborated. In other words, industrial evolution should be grasped as a dynamic process that to some extent has autonomy in face of "external constraint." Second, a voluntary development policy requires financial reforms and strategic government planning. These analytical requirements were elaborated mainly by Maria da Conceicao Tavares, Joao Manuel Cardoso de Mello, and Carlos Lessa.[5]

While reviewing classic structuralism (and even a critique of Dependence theory), these authors never rejected those two basic features of the structuralist tradition, namely, a concern with evolution and strategic economic planning. But a new typology or, more strictly, a new periodization was proposed and the concept of State intervention in the development process was extended. From the scale of development stages it should be possible either to plan industrial development or even skip some stage through institutional reforms.

Concern with evolution is their fundamental methodological difference with orthodoxy. While the orthodox approach cannot abandon the reference to equilibrium, the reformist approach rests on what could at least provisionally be called the idea of regulation. "Regulation" means both that the economic system operates through dynamic circuits originating in the accumulation process and that these circuits can be ruled, since economic dynamics is not associated with any necessary path imposed by a natural tendency toward equilibrium. The capitalist system has dynamic laws, but no predetermined growth logic and, therefore, no a priori temporality.

Reformism now can be defined as the specific "regulationism" which implies that only structural reforms can open the way to development. This means that

[5] See articles by M. da C. Tavares, J. M. Cardoso de Mello, L. Coutinho, and others in Belluzzo and Coutinho [4] and, for a more recent review of issues involved at the historical level, Suzigan [19]. For a review of economic policy and planning experiences, see Lessa [14] [15].

an economic crisis is not only a moment for adjustment but rather a historical chance to reorganize the accumulation process. In other words, reformism is one step ahead of regulation "strictu sensu" in that only political regulation of capitalism can lead to economic development.

Theoretically, this approach requires some preliminary steps. For example, it is necessary to demonstrate that a capitalist economy is essentially cyclical and, beyond, that economic fluctuations are both endogenously determined and conducive to crisis.

On the other hand, it is necessary to show that "developing economies" and, in our case, the Brazilian economy, have already matured to the point of becoming not only structurally cyclical but also conjuncturally unstable (thus bearing a crisis). Finally, it is necessary to argue that no spontaneous solution can arise, so that only a conscious intervention with a view to the long run would result in recovery and development.

Inflation is explained in the context of the crisis of the international monetary system. This crisis implies changes in the relations between spot markets and forward markets and, therefore, instability in the raw materials markets. Beginning with these international phenomena associated with financial instability and growing uncertainties, an alternative to rational expectation models is sought. In other words, an alternative to interpretations of the crisis as a "temporary and stochastic deviation from the Walrasian equilibrium trajectory" [22].

This alternative analysis requires an initial review of the Keynesian theory of prices. Keynes defined aggregate supply price as an expected price that would ratify given variable costs, user costs, and profit margin. This expected price was therefore linked to an expected rate of asset valorization, that is, some target planned in terms of inventory and depreciation decisions. Any frustrated decision would imply, in the short run, a revision of quantity decisions (as opposed to price decisions).

On the other hand, the Hicksian fixprice approach assumed either a closed economy (with a stable monetary standard) or an open economy with fixed exchange rates (and reserves performing the stabilization role). In models within this approach, price formation takes the nominal wage rate as a reference. This nominal wage rate was supposed constant in the production period, so that stability would result. This contractual stability would be rooted both in the labor market and in the credit market in terms of synchronicity between "supply contracts" and "debt contracts." In this world, inflation would be a product of cyclical upswing.

The critical inversion results in destruction of that synchronicity. Entrepreneurial decisions are double-faced so that, as the "original Keynes" pointed out, a sudden split between production/investment decisions and speculative decisions may arise whenever a strong uncertainty develops. In the 1970s, when the international monetary system collapsed, exchange rates floated and raw materials prices lost any stability, economic agents did not react in terms of quantity/price adjustments but rather became increasingly engaged in speculative circuits, mainly through financial internationalization.

In this context it is a highly biased procedure to take nominal or real wage rigidity or even a given mark-up as explanatory factors (in terms of some causality toward inflation and/or disequilibrium). When financial uncertainty establishes itself the usual rational adaptive behavior loses all meaning. Inflation is not inertial but progressively accelerated by speculative decisions.

From this interpretation, numerous critiques to the orthodox approach can be derived. The logical core of these criticisms is the financial analysis of the crisis. Recessive policies, in this sense, are rejected not because there is a downward rigidity built in the price system.

In the revisionist approach, this kind of explanation naturally leads to the conclusion that, once the price system is reorganized by an instantaneous auctioneer, restrictive fiscal policies recover their efficiency. In other words, the problem with recession is that, in hyperinflationary situations, a monstrous recession would be necessary to stabilize prices. This argument, nevertheless, is not in itself against recession, as already noted. On the other hand, reformists stress the speculative impetus that comes to dominate the entrepreneurial world, so that any recession would only reinforce inflationary behavior.

Stabilization, especially through a rise in interest rates, also ratifies the speculative spirit. Interest is included in cost calculations and inventory valuations, so that a rise in interest automatically produces inflation. At the same time, it is followed by an upward revaluation of expected financial asset values.

The alternative stabilization policy, public deficit reduction, also becomes useless. In the first place, there is a vicious circle connecting external debt and internal debt. Almost all external debt becomes public debt, while the reserves necessary to its service can only be obtained by the private export sector. The government buys these dollars but, as a consequence, the corresponding monetary expansion has to be compensated by the issue of internal debt, probably at growing interest rates.

The public deficit is therefore a financial phenomenon that cannot be managed through expenditure cuts. Rather, a broad fiscal reform would be necessary, not only to increase public revenues but also to redefine the system of incentives and subsidies. The fiscal reform would also create a horizon for the rescheduling of public domestic debt.

On the other hand, wage contracts cannot be blamed for inflationary acceleration. It is true that revisionists associate only a "continuance effect" with the wage contract that explains downward rigidity of prices. But this reasoning rests on the hypothesis of inertial inflation, not assumed by revisionists. So it is that the Cruzado plan finally included a "moving scale" system that would trigger wages every time inflation exceeded cumulative 20 per cent. This expedient was clearly a reformist requirement, and many a revisionist (and of course orthodox) would later blame the moving scale for reflating the economy. On the other hand, defense of wage purchasing power was one of the possible means to definitely avoid recession.[6]

Therefore, the crucial problem rests not in the recession/non-recession dilemma,

[6] "Ironically, wage contracts are the only stable, despite all the anti-indexation hubbub" [22, p. 56].

but in the urgency of promoting some reforms, mainly in the financial structure, in order to restore a strategy of planned development. This is clearly the conclusion of the article just reviewed.

Instead of a non-recessive strategy which leaves the problem of growth indeterminate, the reformist approach chooses a clearly anti-recessive strategy that implies reforms in the financial structure. But, while heretic or revolutionary economists could subscribe to the above analysis of inflation, the conclusion that reforms are needed (or to what extent) may vary.

A basic difference between reformist and non-reformist (especially revolutionary) economists, with far reaching political consequences, can be sought in the answer to the question "what comes first, internal or external financial reform?" Most of the revolutionary or even some of the heretic economists would not believe that a real economic recovery has been made in a developing country if no fundamental change has been made in external debt conditions. From this basic opinion different policy proposals may result, from a clear-cut moratorium to new schemes of debt capitalization, rescheduling, or cooperation with other indebted countries. At the same time, a reformist would not deny that only this kind of change can bring sustained growth (the reformists even adopted a partial moratorium, but long after the "heterodox shock" and when reserves had run down).

Beyond that, another question is "what kind of financial reform?" (now opposing basically reformist and heretic economists). Reformists proposed not only a banking reform in order to create long-term credit institutions, but also financial reform in the public sector.

This would mean, in the first place, renegotiation of internal debt and reduction in interest rates. On the other hand, state enterprises should be subordinated to a comprehensive financial control that would redefine priorities and organize schemes to improve financial health.

Nevertheless, these financial reforms should not be understood as isolated or abstract targets. They should be financial reforms for development, for the institution of long-term credit circuits and, above all, for the recovery of coherent public expenditure policy. Financial relief for the public sector, seen as the crucial development agent, is a necessary condition.

In this sense, financial reforms cannot be dissociated from development policies, especially industrial and technological policies. Again, development targets and strategies would be defined and implemented through the State. Reformism could be thus briefly defined as priority to financial reforms that disentangle the financial mess of the public sector and, at the same time, permit setting an agenda for public investment.

Instead of a rational instantaneous intervention symmetrical to an assumed rationality of economic agents, reformism requires political will to define a new patrimonial profile in order to prevent the sacrifice of the regulatory State. This "political will" has nothing to do with universal rationality, but requires in the first place a new social coalition or, more strictly, a new strategic pact among the elite.

At this stage, we can hardly say that it is a matter of anti-inflationary policy. The nature of economic development is at stake, if not the politico-cultural frame within which it exists. At the same time, we still witness that basic attitude already noted with respect to the structuralist tradition associated with the ECLAC debates of the 1950s. Development potential is associated with an internal agreement or, more strictly, must be the result of a clearly defined national will. Without this internal driving force no external constraint can be challenged or managed. And the State appears as the locus and subject of these processes.

But the fact that we have reached, at this moment, a level of discussion far from the restricted field of anti-inflationary policies also presents some shortcomings. The crucial one is that extreme concern with reforms may induce a tactical acceptance of non-recessive policies when no clear definitions of anti-inflationary or growth priorities have been identified and/or politically ratified. This means, first, that no answer is supplied to the short-run requirement of orthodox "complements" which necessarily arise (as we have argued with reference to the evanescent heterodoxy).

This flaw may even turn reformists, maybe involuntarily, into advocates of a "growth at any cost" strategy, at least while trying to promote reforms within the freezing period (as effectively occurred).

Second, the lack of an alternative short-run strategy while a new social pact is expected may induce convictions that rationally devised development strategies must be socially and politically ratified. This leads to the assumption, analogous or maybe symmetrical to the revisionist one, under which not only the ideal (development) strategy has already been defined but the State is supposed to accomplish its goals. Thus, a reformist approach is more specifically related to the belief that the State can organize and implement a public agenda. Such a belief is not a novelty among economists, and Keynes probably was the most brilliant advocate of such a solution—confident as he was in the clearheadedness of the British elite. But the difficulty rests not only in believing that the State can be a coordinating agent. The real problem is to suppose that at any historical moment the legitimation process behind the State may have been enough to assure such coordinating powers.

Such assumptions are far from real and imply, as if behind our backs, some sort of autonomy to the State even though its decisory abilities are eroded. In other words, if it is possible to agree that the State is the locus of strategic development planning, it does not follow that it is or can be the subject of these actions.

From this perspective an ironical label seems to be justified. If revisionists dream of a totalitarian auctioneer, reformists implicitly assume that the Leviathan can levitate. In other words, it seems that both revisionists and reformists were caught in the same politico-philosophical pitfall, belief in State rationality. A curious outcome, if one is reminded that an authoritarian-military regime ruled Brazil tightly for twenty years.

VI. INERTIAL TRANSITION

Before proceeding to a final abstract of our argument it may be useful to present two schemes on the basic differences between orthodoxy, revisionism, and reformism:

SCHEME I

Issues	Orthodox	Revisionist	Reformist
Mother theory	Neoclassical	New classical	Post-Keynesian
Basic target	Equilibrium	Equilibrium	Development
Time concept	Timeless	Synchronicity	Evolution
Instrument	Market forces	Instantaneous intervention	Political regulation
Growth impact	Recessive	Non-recessive	Anti-recessive
Policy pattern	Stabilization	Adjustment	Reform
Main noise	State	Labor market	Financial system
Growth pattern	Natural	?	"Catch-up"

SCHEME 2
RATIONAL PATTERN

	Orthodox	Revisionist	Reformist
Market	rational	rational	irrational
State	irrational	rational	rational

At least two explanations for the failure of the three shocks may be given. One would point out short-run inconsistencies, like the extended freezing period in the Cruzado plan, especially of the exchange rate, or the too late adoption of an aggressive strategy with respect to external debt. On the other hand, a historical review must also be possible from a wider or long-run perspective. But since "history" is not yet finished, it is certainly necessary to wait in order to explain and interpret what happened in those early years of the democratization experience. Nevertheless, our sketchy view of the Brazilian economic debate may serve the purpose of providing a first, preliminary interpretation of what were the issues and what has gone wrong.

The Brazilian economy has already reached a relatively high stage of industrial diversification and may be an exception among de-industrialization experiences in Latin America. This fact alone spurs hopes that recessive strategies will become not only unfeasible but also socially unacceptable. But from a "non-recession" claim to a clear-cut development agenda there are still important politico-economic obstacles erected during the past years. Identification of issues and coordination of society are much more difficult tasks now than, for example, in the 1940s and 1950s, when the classical structuralist approach was consolidated within a basically nationalist and populist environment. As a matter of fact, many barriers to a "rational government intervention" are a heritage of the populist period, aggravated during the military dictatorship.

First, there are institutional parameters that block democratic and coherent decision processes in the realm of economic policy. Twenty years of military rule resulted in a technobureaucratic elite only casuistically connected to private concerns and even less worried about, so to say, "public interest." This casualness is essentially authoritarian in that it cannot respond to coherent and legitimate national projects.

The State has been gradually "privatized," that is to say, the influence of lobbies was transformed to indirect participation in government agencies and ministries. As development generated a more complex society, a strong State multiplied its functions and institutions in order to accommodate growing contradictory pressures, instead of providing coordination and rationalization. Lobbies, in contrast to some sort of "hegemonic class," never "coordinate" to put out a government project or a development schedule. Maybe politicians could do that, but there is still a long way out of the populist behavior reinforced by years of authoritarianism.

"Privatization of public interest" is a political practice that can be characterized by two different processes. One is the cumulative allotment of State agencies among sectors of business or even regional leadership ("clientelism"). Another is the bolstering of fractions of the private sector through protection, fiscal incentives, subsidies, or direct government interference in the market (demanding products and services).

In times of economic crisis, this clientele structure is overloaded, thus bearing the following consequences in terms of economic policy: (a) private oligopolies largely control the definition of public expenditures (control over the process of product allocation), (b) economic policy becomes an instrument for the immediate needs of different groups, either buffering constraints or magnifying profits, and (c) budgetary confusion and growing erosion of incentive policies. The outcome is a paradox: a strong and interventionist State unable to make coherent and legitimate use of this strength.

Second, recent industrial development was not followed by adaptation of the financial system, a phenomenon clearly stressed by reformists. This means not only that the more recent development projects were financed by external sources, but also that external debt was not complemented by internal reorganization of public and private financial institutions. When the debt crisis arrived there were no mechanisms to prevent either the speculative bend of financial markets nor a struggle for survival between technobureaucracies.

The economic policy of the "New Republic" (1985–89) in Brazil cannot be relevantly evaluated without this institutional background that reflects the financial mess of the public sector and, therefore, its inability to coherently organize a recovery but, also, a recession.

From this perspective, our counterpoint between orthodoxy, revisionism, and reformism may be helpful. As noted, "heterodoxy" became associated with "non-recessive" strategies. But results of this broad definition are contradictory. In the revisionist approach non-recession is no argument against orthodox "complements." On the other hand, the reformist long-run appeal also leaves a way open to recessive policies, since it implicitly assumes that the State can assert and coordinate a truly public agenda. But we still must acknowledge that, once legitimated, a government may even adopt an "organized restrictive adjustment" very different from the orthodox recession, a savage adjustment where only the strongest can survive.

The freezing plans, as combinations of revisionism, reformism, and orthodoxy, failed because (a) there were never clear after-freeze strategies, (b) the relevant structural reforms could not (and probably cannot in any case) be implemented during the freezing period even, and most likely, when it is excessively prolonged.

So long as there is no real equilibrium in the economic structure, any freezing turns out to highlight imbalances and put an even heavier burden on the salvation role of the State. In this sense we can say that the failure of these plans resulted from a contradiction and a lag in time between *adjustment* and *reform*.

Two questions mingle here, the legitimation problem and the recession/non-recession dilemma. From the standpoint of political diagnosis, there can be no doubt that the legitimation process after military dictatorship was far from complete when the "heterodox shock" was applied. This means that both the adjustment assumption of a rational instantaneous intervention and the reformist illusion of rational public planning were premature.

On the other hand, the criticism of recession in itself, while strong under military rule, did not give way to a deeper debate on development strategies after the civilian government came to power. But to a certain extent, it should be also possible to devise an austerity program within a legitimated social and political order widely negotiated. This does not mean allowing the "orthodox complements" to get in through the back door, especially if a different diagnosis on the nature of the long-run structural adjustment of the Brazilian economy is acknowledged.[7]

Not surprisingly, after the first shock, orthodoxy gradually became hegemonic, but with no success against inflation. The Brazilian transition to democracy is an "inertial transition," if that word may be used, for at last it is accomplishing no more than a replay of the political and economic strategies so characteristic of the authoritarian period. In other words, this transition could not accomplish deep structural reforms and zigzaged among equally inefficient short-run economic policies.

[7] A detailed discussion of what could be a moderate growth strategy without relying on orthodox reasoning is not feasible here. This alternative, however, has been systematically pursued by Brazilian economists in recent years.

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