

Possible Political Pacts After Redemocratization

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The election of Tancredo Neves marked Brazil's return to democracy after twenty-one years of authoritarianism. Faced with the concrete threat of accelerated inflation, the new president spoke about the necessity of a social pact—a pact between business and labor with government mediation—to stop and reverse inflation. No doubt that pact is necessary. But it will only be viable if a wider political pact is established among the different social classes, mediated not only by the government but also by the political parties. In this chapter I will discuss, from the viewpoint of recent historical experience, which possible political pact will reign in this new phase of Brazilian history.

The general hypothesis is that this new pact will not repeat populism and will naturally stand in opposition to the authoritarian-capitalist pact. It will be marked by bourgeoisie hegemony but will have as its epicenter the middle classes, or more specifically, the bourgeois middle class on one side and the technobureaucratic middle class on the other. Two alternative political pacts, or power blocs, will begin to compete. One, more conservative, will draw its support directly from the upper bourgeoisie, from the conservative middle class, and from unorganized labor. The other will have its power bases among the more progressive sectors of both the bourgeois middle class and the technobureaucracy, with its electoral base among organized workers.

The End of National Union

In 1977, right after the "April package"—the last great authoritarian spasm of the military regime—a pact that I have called the democratic political pact of 1977 was formed. This pact was born out of the indignation of the bourgeoisie and the technobureaucratic middle class not directly

related to the government. It represented a partial break between the bourgeoisie and the state technobureaucracy. It was the beginning of a process of alliance among the bourgeoisie, labor, and democratic sectors of the middle class.

Even though it was very informal and imprecise, this democratic political pact was based on three concrete points: (1) reestablishment of democracy, which was in the interest of all involved; (2) moderate income redistribution, which was in the interest of labor; and (3) the acceptance of the capitalist system by all involved, which was in the interest of the bourgeoisie.

The pact became firmer with political gains. Political amnesty and direct elections for governors were obtained, the opposition parties were victorious in the 1978 and 1982 elections, and a historical civic campaign for direct presidential elections united the whole nation during the first semester of 1984. The pact finally became a reality with the schism in the Social Democratic party (PDS) and the formation of the Democratic Alliance that elected Tancredo Neves. From the bourgeois viewpoint, the pact was directed by the principle of conciliation. Despite all its economic and ideological power, the upper bourgeoisie in particular felt that, to make the inevitable transition to democracy without breaking the established order, the key idea had to be conciliation. That objective was fully met by the national union around Tancredo Neves's candidacy.

Until the beginning of the 1960s, Brazil was governed by a populist pact through which the bourgeoisie and the growing middle class manipulated workers but allowed them some space. After 1964, an authoritarian-capitalist-technobureaucratic pact was formed, completely excluding labor. Toward the middle of the 1970s, as the economic miracle ran out, the fear of Communist subversion dissipated, and the illegitimacy of the government increased, the bourgeoisie began to break the authoritarian pact with the state technobureaucracy. In the end, something more than a new political pact was formed. A political alliance and national union were created, which elected Tancredo Neves.

With his death, his successor Vice-President José Sarney has even less possibility of maintaining a national union, given his obvious lack of political legitimacy. The ex-president of the PDS renounced that office to enter the Liberal Front and participate in the Democratic Alliance as its vice-presidential candidate. Only then did he join the PMDB. With Tancredo Neves' illness and subsequent death, José Sarney was the only constitutional candidate to succeed Tancredo Neves. Thus he received immediate support from all the political parties. However, that support is clearly limited to his right to exercise the office of president of the republic and not to his own way of exercising it. The nation was already faced with grave problems and profound divisions under Tancredo Neves. Under José Sarney, those problems and divisions are even greater. The first signs of a division of both government and society, regarding economic policy, have already appeared. Meanwhile, in the social area, organized labor has begun to pressure for changes in salary policies, like quarterly salary readjustments and reduction of the

workday, which would have strong inflationary effects. Its force and sense of class conflict were revealed by recent strikes.

In truth, a national union as solid as the one that elected Tancredo Neves—almost monolithic in that all classes and all fractions of classes supported one man—can only be found at special moments: when there is a greater duty to fulfill. In this case it was the restoration of democracy.

The Social Classes

If it is not possible to maintain the national union, a pure and simple return to the populism of the 1950s is also not viable. Today workers are much better organized, they are more conscious of their own interests, and they are not willing to let themselves be so easily manipulated.

On the other hand, 1964 represented the consolidation of the capitalist mode of production in Brazil, even if it took a strange route—with decisive support from the technobureaucracy which, during the initial years, even had tutelage over the bourgeoisie. The enormous capital accumulation that had begun in Brazil during the 1930s was accelerated after 1964. Not only was there oligopolist accumulation around the great national and multinational firms, but there was also competitive accumulation, which gave birth to a huge middle bourgeoisie in industry, commerce, and agriculture, both in the large cities and in middle-sized interior cities.

The result of capitalism's great advance in both rural and urban areas was a clear and growing ideological hegemony of the bourgeoisie. Classic capitalist values—free enterprise, the market, individualism, profit, and a discourse on equality of opportunity—became dominant. The values of the emerging technobureaucrats—planning, administration, the state, technical rationality, professional administration, career—were relegated to a secondary position.

The technobureaucratic middle class had lost part of the power its administrative and especially its military fractions had gained during the ten years from 1964 to 1974. (This decline in power began in 1975 with the campaign against state control.) However, despite this relative loss of power the technobureaucratic middle class continued to be a strong one. According to a recent study, this new middle class of administrators, public servants, technicians and scientists, which represented 7.3 percent of the Brazilian work force in 1960, had grown to 16.6 percent by 1980.

Under these conditions, no political pact could be formed in Brazil unless three conditions were met: (1) hegemony of the bourgeoisie, (2) decisive participation of the technobureaucracy, and (3) an effective space open to the workers.

Class Fractions

The classes are not, however, monolithic. The bourgeoisie is no longer divided, as it was during the 1940s and 1950s, between an agro-mercantile

oligarchy that exported coffee and a growing industrial bourgeoisie with the first being forced to transfer income to the second through the exchange mechanism. However, there is rentier bourgeoisie and a productive bourgeoisie, and there is an industrial bourgeoisie and a financial one. And even though these bourgeoisie mix and cross and have basic solidarity among themselves, distinguishing them can be significant from the political viewpoint.

Today the most important political distinction within the bourgeoisie is not that between its upper and lower members; nor between its industrial, agricultural, and financial sectors; nor between those who have their bases in the internal market or those in the export market; nor even between the productive fraction and the rentier fraction. Those material distinctions cannot be overlooked, but they play a secondary role in the analysis of political pacts.

Neither can the problem be clarified by the classic distinction between the nationalist and internationalist bourgeoisie. That type of debate became outdated in Brazil when, during the 1950s, the multinationals discovered they could no longer conquer the Brazilian market through exports and entered the Brazilian economy in mass through direct investments, associating themselves in various ways with the local bourgeoisie. The local bourgeoisie thus abandoned the timidly nationalistic postures (which were merely protectionist) that it had previously adopted.

There have been two important ideological debates in Brazil since the 1970s: democracy versus authoritarianism and social conservatism (which concentrates income) versus social progress. Those debates reached the bourgeoisie and have, to a certain extent, divided it. Thus, we can detect both an authoritarian bourgeoisie and a democratic one, both a conservative bourgeoisie and a progressive one. The line that divides the authoritarian and democratic bourgeoisie is mobile. The bourgeoisie is neither an essentially authoritarian nor an essentially democratic class. When it does not feel strongly threatened by the Left—when it perceives that it can exercise its political domination through the ideological hegemony it naturally has—the bourgeoisie tends to be democratic. Similarly, the frontier between the conservative and progressive bourgeoisie is variable. It depends on workers' and especially on the technobureaucratic middle class's capacity to participate in the control of society's ideological apparatus.

The technobureaucracy can also be divided into political factions. There is the military technobureaucracy, currently out of power, and there is the civilian one. The civil technobureaucracy, in turn, can be divided into the state technobureaucracy (which joins the military one) and the private technobureaucracy, which works in the large private organizations. Furthermore, just as there are an upper, middle (and petite) bourgeoisie, we can speak of three levels in the technobureaucracy: (1) the upper technobureaucracy, which in the private sector tends to take command and be confused with the bourgeoisie; (2) a middle technobureaucracy, or a new salaried middle class—the white collar workers—who constitute the center

of the new class; and (3) the low technobureaucracy of office workers and low-level public servants who, although they carry out coordinative work appropriate to the technobureaucracy, can be confused with the workers who do productive work, producing goods and services directly.

The middle technobureaucratic class, which assumed a large share of power in the country beginning in 1964 because of its technical knowledge and military power, had its power diminished in 1977 when society slowly returned to democracy and thus became more political. However, the fact that technobureaucrats suffered a relative loss of power does not mean that they are going to lose all of it with the reestablishment of democracy. It only means that they will now have to become political and join political parties. They will participate more or less in political power depending on the victories gained by their political parties.

Finally, workers are far from forming a united class. There are unionized workers, still the minority, and the nonorganized ones, who make up the mass of easily maneuvered voters by the dominant classes (by the bourgeoisie and the technobureaucrats). Among unionized workers, the reformists are principally worried about improving salaries and working conditions, and the politicized workers identify union activity with party activity. In this second group we find CONCLAT, which is related to the PMDB and the PCs (Communist parties of Brazil), and CUT (Central Única dos Trabalhadores), which is linked to the PT (Partido dos Trabalhadores).

Appropriation of the Surplus

I have summarized two basic conditions necessary to understanding the new political pact being formed in Brazil: (1) the rupture and final collapse of the authoritarian-capitalist-technobureaucratic pact and (2) the Brazilian social classes and their principal economic and political cleavages. Now we must examine a third, more directly economic, character: the evolution of the process of generation and appropriation of surplus production.

During the populist pact the generation of economic surplus was principally concentrated in national industry. The corresponding appropriation of that surplus was carried out by the industrial bourgeoisie and by the growing technobureaucracy. These groups appropriated the surplus generated not only in the productive process but also through the transfer of income from the coffee-exporting sector to industry. This transfer was viable because high coffee prices on the international market permitted the conciliation of high industrial profits, the growth of the yet incipient state technobureaucracy, and a modest rise in urban workers' living standards.

When, during the 1950s, on the one hand, coffee prices dropped making new transfers of surplus impossible, and, on the other, the multinational firms penetrated in mass in the Brazilian industrial sector, firmly associated with the local bourgeoisie, the populist pact became inviable.

In the authoritarian-capitalist-technobureaucratic pact the generation of surplus occurred principally in the large oligopolist industries, both mul-

tinational and national, state and private, although it also occurred in small and medium-sized enterprises. The appropriation fell first to the bourgeoisie and second to the technobureaucracy, which has triumphed but still remained an auxiliary force to the bourgeoisie. However, an important cleavage arose within the bourgeoisie. With the development of the financial system and the increase of real interest rates both internationally and within Brazil as a reflection of monetarist economic policies, a considerable part of the surplus suddenly was appropriated by the rentier bourgeoisie. That process was accentuated by the national foreign debt and by the increased internal debt, both of which are related, and snowballed as the interest was capitalized.

Through this process, by which income concentration was accentuated, the workers, who were excluded from the pact, were merely a source of surplus production, especially during the 1970s. However, beginning in the mid-1970s when the authoritarian-technobureaucratic-capitalist pact began to collapse, labor—which furnished significant victories for opposition parties in 1974, 1978, and 1982—managed to temporarily stop the process of income concentration. Nevertheless, that process was renewed in 1981 when the great recession, which began a violent process of internal and external adjustment, defeated labor and made the rentier bourgeois (through exorbitant interest rates) the great winners of this less-than-zero sum game.

The rentiers who benefited from interest rates above the GNP growth rate are both internal and foreign creditors. The high internal interest rates are not only a result of internal monetarist policies aimed at adjusting the economy by reducing the money supply, increasing interest rates, reducing investments, reducing real salaries, and reducing real profit margin; they are also a result of monetarism in the United States. The international interest rate, together with spreads and commissions, became the base below which the internal interest rate could not fall, since internal creditors maintained a certain amount of liberty to transform their cruzeiro debts into dollars debts and vice versa. That liberty was restricted by the diminishing supply of loans for Brazil beginning in 1982 that still exists today.

As interest rates rose and the internal and external debt grew, principally as a result of government and state activities, the surplus was appropriated principally by the rentiers, mostly those from abroad.

Interest rates as high as these—close to 25 percent per year in real terms between 1981 and 1984—are only compatible with development under two conditions: (1) if business has a substantially higher profit margin so it can pay the interest and continue investing (which would only be possible if there were an extremely accelerated process of income concentration); and (2) if the foreign creditors were willing to continue to transfer real resources to the country (grant new loans of greater value than the interest and principal they receive). The first condition is being partially met, thanks to the violent shrinkage of real salaries—nearly 25 percent between 1980 and 1984—but this obviously cannot be sustained in the medium range. The second condition has not been met. On the contrary, in 1983 and 1984, Brazil transferred real resources out of the country rather than receiving them from abroad.

The technobureaucratic capitalist pact began to break up in the mid-1970s when the income concentration process stagnated, and there was a relative reduction in the surplus appropriated by the bourgeoisie, as a result of reduced economic growth rates, while at the same time average salaries were no longer being reduced in real terms. The pact became unsustainable at the beginning of the 1980s, when the nature of surplus appropriation itself was changed, as financial rather than productive capital began to benefit more from that appropriation through large loans and high interest rates.

Two Possible Pacts

Within this setting Tancredo Neves and José Sarney were elected with support from the majority party, PMDB—which had been in the opposition throughout the authoritarian period—and from the PFL, which grew from liberal dissent within the PDS. Added to these two groups were dissidents from all the other parties, especially from the PDS itself, who objected to its tendency to support governments, old and new.

Tancredo Neves was elected in a context of national union, and he obviously hoped to maintain it. But it would have been very difficult to achieve that goal, even if the political alliances had been formally maintained on the federal level. For instance, the new president proposed an anti-inflationary social pact which, even before it was formalized, was already opposed by workers—especially by unions linked to the PT.

Nevertheless, if political power is to be exercised, a political pact must be concluded. That pact must have participation from the bourgeoisie as the dominant class and from the technobureaucratic middle classes and labor.

When the Democratic Alliance enters in crisis, two alternative pacts are possible: the liberal bourgeoisie and the popular democratic. If either pact gains hegemony, not only will the classes or class fractions that formed it assume power, but they will also begin to exercise that power effectively to meet the demands of the groups involved, including labor. Thus, it will mean renewed economic growth and some form of income redistribution (or at least an end to its concentration). If neither pact gains hegemony and no politically legitimate government is constituted, a third possible political scenario will develop: a period of semistagnation and social disruption.

The liberal bourgeois political pact would have the upper bourgeoisie as its base. It would get decisive support from the conservative middle bourgeoisie, including those who want a liberal government because, though democratic, it repudiates state intervention in the economy. It would be able to maneuver the mass of unorganized workers. The technobureaucracy would obviously have a role in a liberal pact because the bourgeoisie needs technicians and administrators. However, that role would be reduced because the bourgeoisie would adopt a contradictory position toward the state and the large bureaucratic organizations. On one hand, the pact would be

supported by technobureaucrats in public, private, and state organizations to guarantee their capital accumulation. On the other, it would continue its systematic and passionate criticism of state economic control and of technocracy. In terms of present political parties, this pact would correspond to the PFL and parts of the PDS.

The pact based on the PMDB is the so-called popular democratic pact. It would not get support from the upper bourgeoisie except in a few industrial sectors. It would have wide support among the middle, progressive bourgeoisie that combines democratic values with concern for social justice. It would also count on decisive support from the technobureaucratic middle class that administers and coordinates the large private, and principally public, organizations. Its most important electoral base would be unionized labor not affiliated with the PT. One nucleus of basic power in this pact would be the new technobureaucratic middle class—scientists, professors, technocrats not linked to the bourgeoisie. Even though this analysis is limited, since the PMDB is really a front, a party of the masses, it does bring to light one of the fundamental social nuclei of the party that would serve as the base for the popular democratic pact.

The liberal conservative pact will naturally be conservative in social and economic questions. It will be more concerned with preserving and perfecting the existing order than with surpassing it. If that pact prevails, it will represent the continuation of monetarist economic policy and of the policy of minimal social assistance carried out by the authoritarian governments in the past twenty years, under which price stability will be the basic priority. Workers will necessarily make a few gains, thanks to their political and union organization, but those gains will be smaller as the continued economic policy makes it impossible to solve the economic impasse, as interest rates increase, and rentier bourgeoisie consequently appropriate the surplus.

If in turn the popular democratic pact becomes dominant, it will attempt changes in economic policy. Its basic priorities will be renewed economic growth and greater income redistribution. However, that does not mean that inflation will not be taken into account. Using different concepts of inflation, economists identified with the popular democratic pact see harmony, rather than conflict, in the idea of renewed economic development and lower inflation. According to Ignácio Rangel's concept of inflation,¹ under certain circumstances—and contrary to conventional economic theory—the greater the growth, the lower is the inflation rate; according to the autonomous (or inertia) concept of inflation, our current inflation tends to reproduce past inflation even though there is insufficient demand.² Nevertheless, if this pact dominates, there will be constant risk of accelerated inflation, since it will have difficulties in resisting pressures for raising salaries. Since the end of 1984, the tendency to readjust salaries on a quarterly rather than semiannual basis already began speeding up inflation, and it will probably accelerate even more if that policy is generalized further.

Neither of the two political pacts will gain hegemony unless its class articulation can (1) find a minimally satisfactory solution to the economic

problems the country faces and (2) gain popular support translated in an electoral victory. If neither of these two conditions is met, governing officials will still exercise their power, but the country will go through a difficult period of semistagnation and intense social conflict.

Economic Bases of the Crisis

There is little doubt that the liberal-bourgeois pact would prevail if the bases of that pact—North American foreign hegemony and continuity of the model of industrialized underdevelopment, modernization, and income concentration—were not in crisis. However, that crisis—caused by foreign debt and high internal interest rates—does exist. As long as it exists, it makes the hegemony of either political pact inevitable.

A foreign debt of more than \$100 billion, which creditors try to reduce by denying new loans while charging extremely high interest rates, constitutes a structural obstacle to development and to better standards of living for workers. That obstacle becomes even greater when we remember that the foreign debt was the greatest cause—through maxidevaluations and corrective inflation measures (adjusting relative prices)—for the acceleration of Brazilian inflation, which was close to 50 percent per annum during the first semester of 1979 and was five times higher during the first half of 1985. Furthermore, the high interest rates—which impede not only renewed growth but also make even minimal income redistribution inviable—are also directly linked to the problems of inflation and the foreign debt.

Therefore, it is understandable that representatives of the liberal bourgeois pact always insist on saying that “the problem of the foreign debt has been solved” and that now “the fundamental problem is inflation caused by public deficit.” If they admitted that the foreign debt and high interest rates are the cause of the crisis, if they accepted the concept of autonomous or inertial inflation, if they admitted that the public deficit has been falling since 1981 and that in 1984 the federal government’s budget showed a surplus of 0.2 percent of the gross national product (GNP), then they would be obliged to advocate economic policies that would cause some type of confrontation with our international creditors, the International Monetary Fund, and internal speculators. Obviously, such an attitude will not be adopted by participants in the liberal bourgeois pact, among whom we find those very internal speculators (together with merely cautious or conservative members of society). If the price of not confronting our foreign creditors is relative economic stagnation, continued reduction in real salaries reduced profits except in sectors outside the export market where the salary-exchange relation would continue to improve, thus increasing exports—if that is the price, then representatives of the liberal bourgeois pact are willing to pay it.

However, that price could create a third scenario that is in no one’s interest: economic stagnation and social disruption, benefiting neither the representatives of the liberal bourgeois pact nor those of the popular democratic one.

Representatives of the liberal bourgeois pact are, however, not able to propose a coherent alternative economic policy to alleviate the crisis represented by the foreign debt and high internal interest rates. Those who could make such a proposal are representatives of the popular democratic pact who today are not completely devoid of power in the government. Although a minority in the institutions that define economic policy, they have obtained important positions in the federal administration. Only they have the political ability to adopt the only measure that can solve Brazil's foreign debt problem: forced and automatic capitalization of a percentage of the interest paid each year (as well as a reduction in the spreads). The decision as to what percentage of the interest will be paid and what will be capitalized—or transformed into "new money" if the creditors so desire—would be a sovereign decision the country would make each year. Thus, we would be paying our commitments and still transferring real resources out of the country, but we would be able to define our own internal economic policy, which should be responsible and austere but not recessive.

Thus by all indications the alternative to stagnation and social disruption is the prevalence of the popular democratic pact. That pact has not only political organization and electoral force but also political and technical conditions necessary to face the Brazilian economic crisis. The political conditions are understood to be the support of society and a relative independence from dominant interests supported exclusively by the principle of order. The technical conditions are understood as the existence within this pact of competent economists (according to international standards) who are very critical of conventional economic theory and thus able to formulate, together with politicians, businesspeople and workers, an alternative economic policy that will relieve the crisis and allow the country to grow, reducing inflation and gradually redistributing income.

The conservative or orthodox economists who advise the liberal bourgeois pact, though they may be competent, cannot face the present crisis because the debt, interest rates, and inflation in Brazil have become structural, demanding solutions on that level. The law of the market and conventional economic policies have no possibility of solving them.

Although structural economists (in the broadest sense) who advise the popular democratic pact are better able to confront the crisis, they risk losing themselves or of not being able to effectively limit repressed demand from society as a whole. Labor's demands for restoring former salary levels, for example, are especially strong. If they are met over the short run, inflation will spiral and all the efforts to adjust the economy and overcome the crisis will have been in vain.

Those efforts, which set off the 1981–1983 recession, cost Brazil dearly in both social and economic terms. There was a reduction in the per capita GNP of almost 10 percent, and real average salaries fell around 25 percent. But they facilitate the elimination of the public deficit, a fast increase in exports thanks to an exchange-salary ratio that favored exporters, a positive balance of trade, the elimination of subsidies, and adjustment of real prices.

Therefore, they facilitated a basic adjustment in the Brazilian economy, which quit spending more than it produced.

There may be no sense in trying to combat autonomous inflation by continuing the adjustment process and obtaining large trade and budget surpluses in order to pay for the internal and external debts with continued recession, as intended by the orthodox economists and the International Monetary Fund. But it would be irresponsible to nullify the efforts already made to adjust the economy by implementing policies for salaries and public spending that wide sectors of the popular democratic pact obviously desire.

Forced capitalization of the interest would guarantee that our country exchange reserves and gain sufficient independence from the equivocal economic directives defined by the IMF and international creditors. It would permit us to adopt internal deindexation measures—which include stabilizing the exchange rate—that are indispensable to control the current inertial inflation. This deindexation of the Brazilian economy by unorthodox shock by indexation of our currency is a measure that requires courage and political legitimacy, as well as technical competence, to be correctly implemented. In a basically adjusted economy like the Brazilian one, which still has inertial inflation of nearly 300 percent per annum, it is the only way to combat inflation. Once this policy is adopted, workers will no longer be penalized by inflation, but they also will not be able to obtain immediate restoration of the salary losses suffered during the adjustment process from 1981 to 1984.

Conclusions

In synthesis, after the collapse of the authoritarian-capitalist-technobureaucratic past, Brazil faces three alternatives once the national union that brought Tancredo Neves into power has disappeared: (1) the formation of a liberal bourgeois pact based on the upper bourgeoisie and the conservative middle bourgeoisie; (2) a popular democratic pact based on the technobureaucratic middle class, the middle bourgeoisie, and unionized workers; or (3) economic stagnation and social disruption resulting from neither pact gaining hegemony and thus each unable to successfully confront the economic crisis the country now faces.

In the evaluation of the strengths of each pact, we saw that the liberal bourgeois pact has the advantage of the bourgeoisie's clear ideological hegemony. However, no political pact in Brazil can become dominant without the support of the bourgeoisie, and the popular democratic pact, which has its political base in the PMDB, also has this support, though to a lesser degree. On the other hand, the popular democratic pact has clearly superior party organization and electoral prospects than does the liberal bourgeois.

However, the fundamental test for either of the blocs gaining political hegemony will be its capacity to successfully confront the economic crisis. This crisis is based on a foreign debt of over \$100 billion, which raises interest rates; high interest rates are only compatible with growth when

profit margins are even higher; higher profit margins, in turn, are only possible with an even greater loss in the buying power of salaries than has recently occurred. This foreign debt also makes the IMF and international creditors pressure for adoption of orthodox monetarist economic policies that cannot solve the economic crisis because they are based on a false diagnosis of the Brazilian economy.

The representatives of the popular democratic pact have the technical conditions to confront this crisis because they recognize the graveness of the foreign debt problem and advocate more sovereign negotiation of it, based on capitalization of a part of the interest paid; since they recognize the autonomous inertial character of our inflation and propose decisive deindexation measures and administration price controls; and since they do not accept benefits for unproductive rentier bourgeoisie derived from the high interest rates and propose to attack that problem straightforwardly.

An economic policy of this nature, however, has its risks. It could fail if the government were not firm or did not have minimal support from the dominant classes. It could also fail if not combined with austerity to maintain control of salary policies and public spending. We must not underestimate the pressures that representatives of the popular democratic pact will feel in this area.

In summary, Brazil is faced with a fundamental political challenge: establishing a solid democratic pact. That challenge is political in the sense that politics is the process of fulfilling the national will. But this challenge is conditioned by the economy, which always establishes the limits of national will.

Notes

1. See Ignácio Rangel, *A inflação brasileira* (Rio de Janeiro: Tempo Brasileiro, 1963); and "A recessão, a inflação e a dívida interna," *Revista de Economia Política* 5, no. 3, July-September, 1985.

2. See Mário Henrique Simonsen, *Inflação: gradualismo x tratamento de choque* (Rio de Janeiro: APEC, 1970); Luiz C. Bresser Pereira and Yoshiaki Nakano, *Inflação e Recessão* (São Paulo: Brasiliense, 1984); Adroaldo Moura da Silva, "Regra de reajuste de preços e salário e a inércia inflacionária," *Estudos Econômicos* 13, no. 2, May 1983; Francisco L. Lopes, "Inflação inercial, hiper-inflação e desinflação," *Revista de Economia Política* 5, no. 2, April 1985; and Persio Arida and André Lara-Resende, "Inertial Inflation and Monetary Reform in Brazil," Departamento de Economia, Pontifícia Universidade Católica do Rio de Janeiro, *Texto para Discussão*, no. 85, 1985.