14
Attempts to Stabilize

From 1979 to 1994 inflation was the most obvious symptom of the crisis faced by the Brazilian economy. It was a high and persistent inflation that resisted all stabilization attempts. Following the heterodox stabilization programs, inflation would go down, but it would soon recover its previous level or would jump to a higher one. There was generally no response to the orthodox programs. In this case inflation would remain at the same level or would increase. Following the first orthodox stabilization plan, in 1979, inflation jumped from 40 to 100 percent a year. After the second plan, in 1981, it remained at the same level. After the third plan, in 1983, it jumped from 100 to 200 percent a year. Following the Cruzado Plan—the first heterodox attempt—in 1986, inflation decreased from 10 percent a month to almost zero, but one year later it was over 20 percent a month. After the Bresser Plan (1987) inflation fell to almost zero, but two years later it was nearly 30 percent a month. After the Summer Plan (1989) inflation fell sharply but rose to 80 percent a month one year later. The Collor Plan I (1990) reduced inflation to almost zero, but one year later it was around 20 percent a month. The orthodox Beans and Rice (1988), Eris (1990), and Marcílio (1991–1992) plans failed to reduce the inflation level.

Why was Brazil unable to stabilize its economy between 1989 and 1994? Was it because the lack of political will in the society blocked fiscal adjustment? Was it because fiscal adjustment was practically infeasible without a corresponding reduction of the public debt? Was it because stabilization programs have been inefficient, the fruit of technical incompetence? Each of these three questions corresponds to a hypothesis or a theory on the causes of the failure to stabilize. These theories hold that the high and inertial inflation that afflicted Brazil for years was not overcome because: (1) the public debt was excessive and its maturity too short, indicating the state's loss of credit—that is, a major fiscal crisis; (2) the economic teams that were charged with the programs did not receive the necessary political support from society; and (3) the local economic teams and the IMF (when the program was IMF-monitored) lacked competence in dealing with inertial inflation and adopted inefficient and ineffective stabilization programs.

I call the first of these hypotheses the political hypothesis, the second the extreme crisis hypothesis, and the third the economic inefficiency or the economic incompetence hypothesis. These three theories, however, are complementary rather than exclusive. When a country reaches hyperinflation, as was the case in Brazil in early 1990, this means the state is bankrupt, its creditworthiness is very low, its public debt is plagued by short-term maturity or arrears, and it is no longer able to back its national currency. In other words, the extreme crisis hypothesis is part of the explanation, and reduction or consolidation of the public debt is required. When a country recurrently fails to stabilize, this indicates that the economic policies that are being adopted are not suited to the problem they are supposed to solve, that they are too costly or simply ineffective. This, in turn, indicates that the economic inefficiency explanation plays a part in the situation. Finally, when fiscal adjustment is never fully reached, this means political support for stabilization is lacking and society shows lassitude regarding inflation. In other words, the political hypothesis is also meaningful.

In recent years the first explanation has become popular. The number of conferences, articles, and books dealing with the political aspects of economic reforms has greatly increased. This explanation is true, but it does not contain all of the truth. The inefficiency or incompetence hypothesis, although never clearly expressed, was usually the most common explanation in the past, but since the political hypothesis became popular the prevalent assumption has been that well-prepared economists—whose doctorates are from the best universities in the developed countries—know what should be done; what is lacking is political support.[1] I believe this approach is mistaken, as was demonstrated by the failure of the orthodox stabilization programs in Brazil. Finally, the extreme crisis explanation, which is obviously unpopular among both foreign and internal creditors, is also relevant but leaves a great deal unexplained.

From 1979—when the Brazilian crisis began and inflation accelerated from an average of 40 percent a year in the 1970s to 100 percent a year in 1979–1981—to 1992, the country undertook twelve stabilization plans. Some were emergency plans; others were well-prepared programs. Some were "heterodox," using price freezes, but most adopted "orthodox" strategies.[2] Some adopted the shock strategy; others tried gradualism.[3] In some cases, even though inflation had not been subdued, the economic picture improved, whereas in others the crisis only worsened. In some cases the final outcome was only a high cost to be paid; in others there was a cost but a benefit as well. After the failure of the Marcílio Plan (1991–1992) and the impeachment of President Collor, when Fernando Henrique Cardoso was the finance minister and Itamar Franco the president, the Real Plan—based on the theory of inertial inflation—finally stabilized the Brazilian economy. This plan is analyzed in Chapter 15, along with the other successful economic reforms that have taken place in Brazil since the crisis began.

In this chapter I discuss the three hypotheses behind the failure to stabilize, using the twelve stabilization programs as background. I illustrate the inefficiency explanation with the last program, the Marcílio Plan, which had the official support of the IMF. I try to show that behind the inefficiency hypothesis is the incapacity to understand the inertial character of Brazilian indexed hyperinflation.

The inefficiency hypothesis to explain the failure to stabilize can be illustrated by the Marcílio Plan, developed by Minister Marcílio Marques Moreira between May 1991 and September 1992, at which time President Collor was impeached for corruption. The Marcílio Plan was a gradual and fully orthodox plan—IMF-sponsored—that ignored the inertial character of inflation, raised real interest rates to around 40 percent a year in 1992, maintained the economy in permanent recession, perversely increased the budget deficit, and from a surplus in 1990 and 1991 returned to a deficit in 1992, although some fiscal discipline was maintained. The resurgence of the deficit was a result of the high interest paid by the state on its internal public debt.[4]

In the first months of 1992 the Collor administration lost its second great opportunity to achieve stabilization.[5] The budget deficit was still under control as a consequence of the fiscal adjustment measures adopted primarily in 1990; relative prices, including public prices and the exchange rate, were balanced; and inflation was high but stable. Additionally, the government had recovered political support, particularly the support of the elites, as the result of a combination of favorable factors: inflation had stopped accelerating; President Collor had changed his ministry, choosing a group of competent and highly respected intellectuals and politicians;[6] financial markets were tranquil; the support of the international community and the multilateral institutions was strong, given the market-oriented reforms initiated in 1990; and international reserves were increasing. At that time a nominal anchor, Argentina-style, combined with a temporary price freeze and a social agreement would probably have strengthened the fiscal adjustment process and achieved stabilization. By instead maintaining a gradualist strategy, which in addition to being inefficient was ineffective against inertial inflation, a genuine opportunity to stabilize was lost.

Under the Marcílio Plan inflation accelerated until November 1991, when it reached 25 percent a month. From then until April 1992 the inflation rate fell moderately, to near 20 percent. Between May and August 1992 it stabilized at around 22 percent. In October, when Marcílio left the ministry, inflation was back to 25 percent a month. Yet in early 1992, when for the first time since 1987 inflation had stopped accelerating and had even decreased a little, this orthodox plan raised hopes among economists and policymakers who were unable to understand the inertial character of Brazilian inflation.

The main reason inflation has accelerated systematically after each stabilization plan is found in the need economic agents feel to restore the balance in relative prices the plan in some way disrupted. But it is also a problem of a lack of confidence. The resurgence of inflation and the awareness of the fiscal crisis of the state—that is, the awareness of the lack of public credit—cause economic agents to lose confidence in the currency, to anticipate that inflation would accelerate, and to protect themselves accordingly.

Yet in addition to the confidence problem just mentioned, there is a real problem behind inflation and its inertial character that is directly related to a distributive conflict about relative shares. The acceleration of inflation after each price freeze during the Collor administration (there was a price freeze in March 1990 and another in January 1991) cannot have a conventional explanation—excess demand—because the Brazilian economy remained in recession. Also, it cannot be explained by the increase in the money supply as a result of the budget deficit because the Brazilian economy presented an operational (real) budget surplus in 1990 and 1991 and a Treasury (cash) surplus between March 1990 (when the Collor administration took office) and November 1992.

Inflation can always be explained by strict or tautological monetarism, which by using the exchange identity, $MV = Yp$, relates inflation, p, directly to an increase in the money supply, M, given a constant velocity of money, V, and a constant GDP, Y, in the short run. In fact, the monetary base increases with inflation, but it is well established today in the neostructuralist and Keynesian schools that the money supply is endogenous or passive when inflation is high and inertial.[7] The exchange identity is definitional; it does not establish a causal relationship. If V and Y are assumed to be constant, then either M could cause an increase in p, as the monetarists contend, or p—which increases for inertial reasons—could cause an increase in M.

The neostructuralist theory of inertial inflation provides a more sensible explanation. The maintenance of high-level inflation is based on the dynamics of relative prices, which are successively balanced and unbalanced, and a distributive conflict ensues among economic agents.[8] The acceleration of inflation is the result of the attempt to change, in real terms, the relative price balance. Inertia is derived from the acceptance of the fact that relative prices are balanced in real terms but that in the short run they are unbalanced because of the phased character of price increases.

According to this view, the acceleration of inflation that took place in 1991, after the Collor Plan II, was the result of the need to recover the balance of relative prices, lost with the price freeze. Inflation accelerated because, first, the last price freeze, with its *tarifaço* (sizable correction of public prices), had aggravated the imbalance of relative prices, acting as the motor for the resumption of inertial inflation to its prefreeze levels. Further, the postfreeze inflationary residue above 5 percent left it clear that economic agents had no alternative after the plan except to again engage in the inertial game of indexing their prices, correcting them in a phased and alternate way so as to guarantee their income share. Third, in this distributive conflict, economic agents, moved by their previous experience with inflationary acceleration, added a delta or an incremental value to past inflation to protect themselves against the probable increase in inflation. By acting this way, these agents transformed their expectations into a self-confirming prophecy. Finally, these agents knew that, because the state was bankrupt, it was in no position to guarantee the stability of the currency and would end up sanctioning inflation as it increased the monetary base.

This last characteristic defines the scenario of indexed hyperinflation or repressed hyperinflation that prevailed in Brazil from the failure of the Cruzado Plan until the implementation of the Real Plan. André Lara Resende (1988) called it the "hyperinflationary process." Actually, since the failure of the Cruzado Plan the Brazilian economy has been in an intermediary state between a purely inertial or autonomous inflation and hyperinflation. Indexation mechanisms, related to past inflation, continued to operate, but extremely volatile expectations—generally pointing to an acceleration of inflation—were added as a result of the fiscal crisis and the consequent loss of confidence in the government. Economic agents anticipated the acceleration of inflation and behaved accordingly.

Yet with the Marcílio Plan, beginning in November 1991, inflation stopped accelerating and even slowed down modestly. Why? I see three reasons. First, although the Collor Plan failed, it left a positive legacy: in 1990 almost US$28 billion of the internal Treasury debt was canceled. As a result, the fiscal crisis was objectively reduced. Second, Minister Marcílio was finally able to impose his calm, trustworthy style on the economy. At the end of October 1991 there was a speculative attack against the cruzeiro. The premium on the parallel market, which had been around zero, rose to 50 percent in three days. At this point the Central Bank, which had always sold gold on the parallel market when this happened, made a risky but correct decision: it decided to leave the market alone. To the surprise of the Brazilian financial market, this strategy worked. The speculative attack failed. The premium on the parallel market quickly fell back to zero. After this, economic agents altered their expectations. They recognized that they no longer had the power they had held in 1989 to carry out speculative attacks on the cruzeiro.

A third reason inflation ceased to accelerate was the recession caused by extremely high interest rates. Inertial inflation is autonomous from demand. This means that a strong recession has little effect on lowering the level of inflation. It can, however, keep inflation from continuing to accelerate. This must have happened in November 1991.

The partial recovery of public confidence and the recession interrupted the acceleration of inflation. Yet it did not break inflationary inertia. It did not eliminate the indexed nature of the economy. Economic agents in Brazil are used to correcting their prices in accordance with past inflation. Thus it is incorrect to suppose that, given the volatility of expectations, the reversal of expectations would gradually do away with inflation.

Monetarists, particularly the followers of rational expectations, confuse expectations with decisions.[9] They imagine that all expectations are self-fulfilling because they are automatically transformed into economic decisions. Yet an important gap exists between expectations and decisions. In the neostructuralist theory of inflation, economic agents, concerned with protecting themselves in the generalized distributive conflict that characterizes high inflation, are very cautious about changing their decisions. They can change their expectations and admit that inflation may decrease, but because decisions are volatile and untrustworthy, they do not change them. Averse to risk, concerned with protecting themselves, and aware that the economy is a real process of income distribution, economic agents conservatively maintain their decisions to raise prices.[10] Because this kind of rational behavior will be adopted by the great majority of economic agents, a reversal of expectations will not materialize.

In the case of Brazil a reversal of expectations was able to reduce the hyperinflationary component of Brazilian inflation but was unable to break its inertia. Inflation stopped accelerating at the end of 1991, but it did not go down, although expectations—strongly influenced by the dominant ideological character of monetarist views—held that it would do so. Distributive conflict, the protection of income shares, the prevalence of decisions over expectations, the tendency of economic agents in the real sector to base their price decisions on past experience (only in the financial sector are expectations dominant in defining price decisions),[11] and the fact that inflation is essentially a real process with monetary consequences rather than merely a monetary phenomenon, checked the expected reduction of the inflation rate. What was left was only an inefficient and ineffective economic policy.

Like the Marcílio Plan, most, if not all, stabilization plans in Brazil have been inefficient. All of the purely orthodox programs—the two IMF-sponsored stabilization programs (the Delfim Plan III in 1983 and the Marcílio Plan, 1991–1992), the Beans and Rice Plan (1988), and the Eris Plan (1990)—were inefficient because they did not take into consideration inertial inflation and tried to stabilize gradually. All of the predominantly populist plans, such as the Delfim Plan I (1979) and the Cruzado Plan (1986), were inefficient for obvious reasons. They were also the outcome of a lack of political support for the necessary fiscal adjustment. Some plans were simply flawed, such as the Delfim Plan II (1981), the Dornelles Plan (1985), and the Summer Plan (1989).

The stabilization program I was responsible for, which came to be known as the Bresser Plan (1987), was an emergency plan left unfinished when I resigned from the Finance Ministry seven and a half months after taking office because of lack of political support for the fiscal adjustment plan I had formally proposed to the president.[12] I then insistently asserted that a stabilization program based on a new price freeze, coupled with the use of the exchange rate as a nominal anchor, could control inflation efficiently, provided the required fiscal adjustment was undertaken and a minimum social agreement was achieved. Yet since five previous price freezes had not been successful, this proposal was naturally received skeptically. This disbelief ignored, first, that all of the heterodox plans since the Cruzado Plan had included a heavily orthodox component; second, four other plans that were fully orthodox and three that were mixed had also failed.

I now briefly summarize the twelve stabilization programs the Brazilian economy undertook between 1979 and 1992.[13] Did they fail because they were heterodox or because they were orthodox, because they were shock plans or because they were gradualist? Which of the three hypotheses presented earlier was predominant in each plan?

1. The Delfim Plan I (1979), a populist right-wing program that was both developmental and monetarist, was based on the presetting of the exchange rate—that is, on a predicted or planned declining path for the exchange rate. This strategy was popular at the time among members of the Chicago school. The exchange rate guideline was intended to change expectations and to lead economic agents to correct their prices accordingly. Instead, inflation went from 50 to 100 percent a year, and the foreign debt grew from $40 billion to $60 billion in two years.

2. The Delfim Plan II (1981) was a classical orthodox program accompanied by a strong recession. GDP fell 3 percent in 1981, and inflation remained at 100 percent until the end of 1982.

3. The Delfim Plan III (1983) was an orthodox program monitored by the IMF and again marked by recession. Given the inertial nature of inflation—ignored by this plan as by the two previous ones—and the maxidevaluation of the cruzeiro in February 1983, inflation doubled to 200 percent, or 10 percent a month. Yet stabilization of the balance of payments was achieved. Since this time Brazil has presented high trade surpluses.

4. The Dornelles Plan (April–July 1985) was a partially heterodox plan based on freezing public prices and some private oligopolistic sectors, corresponding to about 40 percent of GDP, combined with a strictly monetarist policy at the level of the Central Bank. Inflation fell from 12 to 7 percent a month for three months, then returned—as was to be expected—to the previous level when the frozen prices were finally liberated or corrected according to inflation.

5. The Cruzado Plan (March–December 1986) was a heterodox program based on a price freeze. It was well formulated and received enormous popular support, but it became lost in populism and excess demand. Inflation went from 14 percent to almost zero as a result of the price freeze. In December, when it became impossible to keep prices frozen, inflation exploded.

6. The Bresser Plan (June–December 1987) was a heterodox emer-

gency plan. It did not include either deindexation or monetary reform. The exchange rate was not frozen. It was based on a provisional, short-term price freeze and incomplete fiscal adjustment. Relative prices were deeply out of balance, including the exchange rate, at the time of the plan. As was to be expected, inflation again started to increase slowly. The program should have been completed with a gradual correction of public prices (which was done) and a fiscal reform at the end of the year, which would have prepared for a final price freeze at the beginning of 1988. Because of a lack of political support, the plan was not completed.

7. The Beans and Rice Plan (1988) tried an orthodox program based mainly on the adoption of fiscal and monetary policy. The name *Beans and Rice* refers to the typical Brazilian meal, *feijão com arroz*, and implies a conventional policy in opposition to the heterodox, unconventional one. It was inefficient as a stabilization plan, and political support for the fiscal adjustment did not materialize. The plan ended as a muddling-through strategy, given President Sarney's unwillingness to proceed with a fiscal adjustment program. Inflation, which was at 14 percent a month in December 1987, went up gradually, reaching 30 percent a month by the end of 1988.

8. The Summer Plan (January–June 1989) used a heterodox approach—it was based on a price freeze, deindexation, and monetary reform—and also a monetarist, orthodox plan; it was supported by an extraordinarily high real interest rate (16 percent a month in real terms in the first month). At the time it was decided upon, President Sarney's term was ending, with very low popularity. The decision to adopt an extremely high real interest rate speeded the failure of the plan because it indicated that the government was bankrupt. The plan began to collapse in June 1989 and led to a kind of hyperinflation (an inflation rate above 50 percent a month) in December.

9. The Collor Plan I (March–April 1990) was an orthodox and heterodox program, combining the retention of monetary assets and stern fiscal adjustment with a price freeze. It was in fact essentially an orthodox plan, which received full support from Washington, because its heterodox component—the price freeze—was relinquished almost immediately. Further, it ignored the theory of inertial inflation and did not include in the price freeze a *tablita* (conversion table) that neutralized the relative price imbalances derived from the staggered character of price adjustments when inflation is inertial. The plan succeeded in lowering inflation from 82 percent in March to 3 percent in April. After that, inflation was supposed to be controlled by a mixture of fiscal and monetary policies and an income policy. The formal abandonment of the income policy, which was intended to control residual inflation, on May 15 marked the end of an incomplete plan.

10. The Eris Plan (May–December 1990), the second phase of the Collor Plan I, should be considered a new plan. It was the most strictly mon-

etarist and orthodox strategy ever adopted in Brazil. Its objective was to eliminate the residual inflation left by the Collor Plan I. The fiscal adjustment effort, to which President Collor continued to give full support and that produced a budget surplus in 1990 and 1991, was complemented by the definition and pursuit of a monetary target: a 9 percent increase in high-powered money in the second semester of 1990. The plan was not officially adopted by the IMF but, given its orthodox character, received full support from Washington, as I testified when I visited that city in July 1990. A few days earlier I had presented a paper with Y. Nakano (Bresser Pereira and Nakano 1991) in which we predicted the failure of the plan, which indeed occurred. The Eris Plan illustrated once again the endogenous character of the money supply when inflation is high and inertial. Notwithstanding an enormous recession caused by the tight monetary policy, inflation gradually accelerated, rising from 6 percent in May to 20 percent in December, when the money supply finally went out of control.

11. The Collor Plan II (January–April 1991) was a heterodox plan combined with a big increase in public prices (a tarifaço). This was a totally inefficient program. Inflation increased again immediately following the plan, reaching almost 7 percent in April and 10 percent in June.

12. The Marcílio Plan (May 1991–October 1992) was an inefficient, fully orthodox, IMF-sponsored stabilization plan. It started with 10 percent a month inflation and ended with 20 percent a month inflation.

These plans failed not only because of inefficiency or the incapacity of the government to devise a comprehensive stabilization program based on past experience, free from previous mistakes, and able to predict the reactions or defenses of economic agents to the stabilization policies. The extreme crisis and political hypotheses also played a role in their failure.

The explanation based on an excessive public debt is powerful. There is no doubt that an excessively high foreign and domestic debt causes stabilization efforts to be self-defeating.[14] It is no mere coincidence that most of the highly indebted countries failed to stabilize and that a reasonable—although insufficient—solution (the Brady Plan) was not found. When countries face an acute fiscal crisis and hyperinflation, it is not by chance that they almost invariably resort to some sort of internal debt cancellation and some kind of international financial support.

Yet public debt reduction, whether foreign or domestic, is a stabilization strategy with clear limits. Foreign debt reduction does not depend only on the debtor countries. Arrears are always an alternative but are costly. There are some classical cases of unilateral cancellation of part of the foreign debt. This was the case with the United States in the nineteenth century and with Germany in the 1930s and again in 1953. It was the case with Britain after

World War II. To a certain extent, it was the case with Costa Rica before a Brady Plan legitimated it. But countries do not usually have the external power and the internal unity to execute such a move.

Brazil did not have the power to reduce its foreign debt unilaterally. This fact helps to explain Brazil's failure to stabilize. Yet, although substantial sectors of the economy hoped for a large foreign debt reduction, this possibility hindered the required internal adjustment. When the debt was eventually negotiated according to the Brady Plan (1993), the hope of transferring a larger share of the fiscal adjustment cost to foreign creditors disappeared. Foreign debt reduction was small and unsatisfactory, but it was all that was politically possible at the time.[15] The burden-sharing process was over. Given that the foreign debt is a public debt, since 1993 Brazilians have known, at least presumably, the adjustment costs they have to face.

A partial cancellation of the domestic debt is much more common. But it is also risky and provokes strong political reactions. It can only be decided upon when the crisis is acute. Even in this case, it demands courage. And if it does not succeed in stabilizing the economy, the debt can easily be rebuilt. This was the case in Brazil. The Collor Plan I canceled almost half of the domestic Treasury debt. This fact significantly improved the country's fiscal condition, but because the fiscal crisis was not overcome and stabilization was not achieved, the internal debt began to increase once again, particularly after November 1991 when interest rates were sharply increased. It is not by chance that in Brazil today the possibility of a long-term consolidation of the internal debt—a milder form of debt cancellation—is again being discussed.

Following the debt cancellation the Collor Plan I promoted (almost 7 percent of GDP), stabilization became easier. This is one of the reasons—combined with the political support the Collor administration enjoyed at certain times—that in early 1990 and early 1992 two concrete opportunities to stabilize the Brazilian economy arose. The fact that they were lost when political support was present and the fiscal crisis had abated is an indication that they lacked technical competence and were inefficient.

Finally, we have the political hypothesis to explain the delay in stabilizing Brazilian inflation. Behind the political theory are two complementary phenomena—economic populism and lassitude toward inflation—that exemplify the lack of political support economic teams face for the difficult fiscal adjustment measures any stabilization program requires.

Political support for economic reforms depends on society's perception of the need for reforms and of the net costs of transition. Reforms are not always felt necessary. When the inflation rate is still at a "reasonable" level, certain societies—such as Brazil's—are insensitive to inflation and ready to live with it. Other reforms, such as trade liberalization, may not be considered desirable for a long time because they confront hidden interests.

Once the need for reform has been perceived, it is necessary to consider the net transitional costs. These costs represent the difference between the costs involved in the reform (in terms of higher taxes, unemployment, and the restructuration of business enterprises) and the costs of postponing reforms, of muddling through the crisis.[16]

Net transitional costs tend to be high initially because the costs of not adjusting or reforming—of living with inflation, balance-of-payments problems, protectionism, and inefficient use of resources—are still small, and the costs of adjusting the economy—of stabilizing, getting prices right, and proceeding with market-oriented reforms—are high. Yet as reforms are delayed, the costs of muddling through the crisis increase and eventually become higher than the costs of adjusting the economy. At this point the nonadjustment costs curve crosses the transitional costs curve. In the limit, the increasing distortions will lead to an acute fiscal crisis and hyperinflation. When this happens, society should have no doubts that the costs of muddling through are much higher than the transitional costs, that the net transitional costs are highly negative, and that it is time to adjust.

Yet it may be a long time before the country arrives at hyperinflation. It is also possible that the net transitional costs are already negative, and society is impervious to reforms. This collective irrational behavior has several explanations. First, society may not have correctly perceived the situation. The previous growth strategy may have been so successful that it is difficult to admit that it has become distorted and disruptive. Second, total net transitional costs may be negative, but some groups within the economy may still be gaining from the crisis.[17] If we draw the two sets of curves for each significant group, class, and industry in society, we would probably find that, for some, the costs of muddling through the crisis quickly cross the transitional costs curve, whereas for others this intersection occurs much later, if ever, because these groups are profiting from inflation. If this is the case, they will resist adjustment; they will deny political support for stabilization as long as they can.

Reforms may also be delayed or may fail because of weaknesses in the institutions that facilitate the negotiations leading to the required decisions. If associations of workers and businesspeople are not representative, political parties are weak and disorganized, and the state is disrupted by a severe fiscal crisis and does not counter with departments that are able to mediate negotiations and enforce agreements, it will be much more difficult to reform successfully.

All of the twelve stabilization programs faced difficulties in this area. Yet it must be emphasized that the three stabilization plans of the authoritarian regime (Delfim plans I, II, and III) did not fail for lack of political power. The Cruzado Plan in the Sarney administration, and in the Collor administration the Collor Plan I, the Eris Plan, and the Marcílio Plan between January and April 1992, met with reasonable political support.[18]

The Cruzado Plan and the Delfim Plan I, however, failed for an essentially political reason: they were populist stabilization plans. The Cruzado Plan especially had enormous political support. But this support was perverse, derived from the populist aspects of the plan. The Cruzado Plan did not fail because of a lack of political support but because of an excess of it. The Collor Plan I, the Eris Plan, and the Marcílio Plan were not populist plans, and they did not fail because they lacked political support. The Brazilian and foreign elites strongly supported them. They failed because they were inefficient.