The Poverty of Neoliberalism in Brazil: Economic Culture and Policy Choice

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After the international debt crisis of 1982, the tenor of economic policy in Latin America altered dramatically. From policies focused on state-led, inward-oriented development, most countries shifted to policies emphasizing private sector management and market openness -- the so-called “neoliberal” model of development.\(^1\) Several studies have analyzed this trend and assessed its causes and possible ramifications.\(^2\) Yet amidst this general trend, Brazil stands out as an exception. Throughout the 1980s, market reform was virtually absent in Brazil. In fact, the country resisted policies, urged by her creditors and international agencies (IMF, IBRD, etc.), that would reduce the state’s role in the economy and, instead, actively pursued alternatives to neoliberalism. Moreover, even in the 1990s, when Presidents Collor, Franco, and Cardoso launched policies that brought Brazil closer to the neoliberal ideal, key elements of a more traditional developmentalist strategy endured. Indeed, because of the country’s unusual history of inflation, both the heterodox policies of the 1980s, and the pseudo-neoliberalism of the 1990s, had a distinctly “Brazilian” character.

Why was Brazil slow to adopt elements of the neoliberal reform program? Why did Brazil repeatedly produce alternatives? What explains Brazilian policy choices and Brazilian exceptionalism? What does the Brazilian experience signify for current theoretical explanations of economic policy choice in Latin America?

Based on evidence from the Real Plan, including interviews with Brazilian economists and policy makers, this paper argues that Brazilian policy “exceptionalism” cannot adequately be understood without taking account of Brazil’s particular economic policy culture. Moreover, the

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\(^1\) Also known as the “Washington consensus,” this model is discussed in further detail below.

study of economic policy cultures in general offers promising insights into the uneven nature of neoliberalism’s consolidation and institutionalization (despite claims of neoliberalism’s “triumph”) in Latin America as a whole.

**Neoliberalism and Brazilian Exceptionalism**

Central to this discussion of Brazilian policy choice are two concepts: neoliberalism and exceptionalism. Neoliberalism is a term used widely in the development and political economy literatures, but it has several meanings and is sometimes ambiguous in discussions of stabilization and reform. For this reason, it is important to define neoliberalism carefully from the outset. In theory, neoliberalism is about strengthening the market and reducing the state’s interference in economic affairs. In practice, it consists of a set of policies that John Williamson has called “The Washington Consensus.” These policies include: 1) fiscal discipline, 2) public investment in education and infrastructure, 3) progressive tax reform, 4) moderate interest rates which encourage investment, 5) a realistic exchange rate, 6) trade liberalization, 7) policies which encourage foreign investment, 8) privatization of state-owned enterprises, 9) deregulation of markets, and 10) strengthening and enforcement of property rights laws. The “core” elements of neoliberalism, however, are fiscal discipline and “realistic” exchange and interest rate policies. For the purposes of this paper, countries must be implementing these policies to be considered neoliberal reformers. Countries that have also adopted significant privatization, trade liberalization and deregulation policies are considered advanced neoliberal reformers.

The second aspect of this paper’s central problematic is Brazilian policy **exceptionalism**. Exceptionalism has three dimensions. In the first place, it applies to the character of Brazilian policies themselves, to policy **content**. What makes Brazilian economic policy unusual in the

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period after the debt crisis, and for most of the 1990s, is the fact that, taken as a whole, it was not very neoliberal. The reform plans adopted by the Brazilian economic ministries emphasized the elements of the Washington Consensus to a significantly lesser degree than did the policies pursued by other major Latin American countries such as Mexico and Chile. Brazil’s unorthodox policy content is illustrated well by the general tenor of the policies contained in the seven principal economic plans which Brazil adopted between 1986 and 1994: The Cruzado Plan, The Bresser Plan, Feijão com Arroz (Beans and Rice), The Summer Plan, Collor I, Collor II, and the Real Plan. The main elements of these plans are summarized in table 1 below.  

<table>
<thead>
<tr>
<th>Plan</th>
<th>Date</th>
<th>Element 1</th>
<th>Element 2</th>
<th>Element 3</th>
<th>Element 4</th>
<th>Element 5</th>
<th>Element 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cruzado</td>
<td>Feb. 1986</td>
<td>Monetary reform</td>
<td>Price freeze</td>
<td>Wage freeze</td>
<td>Deindexation</td>
<td>Loose monetary &amp; credit policy</td>
<td>Fixed exchange rate</td>
</tr>
<tr>
<td>Bresser</td>
<td>Jun. 1987</td>
<td>Price freeze</td>
<td>Wage freeze</td>
<td>Minor government price increases, subsidy cuts</td>
<td>Positive real interest rates</td>
<td>Mini-devaluations</td>
<td>Export supports</td>
</tr>
<tr>
<td>Feijão/Arroz</td>
<td>Jan. 1988</td>
<td>Credit freeze for public sector</td>
<td>Delays, then freeze on public sector salary adjustments</td>
<td>Limits on administrated prices</td>
<td>Limits on all wage and price adjustments</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Summer</td>
<td>Jan. 1989</td>
<td>Monetary reform</td>
<td>Price freeze</td>
<td>Wage freeze</td>
<td>Public sector spending cuts, price increases</td>
<td>De-indexation</td>
<td>Currency devaluation</td>
</tr>
<tr>
<td>Collor I</td>
<td>Mar. 1990</td>
<td>Price freeze</td>
<td>Freezing &amp; partial confiscation of private assets</td>
<td>Monetary reform</td>
<td>Tax increases, subsidy cuts</td>
<td>Trade liberalization</td>
<td>Privatization</td>
</tr>
<tr>
<td>Collor II</td>
<td>Jan. 1991</td>
<td>Fiscal controls</td>
<td>High interest rates</td>
<td>Budget cuts</td>
<td>Trade liberalization</td>
<td>Privatization</td>
<td>Reach agreement w/ creditors</td>
</tr>
<tr>
<td>Real</td>
<td>Dec.- Jan. 1999</td>
<td>Monetary reform</td>
<td>Budget cuts, Tax increases</td>
<td>Social Emergency Fund</td>
<td>Deindexation</td>
<td>High real interest rates</td>
<td>Exchange rate tied to dollar</td>
</tr>
</tbody>
</table>

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Aside from *Feijão com Arroz* and the second Collor Plan, all of these policy initiatives are built on heterodox elements: price and wage freezes, monetary reform, and deindexation. They also contain orthodox elements. The Second Collor Plan was a fairly straightforward orthodox stabilization attempt. But on the whole, the content of these plans is not very neoliberal.

Second, Brazilian policy after 1982 was exceptional in terms of the *timing* of reforms. Some aspects of the neoliberal package, such as trade liberalization and privatization did eventually appear in Brazilian reform programs. However, they appeared much later than in other countries. It was not until the early 1990s that Brazil began adopting these measures. At that point, Chile had been seriously following neoliberal policies for fifteen years and Mexico for eight years. Even Argentina turned to neoliberalism before Brazil did.

Finally, Brazil was exceptional after 1982 in its degree of *implementation* of neoliberal reforms. Brazilian policy overall was less neoliberal than that of its neighbors during this period, and the neoliberal elements it did eventually adopt appeared much later than in other major Latin American countries. However, Brazil also stands out for not carrying through on the neoliberal policies it adopted. It is one thing to formally adopt fiscal reform, trade liberalization, and privatization measures; it is quite another to make the legal and administrative changes necessary to enforce them and make them a reality. In general, Brazil has institutionalized neoliberal reforms to a much lesser extent than have other Latin American countries.

For example, Brazil announced trade liberalization policies in 1990, but they were not seriously implemented until the build-up to the Real Plan in late 1993 and 1994. By contrast, Chile’s trade liberalization process was *completed* by 1979 (with a brief interlude of higher tariffs in the early 1980s), Mexico’s by 1988 and Argentina’s by 1991.\(^5\) Privatization also was

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\(^5\) Sebastian Edwards, “The Opening of Latin America,” in *Economic Reform in Latin America*, eds., Harry Costin and Hector Vanolli (Fort Worth, TX: The Dryden Press, 1998), 246-50. Edwards seems to consider a trade liberalization process “complete” when the average protection of import tariffs and paratariffs reaches a level below 12 percent.
not implemented vigorously in Brazil. The program was announced in 1990, but a study by the Inter-American Development Bank found that its three biggest years\(^6\) were not until 1996 through 1998. The comparable years for Mexico and Argentina were 1990-92 and 1992-94 respectively.\(^7\)

To illustrate the late timing and low implementation aspects of Brazilian exceptionalism, a comparison of Brazil’s IMF loan record with those of other Latin American countries is useful. If we accept that eligibility to draw under an IMF agreement is an indicator of a country’s compliance with neoliberal policies, then Brazil’s implementation of neoliberalism is significantly lower and later than the vast majority of Latin America. Tables 2, 3 and 4 summarize IMF loan information for Latin American countries between roughly 1982 and 1999. Specifically, the tables cover all agreements reported by the IMF as of 1982 (all have an initiation date of 1980 or later) that had expired as of May 31, 2000. They include three types of loans: Stand-by agreements, EFF (Extended Fund Facility) loans, and SAF (Structural Adjustment Facility) loans. All are dispersed in parcels, or *tranches*. The loans differ in terms of purpose, lending rate, and repayment schedule, but the policy conditions borrowers must fulfill in order to receive each loan parcel are largely the same. They closely approximate the Washington Consensus.

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\(^6\)In terms of volume, measured as the number of firms privatized as a percentage of the total number of state enterprises.

<table>
<thead>
<tr>
<th>Total #</th>
<th>Type</th>
<th>Date Approved</th>
<th>Date Expired</th>
<th>Amount Approved</th>
<th>Amount Drawn</th>
<th>% Drawn</th>
<th>Average % Drawn</th>
</tr>
</thead>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>EFF</td>
<td>2/4/98</td>
<td>3/10/00</td>
<td>2080.00</td>
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<td>0.00</td>
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<td>720.00</td>
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<tr>
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<td></td>
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<td>3/30/96</td>
<td>4020.25</td>
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<td>Stand-by</td>
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<td>Stand-by</td>
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<td>4/23/84</td>
<td>1500.00</td>
<td>600.51</td>
<td>40.03</td>
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<td>3</td>
<td>ESAF</td>
<td>12/19/94</td>
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<td>100.96</td>
<td>100.00</td>
<td>88.47</td>
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<td>4239.38</td>
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<td>1/9/85</td>
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<td>500.00</td>
<td>100.00</td>
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<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
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<td>Stand-by</td>
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<td>12/11/95</td>
<td>173.90</td>
<td>98.90</td>
<td>56.87</td>
<td>68.19</td>
</tr>
<tr>
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<td>Stand-by</td>
<td>12/11/91</td>
<td>12/10/92</td>
<td>75.00</td>
<td>18.56</td>
<td>24.75</td>
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<tr>
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<td>Stand-by</td>
<td>9/15/89</td>
<td>2/28/91</td>
<td>109.90</td>
<td>39.25</td>
<td>35.71</td>
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<td>Stand-by</td>
<td>1/4/88</td>
<td>2/28/89</td>
<td>75.35</td>
<td>60.28</td>
<td>80.00</td>
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<td>Stand-by</td>
<td>7/25/83</td>
<td>7/24/84</td>
<td>157.50</td>
<td>157.50</td>
<td>100.00</td>
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<tr>
<td>4</td>
<td>Stand-by</td>
<td>2/1/95</td>
<td>2/15/97</td>
<td>12070.20</td>
<td>8758.02</td>
<td>72.56</td>
<td>83.36</td>
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<tr>
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<td>EFF</td>
<td>5/26/89</td>
<td>5/25/93</td>
<td>3729.60</td>
<td>3263.40</td>
<td>87.50</td>
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<td>Stand-by</td>
<td>11/19/86</td>
<td>4/1/88</td>
<td>1400.00</td>
<td>1400.00</td>
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<td>EFF</td>
<td>1/1/83</td>
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<td>3410.63</td>
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<td>N.A.</td>
<td>N.A.</td>
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<td>4</td>
<td>EFF</td>
<td>7/1/96</td>
<td>3/31/99</td>
<td>300.20</td>
<td>160.50</td>
<td>53.46</td>
<td>42.34</td>
</tr>
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<td></td>
<td>EFF</td>
<td>3/18/93</td>
<td>3/17/96</td>
<td>1018.10</td>
<td>642.69</td>
<td>63.13</td>
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<td></td>
<td>Stand-by</td>
<td>4/26/84</td>
<td>4/24/85</td>
<td>250.00</td>
<td>30.00</td>
<td>12.00</td>
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<td>265.00</td>
<td>40.77</td>
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<td>Stand-by</td>
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<td>3/28/00</td>
<td>70.00</td>
<td>0.00</td>
<td>0.00</td>
<td>46.61</td>
</tr>
<tr>
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<td>6/20/97</td>
<td>3/19/99</td>
<td>125.00</td>
<td>114.00</td>
<td>91.20</td>
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<tr>
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<td>3/1/96</td>
<td>3/31/97</td>
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<td>0.00</td>
<td>0.00</td>
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</tr>
<tr>
<td></td>
<td>Stand-by</td>
<td>7/1/92</td>
<td>6/30/93</td>
<td>50.00</td>
<td>15.98</td>
<td>31.96</td>
<td></td>
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</tbody>
</table>
The last column of table 2 is of particular interest because it shows what percentage, on average, each country was eligible to draw under its IMF arrangements. It also shows the average amount drawn by all countries (in the table) under all arrangements during the period. Brazil was able to draw an average of about 36 percent of the loan amounts approved under its IMF arrangements, the lowest of any country in the table. The average for all countries was about 66 percent. Argentina, Mexico, and Chile were able to purchase an average of 62, 83, and 99 percent respectively. Table 3 lists Latin American countries in descending order, according to their average percentages drawn on IMF loans:

**Table 3 Average % Drawn by Latin American Countries on Total Approved in IMF Arrangements, 1981-May 2000**

<table>
<thead>
<tr>
<th>Country</th>
<th>Average % Drawn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>99.24</td>
</tr>
<tr>
<td>Bolivia</td>
<td>88.47</td>
</tr>
<tr>
<td>Mexico</td>
<td>83.36</td>
</tr>
<tr>
<td>Ecuador</td>
<td>68.19</td>
</tr>
<tr>
<td>Argentina</td>
<td>61.90</td>
</tr>
<tr>
<td>Uruguay</td>
<td>46.61</td>
</tr>
<tr>
<td>Venezuela</td>
<td>43.94</td>
</tr>
<tr>
<td>Peru</td>
<td>42.34</td>
</tr>
<tr>
<td>Brazil</td>
<td>35.51</td>
</tr>
<tr>
<td>Colombia</td>
<td>N.A.</td>
</tr>
<tr>
<td>Paraguay</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

In fairness, however, Brazil’s record of compliance with IMF agreements has improved substantially in recent years. As shown in Table 4, Brazil obtained a stand-by loan in late 1998 of which it has already been able to draw over 75 percent, well above its historical average.

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8El Salvador, not shown in the table, has a slightly lower average.
Nevertheless, other countries’ conditionality performances have not noticeably declined. These figures may not perfectly reflect the relative orthodoxy of Latin American countries’ economic policies, but they do clearly suggest that Brazil was much less neoliberal than the rest of the Fund’s Latin American customers during the 1980s, and for the majority of the 1990s as well.

Table 4  IMF Arrangements with Latin American Countries Still in Force as of April 30, 2000  (millions of SDRs)

<table>
<thead>
<tr>
<th>Type of Arrangement</th>
<th>Date Approved</th>
<th>Expiration</th>
<th>Amount Approved</th>
<th>Amount Drawn as of 4/30/00</th>
<th>Months Remaining</th>
<th>% Drawn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina  Stand-by</td>
<td>3/10/00</td>
<td>3/9/03</td>
<td>5398.61</td>
<td>0.00</td>
<td>33</td>
<td>0.00</td>
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<tr>
<td>Bolivia  ESAF/PRGF</td>
<td>9/18/98</td>
<td>9/17/01</td>
<td>100.96</td>
<td>44.86</td>
<td>16</td>
<td>44.43</td>
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<tr>
<td>Brazil  Stand-by</td>
<td>12/2/98</td>
<td>12/1/01</td>
<td>10419.84</td>
<td>7869.15</td>
<td>18</td>
<td>75.52</td>
</tr>
<tr>
<td>Colombia  EFF</td>
<td>12/20/99</td>
<td>12/19/02</td>
<td>1957.00</td>
<td>0.00</td>
<td>31</td>
<td>0.00</td>
</tr>
<tr>
<td>Ecuador  Stand-by</td>
<td>4/19/00</td>
<td>4/18/01</td>
<td>226.73</td>
<td>85.00</td>
<td>11</td>
<td>37.49</td>
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<tr>
<td>Mexico  Stand-by</td>
<td>7/7/99</td>
<td>11/30/00</td>
<td>3103.00</td>
<td>1939.50</td>
<td>6</td>
<td>62.50</td>
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<tr>
<td>Peru  EFF</td>
<td>6/24/99</td>
<td>5/31/02</td>
<td>383.00</td>
<td>0.00</td>
<td>22</td>
<td>0.00</td>
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</table>


Theoretical Explanations of Brazilian Exceptionalism

What factors explain the relatively low and late (compared to other Latin American countries) adoption and implementation of neoliberal policies in Brazil? The mainstream literature on development policy and economic reform tends to emphasize four types of theoretical explanations. Each approach has its strengths and weaknesses when applied to this question.

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9One possible criticism of using IMF agreements as an indicator of orthodoxy is that there are two major Latin American countries who did not have any IMF loans during this period: Colombia and Paraguay. Colombia, however, recently secured an EFF loan, although it is still too soon to assess its compliance with IMF conditionality. See Table 4. For further information on IMF lending patterns and practices see Graham Bird, IMF Lending To Developing Countries: Issues and Evidence (London: Routledge and the Overseas Development Institute, 1995) and Tony Killick, The Design and Effect of IMF Programmes in Developing Countries (London: Routledge and the Overseas Development Institute, 1995).
The first type of explanation focuses on national power and capabilities as key explanatory variables.\textsuperscript{10} It suggests that Brazil resisted neoliberal reforms because it could. Brazil was relatively more capable than the rest of Latin America – it had better export performance, a larger and more developed internal market, etc. It was therefore in a better position to resist external pressure for neoliberal reform. For example, after the international debt crisis hit in 1982, many countries were forced by balance of payments crises to go to the International Monetary Fund for stabilization loans. And in return for these loans, the IMF required that they adopt neoliberal reforms. Brazil never experienced a crisis of the magnitude that other countries faced and thus was never at the mercy of the IMF and external creditors.

Even acknowledging that there is some disagreement as to just how “capable” Brazil actually was in the 1980s and early 1990s, this explanation is important, because it points to the importance of room for policy maneuver in evaluating countries’ economic policy decisions. These factors cannot be discounted as explanations for countries adopting and implementing neoliberal reforms. However, this focus on capabilities and degree of external dependence only establishes (and then not definitively) a country’s room for independent policy choice. It does not explain what policies that country will choose to pursue or why. A power/capabilities approach may account for Brazil’s freedom to choose its economic strategy; it does not explain why, given this freedom, Brazil chose heterodoxy and experimentation rather than orthodox neoliberalism. After all, some countries (Chile, arguably) chose neoliberalism without external pressure.

A second common explanation for policy choice focuses on institutional factors as explanatory variables. It suggests that constitutional structure, regime type, party structure,
electoral cycles, degree of central bank independence, and the like play key roles in the types of economic policies a country will pursue. These factors are certainly important in understanding Brazilian policy, but they leave some explanatory gaps too. They highlight potential barriers and complications to adopting and implementing neoliberalism, but they say little about the content of the policies actually pursued. Institutional explanations have a tendency to be static. They explain continuity, but have trouble explaining change and innovation. And Brazilian policy during the period was certainly innovative.

A third explanation addresses the agency problems of the institutional approach. It focuses on societal interests, and competition among them, as essential factors explaining economic policy outcomes. This approach directs attention to proponents and opponents of neoliberalism in Brazil during the period, as well as their relative economic and organizational strengths. But a limitation of this approach is that, while outlining potential barriers and supports for neoliberal policies’ adoption and implementation, it cannot, in the abstract, say much about why groups define their interests the way that they do. Group interests – even groups with similar positions relative to the production process – vary in unexpected ways across Latin American countries. For example, Brazilian bankers’ opposition to anti-inflation measures is almost the opposite of what one would expect bankers in the abstract to support (monetary


stability) and what bankers in other Latin American countries (e.g. Mexico) actually favored. Supplementary information is necessary to account for these cross-national differences in group interest definition.

In other words, the interest approach, like the national capabilities and the institutional approaches, leaves open crucial aspects of the Brazilian exceptionalism puzzle. It is useful for understanding, in the abstract, how groups in society might influence the content of and discourse surrounding economic policy. When combined with an institutions perspective, it explains much of the mechanics of policy agenda setting, choice, and implementation. However, it has little to say about the particulars of these phenomena in any given country. Thus, for the puzzle of Brazilian exceptionalism, an interest approach leaves the identity of the agents, as well as their motivations, unspecified. Moreover, it cannot account for the specific, non-neoliberal content of the Brazilian policies actually pursued.

A fourth category of explanation seems at the outset to address the shortcomings of both the institutional and the interest approaches. It contends that economic ideas are the key to understanding countries’ choice of economic policies. A set of ideas like neoliberalism will find favor in a given country depending on several factors: the disposition toward the ideas of powerful individuals and groups within the state and the domestic society; the prevailing ideological orientation of domestic institutions, as well as their capacity to implement the ideas; the reputation, power, and leadership skills of the ideas’ primary carriers; and structural factors such as the nature of the state and the types of linkages and networks which connect the state to the larger society. The greater the degree of “fit” between neoliberal ideas and a state’s existing

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domestic structures and ideologies, the more likely it is that the ideas will be successfully
implemented and consolidated. Brazilian exceptionalism must therefore be the result of a lack of
compatibility between neoliberal ideas and Brazil’s prevailing domestic structures and
ideologies, due perhaps to Brazil’s strong tradition of statist developmentalism.

This approach has several strengths. First, it offers clues as to where ideas come from
and, hence, the origins of Brazil’s exceptional policy content. Second, by focusing on the
ideational content of economic policies, and on the factors, which affect their adoption by
countries, the ideas perspective complements and advances the institutional and interest
explanations of Brazil’s low implementation of neoliberalism. Finally, by recognizing the
importance of ideas’ “carriers,” this approach incorporates leadership as a causal influence on
policy outcomes, and, in the process, suggests reasons for the late timing of neoliberal reforms in
Brazil (initial lack of strong leaders favoring neoliberal reform). However, the weakness of this
approach is that it stops short of theorizing the ways in which the same set of ideas is filtered and
molded differently by different countries and groups of policy makers. That is, it lacks a logic
for how countries’ existing ideational structures and policy traditions incorporate new ideas and
circumstances.

In sum, then, these four traditional approaches combined explain a good amount of the
three dimensions of Brazilian exceptionalism. They suggest, first, that neoliberal reforms were
not an absolute economic necessity for most of the period in question (1982 to the present);
second, that neoliberal reforms were ideologically unappealing, at least initially; and finally, that
there were interest and institutional barriers to their adoption and implementation. In short, these
approaches explain well the timing and implementation aspects of Brazilian policy
exceptionalism. As for the distinctly unorthodox and experimental content of the policies Brazil
pursued instead, however, these approaches fall somewhat short.
Economic Policy Culture?

Would a fifth approach, one that takes economic policy *culture* as the central explanatory variable help to address this explanatory gap? Given that the content of Brazilian stabilization policy, as well as the nature of the interests supporting it, seem critically rooted in historical patterns of belief and practice that are institutionalized in Brazil’s economic policy regime, culture merits at least serious consideration. An understanding of Brazilian policy culture, its nature, dynamics, and influence on institutions and policy ideas, should help to clarify the aspects of Brazilian exceptionalism that are ambiguous when viewed through the theoretical lenses outlined above. But culture also deserves attention for at least two additional reasons. First, culture seems to be undergoing a renaissance in mainstream American political science literature after years of neglect and criticism.14 Second, and more importantly, Brazilians themselves, even economists, take culture seriously as an important influence on the stabilization and structural adjustment processes in their country.15

Making culture “useable” as a concept and a method is of course a challenge. One must somehow overcome past criticisms of cultural studies, especially those of the 1950s and 1960s literature on modernization theory. These call for a conceptualization of culture that is unbiased, non-static, and non-conservative.16 While this goal is probably impossible for any analytical concept, the following definition of culture as both concept and method helps to ameliorate many


15 When I interviewed Brazilian economists about the reasons for lack of neoliberal reform Brazil, several of them mentioned cultural factors – aversion to the market as an institution, commitment to developmentalism and the like. See the appendix for a list of economists interviewed.

16 For a thorough review of criticisms of cultural studies, see Marc Howard Ross, “Culture and Identity in Comparative Political Analysis,” in *Comparative Politics: Rationality, Culture, and Structure*, eds., Mark Irving and Alan S. Zuckerman (Cambridge: Cambridge University Press, 1997).
of the problems with the way culture was used in the political science and development literatures in the past.\textsuperscript{17}

Culture can be defined as a coherent system of meaning, resistant to change but not unchanging, which influences the attitudes and behavior patterns of a particular group in a particular realm of human activity.\textsuperscript{18} More specifically, culture has three core elements. First, it has a focus and scope; it pertains to a particular group in a particular realm of activity – for example, economics, law, medicine, or education. Second, culture has values; it designates what is important, desirable, and undesirable. Finally, and most importantly, culture is a set of skills and practices that dictate how to act effectively within the realm in question. In this sense, then, culture is a toolkit – an idea elaborated by sociologist Ann Swidler.\textsuperscript{19}

Given this definition, a cultural method involves four stages. The first is to identify the group and realm that pertains to the research question. The second is to specify the values and skills of the group’s culture. The third is to develop hypotheses about how the culture can be expected to have an impact, and the final step is to test these hypotheses against evidence in the case. The next sections apply these steps to the issue of Brazilian policy exceptionalism, using the Real Plan as a specific case of policy exceptionalism. The Real Plan is an interesting case because it is one of the most orthodox (neoliberal) Brazilian stabilization plans since the return to civilian rule in 1985. However, even though it certainly involved orthodox policy elements, this plan also retains certain characteristics of a more traditional Brazilian policy culture. It is

\textsuperscript{17} For a thorough discussion and justification of this usage of culture, see Christine A. Kearney, \textit{The Comparative Influence of Neoliberal Ideas: Economic Culture and Stabilization in Brazil}, Doctoral Thesis, Brown University, May 2001, Chapter 3.

\textsuperscript{18} This definition is a composite of those used by: Clifford Geertz, \textit{The Interpretation of Cultures} (New York: Basic Books, 1973); David Laitin and Aaron Wildavsky, “Political Culture and Political Preferences,” \textit{American Political Science Review} 82 (June 1988); and Harry Eckstein, “A Culturalist Theory of Political Change,” \textit{American Political Science Review} 82 (December 1988).

therefore a good illustration of a cultural approach’s explanatory merits relative to alternative theoretical explanations.

The Real Plan: Actors and Context

The first stage in a cultural analysis of economic policy choice is to identify the relevant group of actors, because this step determines whose culture will be operative in the decision process. This section describes the Real Plan’s authors and briefly outlines the main components of the Plan itself.20

The most important actors for the Real Plan – the men who exerted the most influence over economic policy at the time of its formulation (1993-94) -- were: Itamar Franco, President of Brazil; Fernando Henrique Cardoso, Finance Minister (and later President of Brazil); Clóvis Carvalho, Cardoso’s Executive Secretary; Edmar Bacha, “Special Assistant” in the Finance Ministry; Winston Fritsch, Secretary of Economic Policy; Pérsio Arida, President of the BNDES (Banco Nacional de Desenvolvimento Econômico e Social); André Lara Resende, Chief Negotiator of the Brazilian External Debt; Pedro Malan, President of the Brazilian Central Bank; and Gustavo Franco, Director of International Affairs in Brazilian Central Bank. This group is distinctive for a few reasons. First, several of these men (Arida, Lara Resende, Bacha) were involved in the formulation and implementation of the Cruzado Plan, the failed 1986 stabilization effort which used many of the same ideas about inertial inflation that underpinned the Real Plan. Second, many of these men (Bacha, Fritsch, Arida, Lara Resende, Malan, Franco)

were associated with the same academic institution: the Economics Department at PUC-Rio. Finally, many of them held graduate degrees in economics from elite U.S. universities.\textsuperscript{21}

The Plan itself involved four principal phases: fiscal adjustment, creation of the URV, emission of the \textit{Real}, and post-\textit{Real} adjustments. The fiscal adjustment phase had two main components. First, the Program of Immediate Action (or PAI, announced on June 14, 1993) cut spending by over 3 billion dollars, reorganized the public sector, established greater control over state banks, began cleaning up federal banks, and reoriented the privatization program. Second, the Program of Economic Stabilization (of December 7, 1993) announced the stabilization plan that would later be called \textit{Real}, and explained how it would proceed. It also created the \textit{Fundo Social de Emergência} (Social Emergency Fund), which increased taxes and gave the economic team control of 18\% of the federal budget in 1994-95. In practice, this meant that the team could keep this money away from Congress and use it to reduce the federal deficit. The Fund was created first by decree and later (Feb. 8, 1994) passed into law by Congress.\textsuperscript{22}

The second phase of the Real Plan was the creation of the URV on February 28, 1994. The URV (\textit{Unidade Real de Valor}, or Real Unit of Value) took force by executive decree on March 1, 1994, with an initial value equal to 647.5 \textit{novo cruzeiros} (the currency then in use in Brazil). Later (May 27, 1994), Congress passed it into law. The URV was essentially an inflation index that measured the loss of purchasing power of the \textit{novo cruzeiro} daily. It was used for purposes of monetary correction (for contracts and the like). The February decree specified that the URV would not exist indefinitely; it would eventually be issued as the new currency, at which point the old currency would be abolished. The May law announced that the date of this conversion would be July 1, 1994.\textsuperscript{23}

\textsuperscript{21}This description of the economic team and each member’s role is based largely on an interview with Gustavo Franco, in which he outlined how the Real Plan was developed, and who took part. Gustavo Franco, interview by author, tape recording, Rio de Janeiro, August 1998.

\textsuperscript{22}Gesner Oliveira, \textit{Brasil Real}, 38-9.
The third stage of the Real Plan was the real currency’s emission on July 1, 1994. The following steps happened concurrently or shortly thereafter. First, all prices, contracts, and salaries were converted to reais. Second, Brazilians had to exchange their novo cruzeiros for reais. Third, there was general de-indexation of the economy except for salaries, social security benefits and income tax formulae. Fourth, a few public prices and utilities were negotiated with the industries involved and fixed for one year. Fifth, the team de-indexed the exchange rate and allowed it to fluctuate, with 1:1 to the dollar as the upper limit. Finally, they set monetary targets, and followed a policy of high interest rates.\textsuperscript{24}

After launching the new currency, the government concentrated on controlling demand and consolidating fiscal adjustment. This is the final stage of the Real Plan, which is technically still ongoing. Consolidating fiscal adjustment required serious institutional reform. In the months and years following the appearance of the real, the government took steps to facilitate privatization, trade liberalization, and foreign investment. The government also adjusted the exchange rate regime several times, adopting a system of bands for a time and, eventually, allowing the currency to float freely (in early 1999).

In general, then, the Real Plan is an example of Brazilian exceptionalism. Its centerpiece policies – currency reform, partial de-indexation, wage and price controls -- had little to do with the neoliberal model of reform. Despite the Plan’s attention to fiscal adjustment, privatization, and trade liberalization its method of fighting inflation was essentially unorthodox. Moreover, Real deliberately went against two core elements of neoliberalism: a realistic exchange rate and interest rates that promote domestic investment. The Plan was anchored by an overvalued exchange rate, and relied on extremely high interest rates (hitting 40 percent in 1998) to keep

\textsuperscript{23}Simonsen, 30 Anos, 38-40; Franco, O Plano Real, 41-2.

\textsuperscript{24}Oliveira, Brasil Real, 55-72.
foreign money in the economy.  

**Brazilian Economic Policy Culture**

Having identified the actors in the *Real* Plan and their realm of action (national economic policy), the second step in a cultural analysis is to describe the values, skills, origins, and empirical manifestations of these actors’ culture. This task is complicated, however, because there was undoubtedly more than one culture that affected policy makers’ calculations in the case. Cultural identities overlap and often compete, even within the confines of a single group of individuals. Thus for Brazilian economic policy during the *Real* period, one must bear in mind that a cluster of cultures was at play. This cluster includes everything from world culture and Brazilian national culture, to the cultures of specific, Brazilian economic schools, and everything in between: elite culture, regional cultures, political culture, and so forth. Determining how these layers interact is one of the greatest challenges of cultural analysis. How can this challenge be met?

Clearly, to analyze in satisfactory detail all the layers of culture affecting the key actors in the Plan is beyond the scope of this paper. However, we can focus on the arguably most salient culture, while remaining sensitive to the fact that it is nested within several other layers of culture. For the *Real* Plan, it makes intuitive sense that the economic policy culture would be most relevant. For this reason, while not ruling out the possibility that other layers of culture had effects, we will treat here only the Brazilian Economic policy culture.

Economic policy in Brazil over the past several decades has been characterized by four interrelated themes. First, it has placed an extraordinarily high premium on “progress,” defined since the 1950s as rapid increases in gross domestic product. Economic growth is so highly

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valued in fact that it usually trumps other policy goals: low inflation, balance in external accounts, high employment, improvements in social welfare, and so forth. Linked to this emphasis on growth, is the emphasis Brazilian policy has placed on industrialization. For Brazilians, the best kind of economic growth is industrial growth, or improvements in sectors that support industrialization. Third, Brazilian policy culture has been highly concerned with perfecting the internal market. If choices are to be made between supporting production for the domestic market and production for export, the domestic realm usually wins. Finally, and most importantly, Brazilian policy makers have displayed an unusual tolerance for inflation, especially since the late 1950s.

As for the culture’s skill set, it has shown a marked preference for state-administered policies, both for achieving goals and solving problems. The repertoire includes planning, public investment (especially in infrastructure and basic industry), state-owned enterprises (again, operating mostly in infrastructural and basic industrial sectors), tariffs, licensing, and various types of controls -- on prices, credit, currency exchange, etc. The flip side of this statist bias is that Brazilian policy makers have tended to be uncomfortable with strategies that rely on private initiative.

Finally, and most importantly, along with its extraordinary tolerance for inflation, the Brazilian economic policy culture developed unusual proficiency with indexation measures. From 1964, until its dismantling in the mid-1990s, Brazil evolved one of the most sophisticated systems for mitigating inflation’s negative effects that has ever existed. Indeed what makes the Brazilian policy culture truly distinctive – what sets it apart from run-of-the-mill developmentalism – is this peculiar compromise with inflation. Brazil’s history of effectively
using indexation to rationalize high growth and high inflation, while maintaining overall macroeconomic functioning, has no close parallels in the experience of other countries.26

These elements of policy culture spanned ideological lines and political regimes. They endured – indeed were strengthened – by traumatic international events, such as the two oil crises of the 1970s. And they were institutionalized in bureaucratic procedures – such as the planning process – and in Brazilian law. Yet identifying a cluster of policy goals and methods that seem singularly Brazilian does not necessarily mean that they affected Brazilian exceptionalism in the 1980s and 1990s or the specific policy choices that led to the Real Plan. Established practices can be jettisoned, and new ideas and methods can be adopted. But if it is true that culture changes slowly, then this policy culture should be distinguishable in the formulation and execution of the Plan. The next sections discuss cultural influences on the Real Plan and assess their explanatory contribution relative to more traditional theoretical interpretations of policy choice.

**Cultural Influences on the Real Plan**

The Real (1994–) Plan is an example of a peculiarly “Brazilian” approach to stabilization. It used unorthodox methods to achieve price stability, including a complicated currency reform process and government interference in financial and wage contracts. Although Real did not institute a general price freeze, some prices continued to be closely controlled by the government (utilities for instance). The Real Plan was a technical masterpiece, but its ingenious conception and execution still relied on unorthodox market tampering for success. Moreover, the plan’s strategic use of banner neoliberal policies – trade liberalization, privatization, and tax

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26 These elements of the Brazilian economic policy culture are discussed and justified in detail in Christine A. Kearney, The Comparative Influence of Neoliberal Ideas: Economic Culture and Stabilization in Brazil, Doctoral Thesis, Brown University, May 2001, Chapter 5. The chapter uses Brazilian planning documents, newspaper and magazine editorials, speeches by officials, economics journal articles, and interviews with policy makers to derive these cultural values and themes. The methodological issues surrounding this type of research are also discussed.
increases – should not blind us to the fact that its solution to the government’s fiscal problems was stopgap at best. Exorbitant interest rates (to attract and keep foreign investment), as well as an over-valued exchange rate are hardly what a neoliberal recipe for permanent fiscal health would prescribe. Did the unorthodox methods of the Real Plans have anything to do with the Brazilian economic policy culture outlined in the last section? Answering this question is the final step in a cultural analysis of Brazilian Exceptionalism.

Before turning to these issues, though, it is important to emphasize a few points. First, the Brazilian economic policy culture is not built on wrong thinking or irrational concepts. It is not the result of lessons drawn incorrectly from past experience, or of blindness to the true nature of events and their economic implications. Rather, what makes the Brazilian policy culture distinctive, indeed what makes any policy culture distinctive, is the way it orders rational goals, the way it handles the trade-offs between goals, and the way it uses the policy tools available. Cultures differ, not because one culture is “rational” and another is not, or because one culture is “modern” and another is “backward.” Rather they differ because groups of human beings develop different ways of dealing with similar problems, and because they order the same sets of goals and aspirations differently. These strategies are of course affected also by calculations of power and social gain. Moreover, cultures are tendencies rather than absolute descriptions or determinants.

Finally, cultures change. They are resistant to change, and they change slowly, but they are not static. This fact is evident in the evolution of policy thinking that occurred between 1985 and the present. In a way, the story of Brazilian stabilization efforts in this period, culminating with the Real Plan, is the story of Brazilian economic policy culture adapting to new circumstances and developing new ways of addressing old problems.
Alternative Theoretical Explanations

The traditional theoretical approaches outlined earlier in the paper – power, institutions, interests, and ideas – have explanatory contributions to make to the Real story. Although their strengths and weaknesses have already been discussed in general terms, it is useful to outline their particular impact on Real before turning to the influence of economic policy culture.

The power approach makes one major contribution to understanding Brazilian exceptionalism and the process leading up to the Real Plan. It points out that, following the debt crisis, Brazil had some freedom to maneuver financially. For a good portion of the 1980s and 1990s, the balance of payments was in reasonable enough condition that Brazil did not require IMF assistance. In addition, Brazil has an enormous internal market, and its economy is not overly reliant on trade in general. Finally, the Brazilian economy did, on average, show positive if low growth rates for the period. In many cases, growth rates for other Latin American countries were much lower, or negative. So Brazil arguably had the financial wherewithal to resist any outside pressures for neoliberal reform, and hence the freedom to adopt the policies it wanted. Other Latin American countries were perhaps more constrained.  

However, it is important not to exaggerate Brazil’s economic strength. By some measures, Brazil was still in a tight position financially. For example, throughout the 1980s, a very high percentage of Brazilian export earnings had to go to service the foreign debt, and the debt problem was not resolved in the 1990s, even though investment capital began to return to the country. Moreover, in the three years preceding the Real Plan, the macroeconomic situation had significantly worsened. Average GDP growth for 1990 through 1993 was negative: -0.3% per year. Annual inflation was also much higher than in previous years. For the four years prior

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to 1994, average yearly inflation had climbed to 1,519%. Granted, Brazilian exports had improved over the course of the 1980s, and the return of foreign investment to Latin America in the early 1990s helped as well. But to call Brazil “capable” during this time period (1984-94) is not entirely accurate either. There was room to maneuver, but it was not a great deal of room. Other countries, with less tolerance for inflation, and different economic priorities would (and did) turn to orthodox stabilization under these circumstances.\(^\text{28}\)

Institutional and interest factors are also highly relevant to explaining Brazilian exceptionalism. \emph{Real} was introduced in the last year of a lame-duck President. Moreover, Itamar Franco had come to office through the impeachment of President Fernando Collor. That the impeachment took place without breach of the constitution and without military interference was a positive sign for Brazilian democracy, and it helped to strengthen democratic institutions. However, the popularity of government in general was low, and Franco’s personal popularity was at its worst when Fernando Henrique Cardoso took over as Finance Minister and started planning the \emph{Real} policies.\(^\text{29}\) So much so that Cardoso had trouble recruiting people to serve on his economic team. Dimenstein and de Souza, two São Paulo journalists who wrote an account of the period, tell how reluctant Edmar Bacha was to assume leadership of the team.\(^\text{30}\) Gustavo Franco also confirms that there was a general hesitancy on the part of economists to be associated with the government at that time:

\begin{quote}
What was going on with the economy … the coming and going [of several ministers] in Finance … it was crazy. No one wanted to be on that team. Even his [Cardoso’s] good friends in Washington, Pedro Malan and Armínio Fraga didn’t want to be part of it. But for me it was easier. I was a research professor at the time, and I was thinking of leaving, to start my own consulting firm. So when Armínio called and asked me if I would consider being on the team, I thought, it’s O.K.. I can do this for a few weeks. Because
\end{quote}

\(^\text{28}\)Data are from the International Monetary Fund, \emph{International Financial Statistics Yearbook} (Washington, DC: IMF, 1998).

\(^\text{29}\) Gilberto Dimenstein and Josias de Souza, \emph{A História Real: Trama de uma Sucessão} (São Paulo: Editora Ática, 1994), 33-35.

\(^\text{30}\) Ibid., 94-99.
that’s the other thing, you know. I didn’t expect it – I don’t think anyone expected it -- to last much longer than that.\(^{31}\)

Thus in general, the period immediately before the *Real* Plan was one of political uncertainty.

Another important political factor was the Presidential elections that took place in early October of 1994. Cardoso was already thinking of running for president when he accepted the finance minister position, and Edmar Bacha was an active member of Cardoso’s Party, the PSDB (The Social Democratic Party of Brazil). Their political aspirations affected the *Real* Plan’s implementation. For example, the team disagreed over how long the URV and the *novo cruzeiro* should be allowed to co-exist, before issuing the URV as an actual means of exchange, the *real*. Pérsio Arida and André Lara Resende thought they should wait at least nine months to allow contracts and prices to adjust. But for political reasons, Edmar Bacha, Winston Fritsch, Clóvis Carvalho, and Cardoso himself pushed for a much shorter adjustment period, and they prevailed. The *real* was issued on July 1, 1994 – in time for inflation to drop visibly enough for Cardoso and the PSDB to reap the benefits in the October elections.\(^{32}\)

At the same time, the proximity of elections (and, consequently, the imperative to achieve an economic success) made the adoption of austerity measures risky and unappealing. In addition, even if Cardoso’s team had wanted to pursue a strictly orthodox stabilization strategy, the 1988 constitution’s rules regulating government finances and the economy more generally would have made it difficult to implement. In particular, the structure of federal finances was such that the vast majority of government receipts was either reserved for the state and municipal governments, or was already earmarked for specific purposes. Moreover, the way that the relationships among the Central Bank, the National Treasury, and the State Banks (the Bank of


\(^{32}\) Dimenstein and de Souza, *A História Real*, 204-208. According to these authors the other reason the team liked the July 1\(^{st}\) date for the currency’s debut is that it coincided with the World Cup Soccer Tournament, in which Brazil was projected to do well (and did, in fact, win). They thought that the population’s focus on the tournament would make the transition smoother, and distract attention from any difficulties that might arise.
Brazil, the National Bank of Economic and Social Development, the state banks) were structured made it nearly impossible for the economic team to control public sector spending. So thoroughgoing fiscal reform was impossible to effect on short notice, even though the team members unanimously agreed that such reform was ultimately necessary.  

In short, then, institutional and interest barriers to full-blown neoliberal reform certainly existed at the time of the Real Plan’s formulation (and throughout the period following the debt crisis). However, it is important to point out that institutional and interest factors do not unambiguously predict avoidance of neoliberalism and pursuit of heterodox alternatives. The institutional flux created by the democratic transition created opportunities as well as limitations. It should not be forgotten, for instance, that the Brazilian President had (has) a significant amount of discretion over the course of economic policy, deriving both from his formal constitutional powers (including the power of decree) and Congress’s relative weakness and disorganization. For the realm of economic policy in particular, Congress had (has) not fully worked out its power position vis-à-vis the president, and did (does) not have the technical support staff that would allow it to participate on equal terms with the executive on economic matters. This combination of uncertainty and a strong executive could have led in a policy direction other than the experimentation of the Real Plan.

Moreover, even if the political pressure that Cardoso and his political allies were under to have an economic success explains their avoidance of unpopular austerity measures, it does not explain their choice of the Real Plan instead. For the policies associated with Real were also risky. Even if we focus solely on the creation of a new currency, the technical and logistical requirements of implementation were formidable. They entailed uncertainty. Granted, the

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34But the executive branch was not “all-powerful.” It could not decisively control the spending of the state and municipal governments for instance.
economic team had the advantage of seven years experience with heterodox methods of fighting inflation. But this very experience, the failures of previous heterodox plans, constituted an obstacle in and of itself. Brazilian society had developed a high resistance to de-indexation measures. So Cardoso’s team had to overcome this psychological factor in addition to the technical difficulties of the monetary reform and de-indexation policies. Moreover, the use of an indexed currency, the URV, to effect de-indexation had not been tried before. The ideas had been around since the mid-1980s, and had been refined in light of previous stabilization failures, but there was still theoretical disagreement over the timing and pace of the stages involved. The main point, however, is that the success of the Real Plan was not a foregone conclusion, and the associated political stakes were significant. Thus political risk-avoidance does not entirely explain the plan.

In sum, then, institutional and interest approaches, while highlighting the importance of the democratic transition, and especially of electoral and party pressures, are ambiguous as to what the implications for policy should have been. They leave open questions about why, in a delicate political situation, an administration would pursue a set of relatively untried, technically difficult policies.

The last theoretical approach to consider before turning to culture is the ideas approach. This approach is important because by emphasizing the causal importance of the Real Plan’s ideational foundations, it helps to explain the plan’s policy content – the aspect of Brazilian exceptionalism least explained by power, institutional and interest approaches. Throughout the 1980s and early 1990s, the debates amongst Brazilian economists about inflation affected the policies that were adopted. However, the ideas approach does not offer a systematic explanation of why one set of ideas – those about inertial inflation from the PUC-Rio school – ultimately

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35 The social-psychological consequences for Brazilian society caused by decades of inflation are an interesting topic in and of itself. For an exploration of this phenomenon, see Na Corda Bamba: Doze Estudos sobre a Cultura da Inflação, org. José Ribas Vieira et.al. (Rio de Janeiro: Relume-Dumará, 1993).
prevailed. It explains neither their appeal, nor their foundations in decades of peculiarly “Brazilian” experience with inflation. The ideas approach does analyze how the “fit” between new ideas and a country’s existing institutions is important for the ideas’ success in a given policy context. It is certainly true that the appeal of the Real Plan, as a set of ideas, was linked to its compatibility with existing Brazilian interests and institutions. But policy makers ultimately chose the inertial inflation ideas because, while innovative, they built on established Brazilian economic norms and practices – which were tied to Brazilian economic institutions, but also separable from them.

It is at this point that a cultural perspective can add value to the explanation of Brazilian exceptionalism. By focusing on the normative structures through which policy ideas are filtered and evaluated, and by understanding that they must also be compatible with existing policy skills, a cultural approach incorporates a sense of history and of group norms that an ideas approach lacks.

Cultural Influences

As outlined earlier, the Brazilian economic policy culture is defined by the following characteristics: 1) a deep attachment to the goal of economic growth and a fear of recession; 2) a belief in the developmentalist values of industrialization and development of the internal market; 3) an unusual tolerance for inflation; and 4) a preference for state-managed policy instruments, especially planning and indexation. What does this culture tell us about the Real Plan, and, in particular, about its non-neoliberal policy content? 36

First, the Real team constructed the problem of stabilization as one of reducing inflation so that growth could continue. In so doing, it upheld the Brazilian economic policy culture’s

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36 In the pages that follow, I will give less attention to the aspect of Brazilian economic policy culture are that are common to developmentalist culture in general, and instead focus primarily on the more “Brazilian” elements: growth, inflation, and indexation.
traditional attachment to economic growth above other policy goals. However, the tolerance for inflation in pursuing growth did decline over the course of the 1980s and early 1990s. This is an element of the Brazilian policy culture that changed in response to events and accumulated experience. The Real team (unlike, say the team that formulated the Cruzado Plan) understood that government accounts would eventually have to be brought under lasting control if inflation were to be eliminated permanently. So they had come to accept that the public deficit was a cause of inflation. At the same time, they no longer viewed inflation as just a minor problem. The failures of Cruzado and subsequent stabilization efforts had disproved the notion that inflation could be tolerated while getting on with the business of growth. Inflation, in and of itself, hurt growth. Finally, the Real team no longer thought that inflation could be ended without sacrifices in government spending. For this reason, the first phase of the Real Plan was fiscal adjustment.\textsuperscript{37}

Nevertheless, the Real Plan was significantly influenced by the traditional policy culture’s horror of recession. Policy makers continued to believe that stabilization could be achieved without sacrificing growth, and heterodox methods prevailed because they were less recessionary than neoliberal ones. While it is true that the Real Plan was somewhat concerned with reducing the public deficit, the fiscal reforms it enacted were by no means the radical spending cuts that an IMF-style program would have entailed. For example, rather than confront the major institutional changes necessary to put state finances on a permanently sound footing – administrative reform, tax reform, and privatization measures – the Real team opted for the Social Emergency Fund (FSE), a stop-gap measure that temporarily raised indirect taxes and gave the federal government a greater share of existing tax revenues. Members of the Real team even acknowledge that the FSE was a temporary measure. In a 1995 article in the newspaper \textit{Folha de São Paulo}, André Lara Resende joked about the Social Emergency Fund’s name. He

\textsuperscript{37} Oliveira, \textit{Brasil Real}, 32.
said it was “a most inappropriate name,” since it was “neither a fund nor social, only an emergency.”

This decision to create the FSE reflected political considerations of course, like the need to avoid unpopular spending cuts in an election year. And it was also due partly to the impossibility of pushing through the constitutional amendments such reforms would require in the time available. But it reflected as well the continuing supremacy of economic growth as a policy goal, and the unwillingness to sacrifice it by following a too-stringent recipe of fiscal austerity. Gustavo Franco, one of the Real Plan’s authors, made a point of telling me that stabilization is not about following a recipe; it’s about what comes afterward. “Look at Bolivia,” he said. “Bolivia followed the neoliberal formula to the letter, and it still didn’t grow.” The value of growth was very present in his mind, even in 1998. So it probably entered into the Real team’s calculations about what sort of strategy to follow in 1994.

Finally, in addition to the centrality of inflation as the key problematic (rather than fiscal balance per se), and the continued belief that stabilization could be effected without economic recession, the Real Plan reflected the traditional policy culture in its continued preference for state intervention. In general, heterodox stabilization policies involve a greater amount of state interference than does neoliberal reform. As discussed earlier, the neoliberal model aims to eliminate state controls – to eliminate subsidies, to privatize state industries, and reduce state regulation of markets in general. By contrast, heterodox stabilization entails price controls, wage freezes, monetary reform, and de-indexation – all of which critically rely on state management.

The Real Plan, though it relied more on market strategies than previous Brazilian heterodox experiments, was essentially a state-controlled affair. It was less interventionist in that

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it did not spring stabilization on the society without notice, or institute a general price freeze. It also negotiated prices before instituting monetary reform. The *Real* team had learned from past experience that surprises no longer worked and that flat-out price controls were unsustainable in the long term. Moreover, such measures were undemocratic. But notice what the formulators of the *Real* Plan did *not* conclude from the failure of past efforts. First, they did not draw the lesson that the market should be given free reign to determine relative prices. Some utility and other prices continued to be controlled by the government. Second, they did not conclude that salaries ought to be a matter of free negotiation between workers and employers. The *Real* Plan had the government continue to set wages. And in general, from the institution of the URV to the emission of the real and beyond, state officials closely controlled the de-indexation and monetary reform processes.

In sum, then, the tools that the *Real* Plan employed fit well with the traditional policy culture. Price controls, wage controls, and manipulating (even while dismantling) inflation indexes were policies that the Brazilian bureaucracies were used to implementing. They were policies that were centralized and top-down, and they fit with perceptions of what had worked in the past. Even the elements that were new and “risky,” like the monetary reform, were things that the state could control and manage. And, for this reason, they were perceived as far less risky than neoliberal policies which would have involved trusting the nation’s economic well being to the market and private actors. In short, the statist nature of these policies drew on the existing policy skill set.

**Conclusion**

Taking account of the Brazilian economic policy culture provides insights into Brazilian exceptionalism that the other theoretical approaches do not supply. In particular, a cultural approach’s focus on established ways of approaching economic problems – both defining them
and solving them—contributes to our understanding of the Real Plans’ policy content. The policy makers’ definition of the stabilization problem, the secondary status they assigned fiscal questions, their greater-than-average concern with avoiding recession, and their reliance on state management are explained well by the Brazilian economic policy culture. Knowledge about the context and historical experience that informed Brazilian policy makers’ thinking—knowledge that a cultural approach brings to the analysis—makes their disinclination to adopt neoliberalism more understandable than it otherwise would be. Thus, while it does not take a cultural perspective to understand why a country—any country—would try to avoid neoliberal austerity, a cultural perspective does explain the tenacity with which Brazilian policy makers resisted orthodoxy, as well as their creativity in producing heterodox alternatives and their skill in adapting certain aspects of the neoliberal program to suit Brazil’s particular needs and goals.

More generally, the Brazilian stabilization story, and the role that policy culture played in it, should make us wary of arguments that take for granted neoliberalism’s “triumph” in Latin America. Although Brazil is an extreme case of adapting neoliberal ideas to local needs, a closer look at neoliberalism’s implementation in other Latin American countries would probably reveal significant variation. The main question for Latin American political economy today therefore should not be “why did neoliberal reform triumph in Latin America,” but “how and why did neoliberal reform differ across countries?” Answers to this latter question will not only help us to understand better the rise and consolidation of the “neoliberal policy consensus” in the region, but, more importantly, indicate from where we can expect the sources of this consensus’s transformation and eventual demise to come.