BRAZIL – INFLATION AND INDEXATION

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With such high rates of inflation now being experienced in Australia, there has inevitably been some interest in the Brazilian attempt to "live with" inflation. Those who imagine that indexation works to suppress inflation and yet maintain economic growth will find little support in the study published in the latest issue of F.A.J.

Under the general title "Under the Southern Cross" the author, R.F. DeVoe, Jr., has reviewed the role of "Monetary Adjustment" in Brazil's Economic Miracle. His final summing up, from the viewpoint of a United States observer, is that "We cannot halt inflation with simplistic gimmicks. Indexing is just another exercise in desperation economics. For us, the "Southern Cross" could well become the Southern Curse."

What has been done has only been possible through government by dictatorship involving the abolition of politicians and political
parties with, inter alia, support for foreign capital, tax subsidies for private saving, high tariffs, low taxes and frequent devaluations - the last averaging about once every forty days over the last ten years. Increasing stresses and strains are now evident. Anyone who thinks Australia has anything to learn from Brazil had best read the author's conclusions:

"1. Indexing has never attempted anything more than adjusting to inflation - which has been part of national economic policy. A palliative intended to provide temporary relief from the symptoms, it has eased some but not all of the political strains.

2. Indexing is an admission that everything else has failed and that politicians will not "bite the bullet" in attacking the root causes of inflation. Tantamount to absolute surrender to inflation, indexing assumes that accepting an evil removes it as a problem.

3. In Brazil, suppression of inflation is based on Draconian measures, including elimination of agitators. A military dictatorship has greatly facilitated keeping wage rates under restraint. Because no one votes, there are no promises to be made or kept.

4. The "monetary adjustment" may be quite misleading in relation to the real rate of inflation, even if based on reliable figures, if it is based on controlled prices and eliminates rapidly escalating items from the index.

5. The system is a bookkeeper's field day. Despite the rosy descriptions in the Brazilian press, the "adjustments" have about as many facets as some of our tax laws.

6. Indexing as used in Brazil has worsened distribution of income in the country. Through a 30 per cent decline in real wages during the 1960's unskilled workers have paid the price for Brazil's "economic miracle." With inflation someone always has to pay the price.

7. It is gradually becoming apparent that indexing has nothing to do with suppressing inflation. Wage and price controls administered with an "off with their heads" attitude has intimidated both business and labor and restrained inflation to some extent. However, the experience with indexing shows that after a while inflation becomes self-perpetuating and gets built into the economy."

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