

Inflation and Hyperinflation in Brazil, 1980s-1990s

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Introduction

This research project explores the intricate relationship between high inflation and Brazil's transition to democracy in the 1980s and 1990s. Emerging from two decades of military dictatorship, the fledgling Brazilian democracy faced daunting economic challenges, including debt crises, sluggish growth, and rampant inflation that nearly doubled prices monthly by 1990. These economic hurdles influenced public expectations, extending the scope of democracy to include not just political and civil freedoms, but also socio-economic rights like healthcare and employment. The project aims to uncover the strategies and policies employed to navigate this turbulent economic period, focusing on the experiences of economists, bureaucrats, consumers, and businesses. Particular emphasis is placed on adaptive consumer behaviors and innovative financial solutions developed by Brazilian banks.

Much of this research was done through reading previous studies, newspaper articles from the 1980s and 1990s, statements from economists in the 1980s and 1990s, and other secondary sources. A few works of note include the Albert O. Hirschman Papers, articles from the IMF, and copies of the documents outlining the specifics of each of the economic plans put into place to fight hyperinflation.

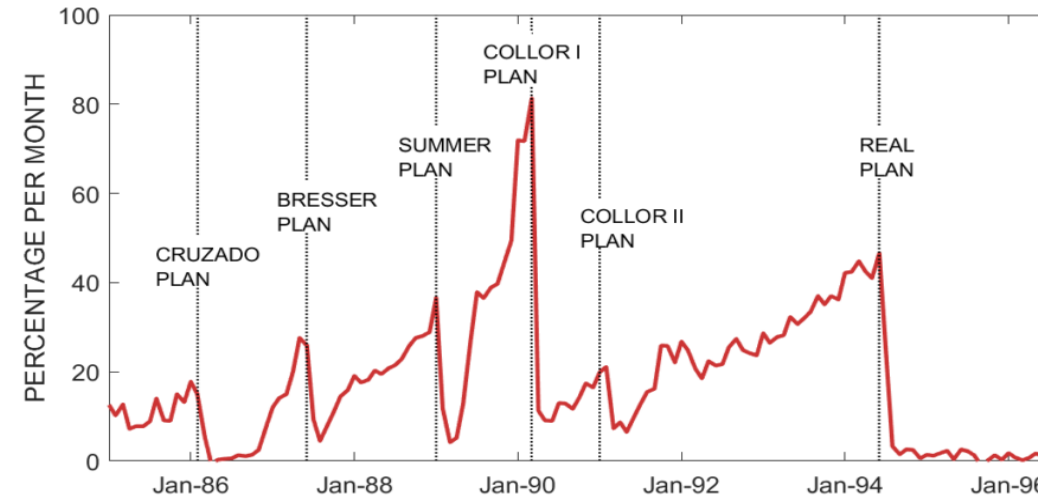


Figure 1 – Monthly Inflation in Brazil

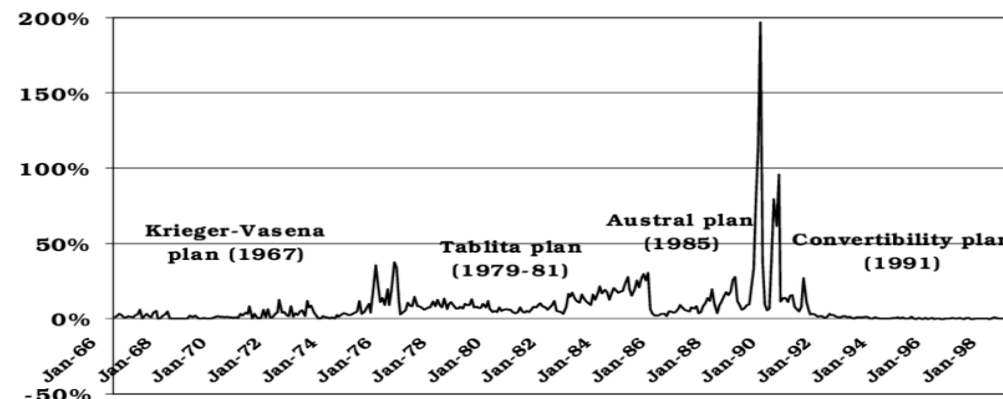


Figure 2 – Yearly Inflation in Argentina

Findings

- Plano Real, initiated in 1994, stands out in Brazil's history of combating hyperinflation, surpassing earlier plans like the Cruzado and Collor Plans.
- Shortcomings of Previous Plans: Earlier strategies mainly relied on short-term price freezes and lacked fiscal discipline, leading to their eventual failure.
- Plano Real introduced a new stable currency, emphasized fiscal austerity, and granted monetary policy autonomy to the Central Bank.
- The plan catalyzed adaptive consumer behaviors, such as strategic purchasing and budgeting, which were largely missing in previous attempts.
- Brazilian banks responded by creating financial products like indexed accounts to help consumers and businesses hedge against inflation.
- The multi-dimensional strategy of the Plano Real not only tackled Brazil's unique economic challenges but also led to enduring institutional reforms.

References

