



Without stability, there is no salvation

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At the ceremony installing him as Brazil's new Finance Minister, Rubens Ricupero, President of the Fernand Braudel Institute of World Economics, spoke words of warning that have been the message of our Institute since it was created in 1987: there is no salvation. Without stability there can be no social program, nor any chance to correct the social and economic injustice that continue to be bred every day by inflation. Without stability there are no global or regional trade schemes that we can use to our advantage.~ Ambassador Rubens Ricupero, whose essay on ~Trade, Power and the New World~ we publish in this issue of Braudel Papers , was a leader of the small group of economists, businessmen, journalists and public officials who created the Fernand Braudel Institute of World Economics. Their concern about the cumulative impact of self- destructive policies causing some countries to fade out of the world economy led our Institute to develop a program of research and public debate on the civilizational problem of chronic inflation. Our Institute was named for Braudel because the French economic historian was a founder of the University of Sao Paulo in the 1930s and because his work celebrates the power of the market in centuries of human development. The rationale for our work on chronic inflation is contained in Ricupero's warning: seeing arguments against inflation as a conservative cause, we developed a great indulgence toward inflation. We do not see that the inflationary growth of the 1950s was the seed that yielded the painful crisis of the 1960s, interrupting the democratic process. Neither do we see that only the rich and powerful manage to prosper with inflation, while the poor are left with the shrunken remnants of degraded salaries. Is it mere coincidence that we are the country of both chronic inflation and unequal income distribution? Beyond aggravating the incessant conflict over distribution, devastating our public health system, annihilating all that was done to improve public education, reducing salaries of public employees to humiliating levels and dismantling the State, inflation now attacks the country's soul: its moral values and aspirations. We are neither better nor worse than other peoples that suffered similar trials. As in Berlin and Vienna in the 1920s, inflation in Brazil also rewards speculation and buccaneering, robbing human beings of their dreams of the future and enslaving them to an immediatism without horizons, weakening all the values of work, savings and moderation, leading inevitably to public and private corruption and to the moral rot of society.~ A group of researchers from the Fernand Braudel Institute of World Economics saw the consequences of prolonged moral rot and chronic inflation when we visited Russia during the political realignment that followed the constitutional referendum and parliamentary election of last December. The collapse of communism in Russia and Eastern Europe is as important to the world in the late 20th Century as the Great Depression was to the early 20th Century. It is as challenging to the theory and practice of economic policy as was the Depression of the 1930s. Beyond their global implications, events in Russia bear specific meaning for Brazil because chronic inflation in both countries aggravated problems of modernization in federalism, public health, mortality, financial transfers and corruption. Mortality in Russia rose by 20% in 1993, following a 7% increase in 1992. Mankind rarely has experienced mortality surges on this scale, associated in the past with wars, plagues and famines. The surge in adult mortality may be part of a more general implosion of urban populations, especially in Latin America and Africa. Most cities have made commitments to provide huge subsidies to their inhabitants in the form of cheap

water, food, transportation, health care, heat and rent either free or at prices far below the cost of supply. Subsidies like these have sucked in more migrants, swelling the size of cities, bankrupting their governments and starving them of resources needed to maintain basic services. The decay of urban water systems in Latin America under pressures of scale and prolonged decapitalization led to a cholera epidemic in the early 1990s that has reached 21 republics. Subsidies in Russian cities underlie the fragility of survival systems and public finance. Until recently, rents had been frozen since 1928. In St. Petersburg, the population pays only 2% of housing maintenance costs (including heat, gas, water and sewage), which helps to explain the deterioration of apartment buildings in most Russian cities. Since 1990 per capita health spending in St. Petersburg fell from only \$3 to \$1. The city's weakened economy supports 1.2 million pensioners in a population of 5 million. Half the city's labor force works in a dwindling military-industrial complex, with half of its employees now on unpaid leave. Another 600,000 people are students or work at research institutes. It is no wonder that the magnificent capital founded by Peter the Great on mud flats at the edge of the Gulf of Finland three centuries ago is losing population. Last year there were twice as many deaths as births. Since 1988 the birth rate in St. Petersburg fell by half while deaths rose by 20%. Demographic surveys report two abortions for each live birth. Many women die of botched abortions. When I asked a friend about the low birth rate, she snapped: ~Who can afford a baby carriage?~ The mortality crisis of the Russian population raises still broader issues. At the end of the 20th Century, mankind is struggling to overcome the threat of institutional failure in managing problems of scale in the size of enterprises, cities and nations. Institutional failure under pressures of scale threatens relapse into more archaic forms of civilization and mortality. Fear of relapse is driving a shift in the politics of communities from a political economy of entitlements, or acquired rights, to a political economy of survival. The shift is only beginning and its implications are coming slowly into view. In many countries, from Russia to Peru, from Brazil to Nigeria to Egypt and India, in great cities from New York to Rio de Janeiro to Budapest, St. Petersburg, Detroit and Los Angeles, the main task of economic policy in coming decades will be regeneration. Searching for humane outcomes, many governments will seek to preserve civilized cooperation in managing complex societies. Some communities will sustain and speed their development, mastering higher levels of knowledge and organization, while others sink deeper into disease, violence and confusion. To meet this challenge, the Fernand Braudel Institute of World Economics held an international conference on Governability: The Political Economy of Scale, with the support of the United Nations, in Sao Paulo, Belo Horizonte Fortaleza and Salvador during the week of May 9-13.

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