REASSESSING THE IMPACT OF INSTITUTIONS ON ECONOMIC REFORM IN BRAZIL

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To my parents, who have always shown love and support
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During the 1980s and early 1990s Brazil, like much of Latin America, passed through a period of economic crisis, as the country struggled to pay its foreign debt and inflation reached four-digit levels. While most large countries in Latin American began to enact structural, or “neoliberal,” reforms in response to this crisis, Brazil was often seen a laggard. Political scientists looked at the country’s political institutions for reasons for Brazil’s delay in passing economic reform. This emphasis on political institutions mirrored a general trend in political science, which is often referred to as the “new institutionalism.”

The problematic design of Brazilian political institutions, such as federalism, presidentialism, multipartism, the constitution of 1988, the electoral system, and Congress, played a role in Brazil’s late start with economic reform. However, extensive reforms have been implemented in recent years, most notably during the presidency of Fernando Henrique Cardoso. Despite the extensive economic reforms that have been
passed since the mid-1990s, political scientists, especially those from North America, still stress the deleterious nature of Brazil’s institutional design. I argue for a reassessment of the impact of institutions on economic reform in Brazil. Specifically, I look at four factors that help to account for economic reform in Brazil: the timing of reform; the type of reform proposed (first- versus second-generation reforms); the role of ideas and ideology among the political class; and the role of economic and (non-institutional) political factors. Collectively, these factors help to explain how economic reforms have been so extensive in recent years, in spite of the problematic design of the Brazilian political system.
CHAPTER 1
INTRODUCTION: INSTITUTIONS AND POLITICS

This study will examine the relationship between Brazil’s political institutions and efforts to implement economic reforms. While there have been attempts to restructure the country’s economy since the advent of the New Republic in 1985, this study will concentrate on developments during the 1990s, principally the presidency of Fernando Henrique Cardoso (1995-present). There have been numerous studies analyzing how certain institutional features of the Brazilian political system make it difficult to implement needed economic (as well as political and social) reforms (Bresser Perreira 1996; Fleischer 1998; Lamounier and Bacha 1994; Mainwaring 1999: chap. 10; Roett 1997; Selcher 1998; Stepan 2000). But this focus on the institutional obstacles to reforms in Brazil generally seems to ignore the extensive economic reforms that have occurred to date. As a result of this perspective, there has been little systematic examination of how such reforms have been possible.

This study does two things. First, it reviews the current literature on Brazilian politics, most of which uses an institutionalist perspective. This literature is, in general, highly pessimistic about the possibilities for deep reforms in Brazil because of the

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1 The “New Republic” refers to the political regime that has been in place in Brazil since the end of military rule. This term is employed almost exclusively within academic circles and is not used frequently by the Brazilian public. There is much disagreement about the extent to which the New Republic meets the criteria of a consolidated democracy (see Linz and Stepan 1996: chap. 11). Regardless of one’s position in this debate, however, all cite 1985 (the year in which the first civilian president assumed office) as the beginning of the New Republic.
obstacles emanating from the political system. Although the first decade of the New Republic was characterized by a litany of unsuccessful stabilization plans and piecemeal economic reforms, the latter half of the 1990s produced extensive changes. Most analyses see these advances as anomalies, instances in which Cardoso has been able to overcome political-institutional constraints to advance painful but necessary changes.

Second, this thesis will highlight the shortcomings of the institutionalist critique of Brazilian politics. I contend that Brazil is still plagued with numerous problematic institutional arrangements, yet recent developments force us to reassess their effect on economic reform. After reviewing the course of the reform agenda during the four presidencies of the New Republic, I will discuss what factors help explain how economic reforms have been implemented successfully in Brazil. Specifically, I analyze four factors: the timing of reform; the type of reform proposed (first- versus second-generation reforms); the role of ideas and ideology; and political and economic pressures.

The Brazilian Puzzle
At the beginning of the 1990s analysts considered Brazil a laggard in implementing structural economic reforms, going so far as to brandish it the “sick man of Latin America.” (Forbes 1993). For most of Latin America the 1980s had been a “lost decade” during which living standards fell precipitously and countries struggled to meet crushing debt obligations. At that time all countries in the region, with the sole exception of Colombia, defaulted on their debt and most were forced to seek assistance from the U.S. government or from international financial institutions (IFIs) led by the International Monetary Fund and the World Bank. In order to avert economic crises like that which
struck the region during the 1980s, economists, especially those from IFIs and the U.S. government, began to advocate structural, or “neoliberal,” reforms. According to John Williamson (1990) of the Institute for International Economics, one of the leading think-tanks advocating neoliberal reforms, countries in Latin America should pursue nine policies to stabilize and restructure their economies. These measures included: (1) fiscal discipline, (2) changing priorities for public spending, (3) tax reform, (4) financial liberalization, (5) competitive exchange rates, (6) trade liberalization, (7) promotion of foreign direct investment, (8) deregulation and (9) privatization of state-owned enterprises (SOEs).

The core of the “Washington Consensus” was the reduction of the role of the state in the economy. During the Great Depression many political leaders in Latin America, most notably in the larger republics such as Brazil, Argentina, and Mexico, began to advocate an activist role for the state in order to reduce their dependence on export earnings. Although policies varied greatly, the core of this activism lay in the policy of import-substitution industrialization (ISI). ISI entailed the state working to foster, through a variety of incentives, the development of industries for goods that traditionally had been imported. The creation of SOEs was an integral part of ISI in most countries, as the state came to assume control of the commanding heights of the economy. Over time, however, many of these enterprises became highly inefficient and instruments of political patronage. Many economists argued that misguided policies pursued during the era of state activism following the Second World War were in part responsible for the travails of the 1980s. While many countries in Latin America began to adopt neoliberal measures
during the late 1980s, Brazil had progressed little towards reforms in these various areas by the early 1990s.

When examining the reasons for Brazil’s delay in implementing reforms, increasing attention was given to political obstacles. First, in 1985 the armed forces, which had been in power since 1964, allowed for the transfer of power to a civilian (though not popularly elected) president, José Sarney. It was not until the election of Fernando Collor de Mello in 1990 that the chief executive was directly elected, the first direct presidential election in the country since 1960. Due to the transitional and delicate nature of politics at that time, some argued it was extremely difficult for a newly installed civilian regime to implement extensive economic reforms, which would likely entail a high degree of austerity for much of the population (Sola 1994). Second, many pointed to institutional aspects of the Brazilian political system that hampered the reform process: the new constitution of 1988 and its nationalist economic mandates, the federal system, the weakness of political parties and the party system, and the electoral system, among others (Lamounier and Bacha 1994).

Economic reform became all the more pressing as inflation continued to accelerate during the early 1990s. Inflation had surpassed four-digit figures by 1989 and worsened during the early 1990s (Rigolon and Giambagi 1999). Furthermore, since the country had the largest economy in Latin America and was a major trading partner with its neighbors, the state of the Brazilian economy affected events beyond its own borders. While President Collor did successfully undertake reforms in certain areas, notably with the liberalization of trade and the beginning of privatization of SOEs, it was not until Fernando Henrique Cardoso was elected president in 1994 that a coherent economic
reform platform was pursued. During Cardoso’s tenure Brazil has deepened its privatization program, record levels of foreign investment have entered the country, and inflation, which had exceeded an annual rate of one thousand percent during the early 1990s, has been under ten percent for several years. In sum, Cardoso’s achievements in the economic realm have been extensive. These reforms are all the more noteworthy in light of the political obstacles that the president had to overcome to achieve them.

Most analysts agree that Brazil’s difficulties with passing economic reforms during since the return to democracy in 1985 had their roots in the country’s political institutions. Yet, as Cardoso’s presidency attests, it has been possible to implement an array of reforms in Brazil in spite of the institutional barriers posed by the country’s fractious political system. In 1995 he secured several important amendments to the constitution that ended the state’s monopoly over certain sectors of the economy (mining, coastal shipping, gas distribution, and, in a different form, oil exploration) and also eliminated the distinction between domestic and foreign capital. This legislation allowed for the subsequent privatization of SOEs in these sectors and helped to attract record levels of foreign investment into Brazil.

The constitutional amendments of 1995 mentioned above, also known as the “Big Five,” will provide a case study for analyzing not how political obstacles confound reforms in Brazil, but rather how these obstacles can and have been overcome. In order to address this question, it will be necessary to examine the role of institutions in politics. The following section provides an overview of the “new institutionalism” literature in political science and how this school of thought pertains to economic reforms in Brazil.
Theoretical Framework

Since the 1980s political scientists have paid increasing attention to institutions and the ways they affect politics. According to Bo Rothstein (1996: 135-6),

Political scientists ask three different but interrelated questions about political institutions. One is normative: Which institutions are best suited for creating “good” government and societal relations. The other two are empirical: What explains the enormous variation in institutional arrangements? And what difference those differences make for political behavior, political power and the outcome of the political process?

In this study I will explain how the design of many Brazilian political institutions has impeded the passage of reform legislation. At the same time, I will also argue that the institutionalist literature does not adequately take into account the extensive reforms that have been implemented to date. Such successful reforms force us to reassess the common notion that Brazil’s fractious political system makes it extremely difficult to implement contentious measures.

Institutionalism is a common framework with which scholars have analyzed the political economy of economic reforms in Brazil because it is an “intermediate level” of analysis of political phenomena (Just 1999: 17-19). A macro-structural framework is inadequate in this instance because of the dependent variable being examined, namely, the implementation of specific economic reforms. A structural analysis would perhaps be useful if one were performing a cross-country analysis of economic reforms. Structural factors in particular countries could help to account for why economic reforms began at a certain time. In fact, such a comparison with Brazil and other Latin America countries could help elucidate the larger economic factors at play in this process.

Structural analyses still must account for the processes that shape outcomes. In this sense, the study of institutions is apposite, for institutions shape behavior and
structure preferences. An institutional analysis also resists the temptation to reduce outcomes to an individual level. Some scholars of Brazilian politics, such as Fleischer (1998), view the outcomes of the political process as contingent on the idiosyncrasies of key politicians and factors unique to certain times. While all political outcomes depend to some degree on idiosyncratic factors, in the end such methodological individualism does not yield any larger patterns of behavior. By allowing for an immediate level of analysis between macro-structures and individual particulars, institutionalism is the most common methodology for recent studies of economic reforms.

For Douglass North (1990:1), institutions, in their broadest sense, “are the rules of the game in a society or, more formally, the humanly devised constraints that shape human interaction. In consequence, they structure incentives in human exchange, whether political, social, or economic.” According to this definition an institution could include cultural customs, codified laws, formal organizations, or any of a plethora of other things. However, if the operational definition of an institution were kept so broad as to signify cultural norms and other informal patterns of behavior, it would be practically impossible to identify which institutions affect certain political outcomes. For our purposes here, then, it is important to specify what constitutes a political institution. According to Margaret Levi (1990: 405), institutions are the “formal arrangements for aggregating individuals and regulating their behavior through the use of explicit rules and decision processes enforced by an actor or set of actors formally recognized as possessing such power.” In this study, institutions will assume this narrower definition offered by Levi. Hence, in my discussion of the Brazilian political system I will discuss the constitution of 1988, the federal system, presidentialism, and the party and electoral
systems. These institutions structure political processes and frame politicians’ behavior, thus helping explain political outcomes. However, it is important to note that institutions alone cannot account for outcomes. In fact, one of the great weaknesses of the literature on Brazilian politics is that it often overemphasizes the explanatory power of institutions.

**Political Science and Institutionalism**

Modern political science arose during the late nineteenth and early twentieth centuries. At that time attention was given primarily to the formal structures of government, such as legislatures, constitutions, and the courts. In many ways, during its early days the discipline was more descriptive than analytic; many studies compared the political and legal systems of different countries. This “old” institutionalism, as it is known, saw political institutions as dependent, rather than independent, variables (Just 1999: 18). Following World War II scholars began to question the utility of the prevailing institutionalist paradigm. Rather than solely examining formal governmental structures, increasing attention began to be paid to the micro-foundations of politics, that is, individual behavior. This focus on political behavior subsequently became known as the “behavioral revolution.” Behavioralism eschewed the emphasis on the formal institutions and instead sought to understand individuals’ preferences, which behavioralists believed could be surmised by examining observable behavior.

In addition to behavioralism, other schools of thought within political science, notably Marxism and structural-functionalism, sought to discredit the old institutionalist approach. These two frameworks of analysis were not mutually exclusive, nor did either in and of itself represent a unified way of analyzing politics. Since its beginnings, Marxism has undergone substantial refinement and evolution, yet despite the conceptual
differences that separate the various strands of Marxism they all criticized the traditional focus on institutions as inappropriate. Since the state was the expression of the interests of economic elites, political institutions were simply the means by which these elites (the bourgeoisie) dominated the masses. Institutions did not have any explanatory power of their own, but were epiphenomenal. Structural-functionalism, on the other hand, held that “the systemic needs of the social system (for political stability or social stratification, for example) tended to produce political institutions that were more-or-less automatically functional in relation to those needs” (Rothstein 1996: 139).

Starting in the 1980s, political scientists began to reassess the import of political institutions. From Latin America to Eastern Europe to Asia, politics across the globe were in transition. Along with these rapid developments there also came a growing dissatisfaction with the explanatory power of behavioralism and Marxism and other structural theories. According to Rothstein (1996: 141), this renewed interest in institutions took place across diverse subfields of political science, as well as in other social sciences.² This renewed focus on political institutions is commonly referred to as the “new institutionalism.” Unlike the old institutionalism, the new variant holds that institutions themselves have explanatory power. One well-known collection of essays urged for “bringing the state back in” (Evans et al. 1985), urging scholars to move beyond seeing the state as the “black box” it had become during the height of behavioralism and Marxism. “The renewed focus on political institutions has to some degree turned upside down behavioral, group-theoretical or Marxist modes of explanation

²For example, Selznick (1996) and Bardhan (1989) describe how institutionalism influenced organizational analysis and economics, respectively.
stressing social and economic forces as explanations for political processes” (Rothstein 1996: 144).

Rather than a unified mode of thinking, new institutionalism in fact is a catch-all term for a variety of approaches. As Immergut (1998: 5) explains,

The new institutionalists do not propose one generally accepted definition of an institution, nor do they share a common research program or methodology. In fact, three separate branches of scholarship—rational choice, organization theory, and historical institutionalism—all lay claim to the label, seemingly without adhering to an overarching theoretical framework.

Rational choice theories take their theoretical underpinnings from microeconomics. While there are several variants of rational choice theory, most of them share the basic assumption that individuals “have fixed preferences…behave entirely instrumentally so as to maximize the attainment of these preferences, and do so in a highly strategic manner that presumes extensive calculation” (Hall and Taylor 1996: 944-5). According to rational choice theories of politics, actors’ preferences are shaped by the institutions within which they interact with others. Preferences are exogenous, shaped primarily by the incentives presented by certain institutional arrangements. Over time the institutions that come to predominate do so because they maximize the utility of the greatest number of actors involved. As discussed in Chapter 3, rational choice is often employed, either explicitly or implicitly, in explaining how political institutions in Brazil provide certain incentives for politicians to behave in ways that hinder the passage of reforms.

Rational choice has created enormous controversy within political science because of its extensive use of economic models in the analysis of political behavior, and many justifiable criticisms have been laid against it (Green and Shapiro 1996). One criticism is that rational choice perspectives are static, and hence do not help explain
dynamic situations. What is important to draw from rational choice institutionalism for this study, however, is that it can help to explain political behavior when the “rules of the game” have been fairly well established. This criterion has been present in Brazil during the period under examination, namely since the promulgation of the 1988 constitution, which established many of the important institutions under consideration (Mainwaring 1999).

A second institutionalist approach, organization theory, is also referred to as sociological institutionalism. Instead of viewing individuals as calculating utility maximizers, sociological institutionalism argues that institutions must be examined within their particular cultural context. Institutions are more than means towards maximizing one’s utility; they are primarily an expression of cultural and societal norms. Because of this outlook, sociological institutionalism “seeks explanations for why organizations take on specific sets of institutional forms, procedures or symbols” (Hall and Taylor 1996: 947). In contrast to rational choice theories, sociological institutionalism holds that actors’ preferences are not the result of the incentives created by institutions. While this approach is more sociological than political, and is concerned primarily with how institutions form and change over time, it can help explicate important differences in Brazilian institutions vis-à-vis other countries, thus lending insights into why Brazilian politics is so seemingly fractious.

The third and final approach is historical institutionalism. Adherents of this perspective “emphasize the role of institutional choices made early in the development of policy areas, or even of political systems. The argument is that these initial choices (structural as well as normative) will have a pervasive effect on subsequent policy
choices” (Peters 1996: 210). Initial institutional choices are important, argue historical institutionalists, for even if attempts are later made to alter the institutional structure, it will be difficult if not impossible to change it; this phenomenon is referred to as path dependency. Historical institutionalism has enormous explanatory power when examining contemporary Brazilian political history, especially in this case study. The transition from military to civilian rule during the 1970s and 1980s profoundly influenced the existing political order, from the constitution to the party system to the economic order. As will be explained in the following chapters, many of the legacies of this transition have been deleterious for the Brazilian economy (and society) and have proven highly difficult to change. In this study I will not employ one single institutionalist perspective, but instead will implicitly draw upon all three branches to help to explain the ways in which institutions do—and do not—influence outcomes.

**Institutions and the Study of Latin American Politics**

Regional studies, which generally fall under the rubric of comparative politics, often follow the larger trends within political science yet modify them to the particular characteristics of the political systems being examined. The study of politics in Latin America certainly conforms to this pattern. Just as in the United States, early political studies of countries in the region focused principally upon formal government structures (Ames 1999). Over time, however, it became clear that much more than formal institutions were at play in the politics of the region. As a result, less attention was devoted towards institutions, as scholars began to utilize other methods of analysis. While in the United States behavioralism shifted attention away from institutions starting in the 1950s, in Latin America a growing critical perspective turned attention away from
institutions towards issues such as domestic class struggles and global economic inequalities.

The intensification of the Cold War and the Cuban Revolution had a profound impact on the intellectual mood of Latin America. Marxism, which has deep intellectual roots in the region, provided an appealing and effective framework with which to analyze both domestic and international politics. Variants of Marxism, such as world-system and dependency theories, also gained popularity starting in the 1960s. This was a time of great social and political upheaval in Latin America. While leftist parties and revolutionary movements made inroads during the 1950s and early 1960s, by the early 1970s most countries in the region had succumbed to some form of authoritarian rule. Countries in most of Central America and the Caribbean had a tortuous political history, with authoritarian rule being almost a constant throughout their history. In contrast, the countries of the Southern Cone of South America were traditionally more democratic and economically developed. As Brazil and then Chile, Argentina, and Uruguay all fell to military rule, scholars began to examine the causes for the breakdown of democracy.

Some scholars attempted to explain this wave of authoritarianism by exploring the structural economic relationship between the region and the developed world. To many the events of this period served as proof of the effects of capitalist expansion into the developing world. Guillermo O’Donnell (1973; 1978) saw a connection between “bureaucratic-authoritarian” regimes in the Southern Cone and these countries’ level of “dependent capitalist” development. O’Donnell believed there to be a structural relationship between these countries’ position in the international economy and their authoritarian political systems; there was a “mutual indispensability” between the
exigencies of international capital and the bureaucratic-authoritarian state. Peter Evans (1979), in another seminal work of the period, spoke about the alliance of national, state, and multinational capital in Brazil. According to Evans this “triple alliance,” in which multinational and state capital predominated over Brazilian private domestic capital, helped to explain the country’s recent authoritarian political history.

Works such as those by O’Donnell and Evans, which looked for structural variables in the rise of Latin American authoritarianism, were more common than micro-behavioral analyses. Most political scientists studying Latin American politics saw the state as a dependent variable; Marxists saw it as the reflection of class relations, while dependistas saw it as a reflection of a country’s position in the global economy. Alfred Stepan, in The State and Society: Peru in Comparative Perspective (1978a), viewed the Peruvian state as an independent variable, arguing that the state was itself an autonomous actor rather than the mere aggregation of the dominant class’s interests. This study helped spark a debate about the state and its autonomy vis-à-vis social forces like the military and business.

Many scholars criticized structural studies as methodologically weak, for they failed to establish empirical links between dependent development (another problematic concept) and political authoritarianism. With the democratization of most of the region during the 1980s, structural analyses came under further attack. Besides the methodological weaknesses inherent in dependency theory and Marxism, these theories were of little value in analyzing the substantive functions of government. In essence, these schools of thought had little to say about institution and institutional design. What could Marxism say about how to organize democratic political parties? An analysis of
the world system could reveal structural economic inequalities, yet it would be unable to elucidate debates over the relative merits of presidentialism and parliamentarism, electoral system design, and other such substantive issues.

According to Barry Ames (1999: 221), “Institutions are in. Not that Latin Americanists ever ignored them completely, but in the old days of military authoritarianism, power and international influences seemed more important than governmental structures.” With the transition to, and in most cases consolidation of, democratic rule, a sizable number of publications focusing on Latin American political institutions appeared during the past decade. Economic stabilization and restructuring was a theme present in much literature, and many scholars, such as those in the edited collection by Haggard and Kaufman (1992), stressed the role of institutions (both domestic and international) in influencing the various paths to stabilization followed by Latin American countries.

Yet Latin America was not the only region undergoing the dual processes of economic restructuring and political liberalization. During the 1980s Eastern Europe was also tackling many of the same issues as Latin America. This led many scholars to undertake comparative studies between the two regions, often focusing on the relationship between political and economic reforms. Przeworski (1991), in one of the most cogent of these comparative studies, uses a game theoretic perspective to explain potential courses for economic and political reforms in Latin America and Eastern Europe, dedicating much attention to institutional factors in these transitions towards market democracies. Another comparative study, edited by Lijphart and Waisman (1996), examined the role of institutional design in new democracies, examining
specifically electoral systems, executive-legislative relations, and the type of economic market pursued following democratization.

One of the most widely debated areas of institutional design has centered on presidential systems. Juan Linz (1990) spearheaded an extensive debate on the merits of the presidential system. Linz contends that presidential systems of government are less attractive than parliamentary systems for various reasons. Since a president is elected separate from the legislature, it is common for a chief executive not to command control of the legislative body. When the executive and legislative bodies are highly polarized, this can lead to a crisis of “dual democratic legitimacy” since both bodies were democratically elected and therefore can claim a mandate from the public. Furthermore, because presidents are elected for fixed terms, this creates rigidity during times of great dissatisfaction with executive leadership. Whereas in parliamentary systems executives can be removed with a simple vote of no confidence, it is generally much harder to remove a sitting president. Linz and Arturo Valenzuela (1994) explored the “failures of presidential democracy” in Latin America and inspired other studies of presidentialism in Latin America, such as the edited volume by Mainwaring and Shugart (1997). Their survey of presidentialism across the region shows how it has been less problematic in some countries than in others. As will be explicated in greater detail in Chapter 3, presidentialism in Brazil is complicated by the country’s federal system and by the weakness and multiplicity of parties.

In line with this general trend in the study of Latin American politics, there has been abundant research on Brazilian political institutions. Being the largest country in the region in both economic and demographic terms, Brazil always warranted the
attention of scholars. The transition towards democracy in the country heightened the concerns about institutional design and how it could possibly affect the future course of democracy in Brazil (Lamounier 1989). The deepening of the country’s economic troubles was another impetus for research (Kaufman 1990). While most major countries in Latin America had successfully stabilized their economies by the beginning of the 1990s, Brazil was still suffering from hyperinflation. The persistent problem led scholars to focus attention on how institutions complicated the process of economic reform (Sola 1994; Bresser Perreira 1996).

How did institutions affect economic stabilization and reform in Brazil? Before answering that question, it will first be necessary to explain the processes and institutions at work in Brazilian politics. This will require a brief discussion of the transition to democratic rule during the 1980s, which resulted in the presidency of José Sarney in 1985 and the creation of a new constitution in 1988.3 This new document both established new institutions and complicated existing institutional arrangements (such as the skewed system of representation in the lower house of Congress), a fact that has confounded recent efforts at economic reforms. For example, the federal system mandated by the constitution forced the federal government to give a larger share of tax revenues to local levels of government, most notably the states, without transferring a commensurate number of fiscal responsibilities. As a result, the federal government has been forced to continue to provide the same level of services without the necessary fiscal

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resources. These transfers to the states and municípios (which are similar to counties in the United States) have been a windfall, helping to grease the local political machines that are the heart of Brazilian politics. Not only is the fiscal situation of the central government damaged, but so too is its very authority vis-à-vis the states and municípios. Furthermore, as the world economy has become increasingly globalized, this tense fiscal relationship between Brasília and the states has been a persistent concern of international investors, who fear the consequences of recurring, unchecked fiscal deficits on the part of local governments.

Beyond the Brazilian system of federalism, the party and electoral systems have created “institutional rules of the game [that] have given politicians incentives to cultivate a personalistic relationship with the electorate, to focus on local constituencies, and to pay attention to state and local politics” (Mainwaring 1999: 10). These incentives weaken the coherence and discipline of parties, making legislative efforts cumbersome and highly costly in terms of time and pork. Chapter 3 will offer a thorough discussion of the Brazilian political system, problems with the design of key institutions, and their effects on reform efforts.

As stated above, in this study I will not rely upon one exclusive method of institutional analysis. Instead, throughout I will draw upon all three approaches. My conclusion is that in Brazil it has been possible, despite political-institutional obstacles, to implement significant economic reforms. While many reforms have floundered during the past few years, one must take account of successful reforms. This, I conclude, calls for a reappraisal of institutionalist perspectives of Brazilian politics.
**Structure of the Study**

Following the theoretical framework of analysis laid forth here, Chapter 2 provides an overview of the economic development of Brazil and the role of the state in the economy. With its history of Portuguese monarchical control, the colony of Brazil developed a heritage that had a profound impact on economic development. Most noticeable were the reliance on a few primary product exports and the consequences of such dependence on growth. One of the poorest countries in Latin America at the beginning of the twentieth century, Brazil experienced some of the highest growth rates in the world from 1900 until the debt crisis of the 1980s (Rigolon and Giambiagi 1999). During this period of rapid development, the state came to play a central role in the economy. One of the clearest manifestations of the state’s active role in development came by means of state-owned enterprises, which proliferated following World War II. In short, to understand modern Brazilian economic history, one must understand the vital role the state played in development—and how and why that role has changed over time.

As this is a study of political institutions and their effects on the reform process, it is necessary to examine Brazilian political institutions and processes in some depth. This will be the focus of Chapter 3. Many aspects of the country’s political system have proven extremely deleterious to the country’s fiscal situation and continue to hamper efforts at reform of the state. According to one common interpretation, the Brazilian state in the post-authoritarian period has been not been a powerful Leviathan, but rather a growing source of patronage, favors, and rents for those with the access to such resources (Roett 1997). The constitution of 1988 codified a federal system that forced Brasília to earmark revenues to states and local governments without a commensurate increase in their responsibilities in areas of public spending. This has entailed a fiscal windfall for
state and local politicians, but has created enormous strain on the fiscal health of the federal government. Beyond the fiscal problem emanating from the political system, there is a myriad of features in the party system, the country’s particular form of presidentialism, and electoral system that create hurdles for reforms.

In Chapter 4 I will analyze how, in spite of Brazil’s problematic institutional arrangements, economic reforms have been successfully implemented. I will begin with a discussion of the various reform measures put forward by the four presidents of the New Republic. Particular attention will be given to current President Fernando Henrique Cardoso, who has been the most vigorous reformer to date. I will also explore one of the most important sets of measures passed by Cardoso at the beginning of his time in office, known as the Big Five. I will conclude the chapter by discussing what factors help account for economic reforms in Brazil. Specifically, I look at four factors: the timing of reform; the type of reform proposed (first- versus second-generation reforms); the role of ideas and ideology; and political and economic pressures. Collectively, these four factors help to explain the success of economic reforms in Brazil. Finally, in the conclusion I reiterate the main findings of this study and offer suggestions for future research.
CHAPTER 2
THE ROLE OF THE STATE IN THE BRAZILIAN ECONOMY

This chapter will explore the history of state involvement in the Brazilian economy. Since the discovery of Brazil by the Portuguese in 1500 the state (or the crown) has always played some role in the economy. Until the early twentieth century that role was largely confined to supporting or promoting in some fashion primary products for sale on the international market. During the early twentieth century Brazil began to industrialize, and following the Second World War the state played a primary role in this process. This chapter is arranged chronologically, tracing the changing relationship between the state and the economy from colonial days until the demise of the state-led model in the late twentieth century. (Table 2.1 provides a list of the key political and economic events in Brazilian history since the early nineteenth century.) An understanding of Brazilian economic history is necessary in order to comprehend the enormous economic changes that have occurred during the past decade. It will also help one understand why economic reforms are such a politically charged issue.

When examining the economic history of Brazil during the past century, three salient themes emerge. The first is rapid growth. Brazil was one of the fastest growing countries during the twentieth century, with only Japan and Finland growing more rapidly between 1900 and 1970 (Rigolon and Giambiagi 1999: 6). Although the 1990s was a period of stabilization and resumed growth in Brazil, overall economic growth
Table 2.1 Key Political and Economic Events in Brazilian History

<table>
<thead>
<tr>
<th>Period</th>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colony</td>
<td>1808</td>
<td>Portuguese court moves to Rio de Janeiro, which becomes seat of Empire</td>
</tr>
<tr>
<td></td>
<td>1820</td>
<td>Royal court returns to Portugal</td>
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<tr>
<td>Empire</td>
<td>1822</td>
<td>Pedro I declares Brazilian independence</td>
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<tr>
<td></td>
<td>1888</td>
<td>Abolition of slavery</td>
</tr>
<tr>
<td>First Republic</td>
<td>1889</td>
<td>Overthrow of monarchy, establishment of republic</td>
</tr>
<tr>
<td>Second Republic</td>
<td>1930</td>
<td>Revolution of the <em>tenentes</em> brings Vargas to power</td>
</tr>
<tr>
<td></td>
<td>1937</td>
<td>Vargas establishes the <em>Estado Novo</em></td>
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<tr>
<td></td>
<td>1941</td>
<td>Creation of the Companhia Siderúrgica Nacional (Volta Redonda)</td>
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<td></td>
<td>1942</td>
<td>Creation of the Companhia Vale do Rio Doce (CVRD)</td>
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<tr>
<td></td>
<td>1945</td>
<td>Vargas, under pressure from armed forces, steps down</td>
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<tr>
<td></td>
<td>1950</td>
<td>Vargas elected president</td>
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<tr>
<td></td>
<td>1952</td>
<td>Creation of the Banco Nacional de Desenvolvimento Econômico (BNDE)</td>
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<td></td>
<td>1953</td>
<td>Creation of Petrobrás</td>
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<tr>
<td></td>
<td>1954</td>
<td>Vargas commits suicide while still in office</td>
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<tr>
<td></td>
<td>1955</td>
<td>Election of Kubitschek, <em>Plano de Metas</em></td>
</tr>
<tr>
<td></td>
<td>1960</td>
<td>Quadros elected</td>
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<tr>
<td></td>
<td></td>
<td>Construction of Brasilia completed</td>
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<tr>
<td>Military Regime</td>
<td>1961</td>
<td>Quadros resigns; Goulart assumes presidency</td>
</tr>
<tr>
<td></td>
<td>1964</td>
<td>Military coup against Goulart</td>
</tr>
<tr>
<td></td>
<td>1968</td>
<td>Institutional Act 5 signals start of repressive period</td>
</tr>
<tr>
<td></td>
<td>1974</td>
<td>Start of political liberalization (<em>distensão</em>)</td>
</tr>
<tr>
<td></td>
<td>1975</td>
<td>Second National Development Plan introduced, which intensifies ISI process</td>
</tr>
<tr>
<td></td>
<td>1979</td>
<td>Second oil shock</td>
</tr>
<tr>
<td></td>
<td>1982</td>
<td>Direct election of governors</td>
</tr>
<tr>
<td>New Republic</td>
<td>1985</td>
<td>Military leaves power, Sarney assumes presidency</td>
</tr>
<tr>
<td></td>
<td>1988</td>
<td>New constitution adopted</td>
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<tr>
<td></td>
<td>1989</td>
<td>Collor elected in first direct presidential election since 1960</td>
</tr>
<tr>
<td></td>
<td>1990</td>
<td>National privatization program initiated by Collor</td>
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<tr>
<td></td>
<td>1992</td>
<td>Collor impeached</td>
</tr>
<tr>
<td></td>
<td>1994</td>
<td>Real Plan; Cardoso elected president</td>
</tr>
<tr>
<td></td>
<td>1998</td>
<td>Cardoso re-elected</td>
</tr>
<tr>
<td></td>
<td>1999</td>
<td>Devaluation of the <em>real</em></td>
</tr>
</tbody>
</table>
during the past two decades was low by historical standards. Second, with economic growth came a concomitant demographic shift, as Brazil was transformed from a largely rural country into a highly urbanized one during the span of about two generations.\(^1\) A third theme is the importance of the state in the process of economic development. Since colonial days the state was a central actor in economic activity. Its role, however, changed dramatically over the course of the twentieth century, notably during the rule of Getúlio Vargas (1930-45 and 1950-54), as the state began actively to promote industrialization. The economic role of the state assumed various forms, including that of regulator, financier, and producer (Baer et al, 1976).

During both democratic and authoritarian periods in Brazil, *desenvolvimentismo*, or “developmentalism,” was an important ideological force, one which called for the state to champion industrialization and foster the growth of the economy (Lima 1999). SOEs played a key role in this developmentalist strategy, as the state became involved in sectors such as steel production, oil exploration and refining, mining, and electricity production and distribution. However, due to the energy crises of the 1970s and increased indebtedness during that period, the state found itself increasingly incapable of making the investments necessary to sustain growth. This downturn in the fiscal position of the state, coupled with changes in the international political economy—the rise of neoclassical economics and its embodiment in Reaganism and Thatcherism, the decline in financing from IFIs, the collapse of the Soviet bloc, the consequent discrediting of socialism as a guiding force of development—set the stage for a reassessment of the relationship between the state and the economy. This reexamination was particularly
marked in Latin America, where most states had played an active role in development since the Second World War.

Although this neoliberal trend reached Brazil later than most countries in the region, in Brazil its effects have been among the most pronounced. As Luiz Carlos Bresser Perreira (1996) explains, the country was facing a “crisis of the state” and therefore required an extensive reshaping of both the political and economic spheres of life. The result has been a dramatic restructuring of the economy as well as a drive to reform the political system. Privatization of state-owned enterprises embodies both of these phenomena perhaps more so than any other reform. Alluding to Mexico, Judith Teichman believes that “privatization programs have been the most important way in which the state’s role has been reduced and redefined” (1995: 3). The same could said of Brazil.

**Early History: Economic Cycles and External Vulnerability**

At the beginning of the twentieth century Brazil was one of the poorest countries in Latin America, itself one of the poorest regions in the world. Since its initial colonization by the Portuguese crown during the sixteenth century, Brazil relied on the export of a few primary products for its economic growth. The colony’s original name, *Terra da Vera Cruz*, or Land of the True Cross, reflected the religious sentiments that played a role in the expansion of the Portuguese empire. However, even more important than religious zeal was the quest for wealth. The Portuguese established a series of *feitorias*, or trading outposts, on coastal areas from Africa to Indonesia. Brazil, in

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1 According to Baer (1995: 3), the population living in urban areas was 30 percent in 1940, 56 percent in 1970, and 76 percent in 1991.
contrast to the crown’s other possessions, did not possess any known mineral wealth nor did it have a large domestic population with which trade could take place. Because of this lack of natural resources, Brazil initially received scant attention from Lisbon. In fact, Portuguese control of this vast territory initially was extremely precarious. During most of the sixteenth century the Portuguese intermittently fought with the French for control of key ports in the colony.

While the original name of the colony had a religious origin, it is telling that the name that has endured to this day came from the colony’s first major commodity export, *pau brasil*, or brazilwood. Economics, not religion, would be the driving force in the formation of the colony. Brazilwood became an important ingredient in clothes dye at that time and grew in abundance in the lush Atlantic rain forest around Rio de Janeiro. The exploitation of brazilwood contributed to the destruction of the Atlantic rain forest and also marked the first commodity cycle in Brazilian history (Dean 1995).

According to historian E. Bradford Burns, “From the beginning, extreme economic fluctuation has been a major characteristic of the Brazilian economy and a powerful influence on the course of Brazilian history” (1993: 63). This fluctuation was directly related to the commodity export cycles that punctuated the entirety of Brazilian colonial history and lasted until the beginning of industrialization. While the extraction of brazilwood provided the impetus for initial exploration of the new colony, it was not until the advent of sugar cultivation along the southeastern, and especially the northeastern, coasts that modern-day Brazil began to be heavily colonized. The fertile

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2 In this sense, one sees early roots to two of Brazil’s recurring problems: a reliance on a small number of primary product exports and a pattern of massive environmental degradation.
lands of the littoral proved to be ideal for the cultivation of cane sugar. As demand for the sweetener grew in Europe, the Brazilian sugar sector expanded exponentially. With time competitors emerged to challenge Brazilian predominance of sugar production. As plantations became operational throughout the Caribbean, Brazil’s market share slipped, setting the stage for an economic decline. While its is beyond the scope of this study to trace the vagaries of all of Brazil’s economic cycles, it is worth noting that what happened with sugar would recur with future commodities—gold, cacao, cotton, and especially coffee. The structural position of Brazil in the world economy and the tumult it created was to have a profound effect on developments during the twentieth century.

In 1822 Brazil achieved its independence from Portugal. Unlike its Spanish-speaking neighbors, Brazil was able to wrest control from its former rulers without bloodshed. Furthermore, independence was achieved without territorial disintegration, a far cry from developments in Spanish America. Another difference separating Brazil from its neighbors was its monarchical form of government, as the country was ruled by the house of Bragança (Pedro I and Pedro II) until the latter part of the nineteenth century. During the imperial era, coffee came to dominate the economy and coffee interests became increasingly influential in the nation’s politics. Slavery, which had long been an integral facet of the coffee economy, was abolished in 1888, which in part led to the deposal of Pedro II in 1889. Following his deposal, the centralized monarchical system was replaced with a highly decentralized republican system. The advent of the republic also marked an important point in Brazilian economic history, as the country became increasingly integrated into the world economy through the growth of the coffee trade.
In the economic realm, the republican regime created following the overthrow of the monarchy was most concerned with those areas related to export agriculture, especially coffee. According to Steven Topik, during the early republican era the state began to play an active role in the economy, namely through its involvement in railroads and the creation of financial institutions. “Through [its] haphazard, almost involuntary, procedure,” claims Topik (1979: 326), “the First Republic’s State set the precedents that have greatly affected the nature of current interventions.” While the Brazilian state did become more involved in the economy during the end of the nineteenth and the beginning of the twentieth centuries, Topik overstates its role. The First Republic was a classical, liberal regime, in which the state rarely became actively involved in the economy. When it did, it pursued activities, namely those related to public goods, which the market failed to provide adequately. To say that the steps undertaken during the First Republic “greatly affected the nature of current interventions” is to take the argument too far. It was not until the rule of Getúlio Vargas that such a claim could be substantiated.

**Vargas and the Origins of State Capitalism**

The growth of state involvement in the Brazilian economy became pronounced during the era of Vargas, president from 1930 to 1945 and again during the early 1950s. The government Vargas overthrew was based on an alliance between agrarian interests in São Paulo and Minas Gerais (*café com leite*) and had intervened frequently to support the price of coffee, Brazil’s leading export during that period, on the international market. The political system established in 1889 had changed little, even as Brazil itself was

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3 The republic established in 1889 is commonly referred to as the Old Republic and First Republic. The Vargas era, which began with the “Revolution of 1930,” ushered in the so-called Second Republic.
changing rapidly. With the support of the military and disgruntled political elites in Rio
Grande do Sul, Minas Gerais, and the Northeast, Vargas was able to lead a nearly
bloodless coup.

The time of Vargas’s rule was one of tremendous political and social change in
Brazil. As a result of the Great Depression the country was suffering from a decline in
world demand for its primary commodities, most notably coffee. At the same time that
the economy was adjusting to the new international environment, social forces were
changing the nature of Brazilian politics. During the 1920s and 1930s nationalism,
especially in the economic sense, was on the rise. So too were labor movements, which
to varying degrees were based on anarcho-sindicalism, Marxist, and fascism. These
various social forces helped shape the Vargas regime. On the other hand, Vargas worked
to contain these emerging social forces so as to lessen their risk to the political status quo.
In 1937 he created the *Estado Novo*, an authoritarian, fascist-inspired corporatist state.
During the *Estado Novo* the state began to play a growing role in economic development,
as some of the first SOEs were created. Under this regime

Economic, political, and ideological disorganization gradually placed economic
policy and planning in the hands of the government, strengthening its
interventionism, without threatening the power of the dominant groups. Thus it
presented a conservative pattern of modernization which was to characterize the
country’s future development. (Becker and Egler 1992: 47)

This pattern of “conservative modernization” lent a unique face to economic
development in Brazil, for it preserved traditional power structures at the same time that
the state was spearheading economic development.

One of the effects of the Great Depression was that it revealed the precariousness
of countries that relied on external markets for their economic wellbeing. This situation
forced leaders across Latin America to reexamine their position in the world economy. Most countries in the region had suffered from a deterioration in their terms of trade with the developed countries of North America and Western Europe, as the prices of Latin American primary products stagnated or declined relative to the prices of manufactured goods from the developed world. Raúl Prebisch of Argentina, one of the early leaders of the United Nations Economic Commission for Latin America (CEPAL), was the most prominent economist to investigate and criticize this phenomenon. Assailing the theory of comparative advantage—the sacred tenet of classical economics—Prebisch posited a theory of “unequal exchange.” According to Prebisch’s theory, the developed economies benefited from international trade over time, while growth in the countries of the periphery stagnated. Moreover, he claimed that this stagnation was linked to poorer countries’ structural relationship to the industrial countries (Love 1995). Since all Latin American countries were still primarily agrarian at the time of the Depression, Prebisch and his followers believed that it was necessary for the countries of the region to industrialize in order to combat the erosion in their terms of trade and, by extension, make themselves less vulnerable to external shocks.

In order to achieve this industrialization, Latin American leaders decided to raise protectionist barriers in their economies, thus limiting the level of foreign goods and capital that could enter. Countries began to produce domestically some goods that they previously had imported from abroad, usually light consumer goods. This policy, which became the dominant development model in Latin America following the Great Depression, was known as import-substitution industrialization (ISI). While this was not a monolithic policy, there was a great deal of convergence in the policies undertaken
across the larger Latin American republics. The level of state investment of the economy grew rapidly, as development banks appeared in many countries with the goal of providing capital for targeted sectors of the economy.\(^4\) Protective measures, such as tariff and non-tariff barriers to trade, were enacted in order to protect nascent industries from foreign competition. Another key aspect of ISI was the creation of SOEs.

Dominant economic thinking today assumes that the state plays a negative role in the economy. By undertaking relatively inefficient activities, the state is believed to “crowd out” more efficient private activity. However, during the era of state-led growth in Brazil the state was viewed as a positive force in the economy. During the Vargas era, when state economic planning began, it was the state elites who championed a growing role for the state in the economy (Skidmore 1967: 46). Rather than “crowding out” private economic activity, state planners believed that the state played a “crowding in” role by providing cheap credit (often with negative real interest rates) and cheap inputs. Moreover, “in those days the growth objective outweighed efficiency concerns” (Baer 1996: 366).

Baer (1994: 509) identifies three factors that influenced the growth of SOEs in Latin America: “(1) the existence of externalities related to…industrialization objectives; (2) externalities related to equity considerations; and (3) nationalism.” One of the largest obstacles to the advancement of ISI was the unwillingness of local private capital to participate in key long-term investments, such as public utilities and communications infrastructure, at levels the state desired. Investment in these sectors was essential if

\(^4\) In Brazil some of the most important development banks included the Banco Nacional de Desenvolvimento Econômico (BNDE), created in 1952, and the Banco do Nordeste, created in 1954.
economies were going to be able to industrialize rapidly. The risk involved in many of these activities forced private companies to provide services to limited, mainly urban, areas, which in turn stunted the development of rural areas. Likewise, these sectors had traditionally been controlled by foreign interests, which helped to fuel populist and nationalist sentiments in favor of state involvement. To remedy these externalities the state took control of activities such as public utilities, nationalizing most of these from the private sector.\(^5\) Suffering from a lack of private domestic capital, many Latin American governments also increased their involvement in financing particular sectors of the economy. Having this kind of control allowed governments to take “equity considerations” into account by devoting resources to areas of the economy which had been largely neglected in the past, be they in depressed regions (such as the Brazilian Northeast) or in particular industries (such as steel production).

While the 1930s were a period of increased government involvement in economic affairs, it was during the 1940s that the first of Brazil’s major SOEs appeared. For decades there had been discussion about how best to develop a steel industry in Brazil. With the rise of Vargas and the consequent increased influence of the armed forces within the highest circles of the government, the steel question assumed a new urgency. To the military the development of the steel industry was more than an issue of economic development; it was also a question of national security. In 1941, in exchange for a security agreement from Brazil to aid the U.S. against Nazi Germany, the U.S. government agreed to provide funding for the creation of the Companhia Siderúrgica

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\(^5\) For example, 64 percent of utilities in Brazil were controlled by the private sector in 1962. That figure dropped to 20 percent in 1977, and by 1982 the state controlled all public utilities (Baer 1995: 258).
Nacional (CSN). Located on an old coffee plantation at Volta Redonda in the state of Rio de Janeiro, the CSN was one of the earliest and most powerful symbols of the state’s championing role if development (Wirth 1970). The company was also one of the largest SOEs in Brazil for decades to come.

Closely linked to the steel industry was the mining sector. In 1942 the Companhia Vale do Rio Doce (CVRD) was created, largely in response to the demand for iron ore for the nascent steel industry. In time it became the country’s “largest mineral exporting firm,” and has been one of the most powerful of the state’s public enterprises (Baer 1995: 247). By 1985 it had become the seventh largest firm in the country and had acquired or created a number of subsidiaries outside the mining sector, including sectors such as consulting, shipping, pulp and forestry, marketing, and fertilizers (Raw 1987). The CVRD was a “state conglomerate” whose development demonstrated that state firms could be highly profitable and could compete according to market forces despite its public ownership structure. In fact, it became the largest mining firm in all Latin America. (It is ironic that it was during the military regime of 1964-85, which seemed at least superficially committed to the market, that CVRD became increasingly politicized. As a result, by the late 1970s the company had become highly indebted and uncompetitive, like most other state enterprises at that time.)

During the 1950s more economic activities came under the purview of the state. In 1952 one of the most important state institutions was created, the Banco Nacional de Desenvolvimento Econômico (BNDE). The BNDE was created to serve as the country’s principal development bank for infrastructure, but over time this task expanded
to include a variety of financing responsibilities. Over time the BNDE became the
primary shareholder in many SOEs (and some originally private enterprises); in exchange
for providing a firm with financing, the development bank was given a percentage of
ownership of the firm. If some firms encountered financial difficulties, the bank would
provide assistance in exchange for greater control.

During the early 1950s there were growing public pressure in favor of creating a
state oil company. The motto in favor of the creation of a state oil company—“O petróleo
é nosso,” or “The oil is ours”—underscored the growing sense of economic nationalism
in Brazil during that period. In 1953 Congress mandated the creation of Petrobrás, which
was given monopoly powers in the most aspects of oil exploration and refining.
marked increase in the authority and capacity of the national government. Brazilian
policy makers developed a future orientation and a confidence in national purpose that in
the broadest sense can be called developmental nationalism.” In many ways the creation
of Petrobrás marked the height of economic nationalism in Brazil, but also the beginning
of a decline in Vargas’s influence in national political life. Threatened by the military,
who were about to depose him, Vargas committed suicide in 1954 while still in office.

The 1950s were also a time of increased price controls in Brazil, as the
government attempted to control inflation. These controls gave private firms little
incentive to participate in sectors such as utilities, and as a result the state became in
involved in these sectors by default. Starting at this time the government began to create

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6 The BNDE was renamed the BNDES, or Banco de Desenvolvimento Econômico e
Social, during the 1980s.
SOEs in utilities and communications. The state electric conglomerate Eletrobrás was established in the early 1960s, as was the state telephone company Embratel.

During the late 1950s, Brazil underwent a period of rapid growth and industrialization. Under the direction of President Juscelino Kubitschek, the country experienced what Thomas Skidmore (1967) has called “years of confidence.” Kubitschek’s *Plano de Metas*, or Targets Plan, laid out development goals for the country that, the president argued, would spur “fifty years of development in five.” The new national capital, Brasília, was being constructed and enormous investments were undertaken by the state in a variety of industries. It also marked the beginning of the country’s automobile industry, today one of the largest in the world. While Brazil grew rapidly during the Kubitschek era, the eventual result of this prodigious growth was a worsening of the country’s balance of payments and an acceleration of inflation. By the early 1960s, the economy was slowing, inflation was worsening, and society was becoming ever more polarized.

**The Military Regime: From Boom to Bust**

In 1964 a military coup overthrew the government of President João Goulart, whose actions had incensed the military and alarmed the middle class (Stepan 1978b). The new military regime continued the past policies of state-led developmentalism, yet under far different political conditions. In the past there was a pattern of state coordination of private domestic capital, public domestic capital, and foreign capital. This pattern was solidified into a “triple alliance” under the military regime, which promoted the expansion of multinational and state capital, often to the detriment of private domestic capitalists (Evans 1979). At the same time the government assisted in
the suppression of wages and the weakening of organized labor. As a result of the military’s deliberate development plans the economy began to grow at impressive rates. This led to the so-called “Brazilian miracle” of the late 1960s and early 1970s. Between 1967 and 1973 the country averaged annual growth rates of 12.9 percent. This growth was driven largely by a promotion of exports, which increased from $1.9 billion in 1968 to $6.2 billion in 1973 (Roett 1992: 164). Furthermore, this period of rapid growth was also marked by an expansion SOEs and overall state involvement in economic activity through a variety of mechanisms:

Government expenditures . . . as a proportion of GDP grew from 17.1 percent in 1947 to 22.5 percent in 1973. State enterprises dominated in steel, mining, and petrochemicals. They controlled over 80 percent of power-generating capacity and most public utilities. It has been estimated that in 1974, for the 100 largest firms (in value of assets), 74 percent of the combined assets belonged to state enterprises, whereas for the 5,113 largest firms, 37 percent of assets belonged to state enterprises. (Baer 1995: 79-80)

The impressive growth of the Brazilian economy during the “miracle” of the late 1960s and early 1970s, then, owed much to the actions of the state.

However, this growth came at the cost increased foreign indebtedness. Rapid industrialization required large amounts of physical and financial capital from abroad. By 1973 Brazil was suffering from a balance-of-payments crisis due to the huge inflow of imports, usually capital goods, that sustained industrial growth. Growth continued throughout the 1970s, but at slower rates and by means of greater foreign indebtedness, especially through commercial (not public) loans. By the beginning of the 1980s growth rates had dipped below zero, inflation accelerated (due in great degree to increases in energy costs) and Brazil slipped into recession with the rest of the world. As happened throughout the entire developing world, the energy crises of the 1970s put Brazil’s statist
developmental plans under great stress. During this time the state pursued a course of heavy industry ISI (such as steel production). Moreover, in response to the country’s dependence on foreign sources of energy, several large-scale public-utilities projects were initiated, including the construction of the world’s largest hydroelectric dam at Itaipú. The result of such initiatives was increased foreign indebtedness. It also contributed to the increasing stagnation of the economy. In great contrast to other bureaucratic-authoritarian regimes in South America, the military government of Brazil greatly expanded the reach of the state in the country’s economy. In 1974, 39 percent of net assets and 16 percent of sales in the Brazilian economy belonged to state firms. By 1985, those figures had risen to 48 percent and 26 percent, respectively (Baer 1995: 257).

The energy crises of the 1970s strained Latin American governments’ abilities to continue at the commanding heights of their economies. Increased energy costs caused an increase in production costs for SOEs, forcing central governments to borrow yet more money from the international financial community. There was no shortage of money to be sought by the Latin American countries. The influx of funds from OPEC nations into the banks of Europe and North American induced these banks aggressively to pursue borrowers. This process of using funds from the oil-producing countries in loans to developing countries came to be known as “petrodollar recycling.” Latin America was the preferred destination for these funds, satisfying the needs of cash-strapped central governments in the region, as well as those of the international financial community. Furthermore, the perception of riskless sovereign debt provided a strong incentive to lenders to continue making loans Latin American governments.
Coinciding with the energy crises of the 1970s was an explosion in both the number of SOEs in their level of foreign indebtedness. During the 1970s alone, 251 SOEs were created in Brazil (Bresser Pereira 1998: 65). Furthermore, the importance of SOEs in the overall economy had grown greatly during the military regime. In 1962 12 of the largest 30 Brazilian firms were SOEs; by 1979, 28 of the largest Brazilian firms were state-owned (Bulmer-Thomas 1994: 356). Long protected from foreign competition, most SOEs had become highly inefficient. Since they were under governmental control, most became instruments of political patronage and corruption. As a result, SOEs accounted for a large portion of government debt during the period. Bela Belassa and Gerardo Bueno write that in Latin America

The deficit of state enterprises in the mid-1970s accounted for one-quarter of the public sector deficit but rose to about one-half in 1980-1982, while the overall public-sector deficit doubled from about 4 percent to 8 percent of GNP. Partly because of price controls on basic products, state enterprises thus accounted for three-quarters of the deterioration in public-sector finances. (1986: 139)

Thus, there were already signs during the mid-1970s that SOEs were becoming a major drain on state resources in most countries in Latin America. However, it was not until

<table>
<thead>
<tr>
<th>Period</th>
<th>Number of federal SOEs by date of creation</th>
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<tbody>
<tr>
<td>1900-1930</td>
<td>25</td>
</tr>
<tr>
<td>1930-1939</td>
<td>8</td>
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<tr>
<td>1940-1949</td>
<td>33</td>
</tr>
<tr>
<td>1950-1959</td>
<td>55</td>
</tr>
<tr>
<td>1960-1969</td>
<td>180</td>
</tr>
<tr>
<td>1970-1979</td>
<td>259</td>
</tr>
<tr>
<td>Total (as of January 1981)</td>
<td>560</td>
</tr>
</tbody>
</table>

Source: Lamounier and Bacha (1994: 148)
after the energy crisis of 1979 that the fiscal stance of most states such as Mexico and Brazil became critical, largely because of their overextended and heavily indebted state enterprise sector.

The expansion of the state in the economy during the 1970s had serious implications. The Second National Development Plan (1975-1979), under the leadership of President Ernesto Geisel, supported increased investments in large-scale projects. Since it was impossible for Brazil’s exports to finance these projects, the country looked abroad for funding. The Eurodollar market, which was awash in money following the oil crisis of 1973, provided a steady and reliable source of foreign finance. With the second oil shock of 1979, Brazil found itself increasingly vulnerable as servicing of the foreign debt amounted to 67 percent of export earnings (Roett 1992: 167). By 1980, it was clear that Brazil was going to face enormous difficulty in servicing its foreign debt in the near future. The situation was exacerbated by international conditions. By the early 1980s, the world economy was suffering its worst downturn since the Great Depression. Economic hard times in the developed world led to a decline in demand for exports in developing countries. Complicating matters even further was the monetary policy adopted by the U.S. Federal Reserve at that time, which increased interest rates. The effect of this policy was an increase in the debt service requirements of developing countries.

The combination of global recession and increased short-term debt burdens led to a financial crisis across Latin America. The critical moment came in 1982 when the Mexican government announced that it was unable to service its debt payments, causing a panic throughout the international financial community. Since Mexico had one of the
largest economies in Latin America, and supposedly one of the healthiest, what happened there was seen as a portent for the rest of the region. Soon after the Mexican default, investors began withdrawing billions of dollars from all countries in Latin America. The combination of economic contraction, capital flight, and resultant decreased living standards turned the 1980s into the “lost decade” for the region. Brazil was forced to enter into tedious and contentious negotiations with foreign creditors. Resolution of the debt crisis was complicated by political developments within Brazil, as the country was in the process of political opening (abertura) at that time. In 1985 the military stepped down from power, leaving the first civilian government in 21 years the formidable task of resolving the country’s pressing economic problems.

Democratization and Demise of the State-Led Model

The new president, José Sarney, was confronted with economic pressures from various sources. First, Brazil was yet to come to a final agreement with its foreign creditors. Second, the advent of civilian rule brought with it long-repressed popular grievances to address social issues, which had been ignored by the military government. While the international financial community was pressing for an orthodox plan of fiscal discipline, and many Brazilian economists supported such a plan as a means to control inflation, the Sarney government found itself beholden to popular pressures. Sarney introduced the Cruzado Plan in 1986, a “heterodox” set of measures aimed at controlling inflation without exacting austerity on the population. Although the plan was initially successful in slowing inflation, after less than a year inflation was on the rise again and Brazil found itself unable to meet its debt obligations. In early 1987 the government declared a moratorium on its foreign debt payments. Economic strategy remained
inconsistent, and the following years witnessed a string of unsuccessful heterodox stabilization plans.

Thus Brazil entered the 1990s with a growing sense of crisis. This mood allowed for the election of Fernando Collor de Mello in 1990, an anti-establishment candidate and political unknown from the northeastern state of Alagoas. As will be discussed in more detail in the following chapters, Collor initiated the first significant set of economic reforms, including the beginning of the national privatization plan and the lowering of restrictions on trade. Yet Collor was impeached after serving less than two years in office, and Brazil drifted further. Collor’s successor, Itamar Franco, proved to be a highly ineffective leader. During his tenure inflation reached record levels, exceeding two-thousand percent in 1994. It was not until the introduction of the Real Plan in 1994, under the leadership of Finance Minister Fernando Henrique Cardoso, that stabilization was finally achieved. Cardoso’s popularity was so high from his role in implementing the Real Plan that he was able to win a first-round victory in the presidential election on 1994. During his tenure as president Brazil has undergone its most sweeping economic reforms.

Many observers point to Brazil’s political system as the cause of the country’s poor economic performance since the return to democracy. On closer inspection, one sees that growth remained rather high at the beginning of the civilian regime, yet entered a period of stagnation in 1988 (see figure 2.3). Brazil’s elaborate system of indexation allowed for growth in the face of inflation, yet confidence was eroded during the late 1980s and early 1990s as inflation surpassed four-digit levels. Critics cited numerous institutional arrangements for complicating efforts to implement much-needed economic
reforms. Instead of promoting competition and modernization, the 1988 constitution enshrined a number of nationalist economic tenets. Furthermore, it created a problematic system of revenue-sharing between the federal government, on one hand, and state and local levels of government on the other. By forcing Brasília to transfer resources to lower levels of government without changing the federal government’s spending obligations, the constitution created a problematic system which led to a structural fiscal imbalance. The constitution, as well as other features of the Brazilian political system, led scholars to
focus on the institutional obstacles to economic reforms. It is to these institutions that I now turn my attention.
CHAPTER 3
BRAZILIAN POLITICAL INSTITUTIONS

In Chapter 1 I examined the evolution of the discipline of political science during the past two decades, emphasizing the rise of the new institutionalism. While it is not a monolithic school of thought, the new institutionalism has as a foundation its emphasis on the role of institutions in influencing political outcomes. Rational choice proponents hold that actors' preferences are themselves shaped by the incentives presented by institutions. In contrast, historical institutionalists generally examine the ways in which early decisions regarding institutional design have (often unintended) consequences in the future. According to historical institutionalists, once certain institutions come into being they display a “stickiness” which makes institutional change difficult. Douglass North maintains that initial institutional configurations lead to path dependence, which he defines as “network externalities that limited…actors’ choices and prevented them from radically altering the institutional framework” (1991: 115). Finally, sociological institutionalists contend that “persistent institutional patterns underlying the frequently changing formal rules deeply shape individual actors and their interests” (Weyland 1996: 200).

The previous chapter ended with a brief discussion of the link between Brazil’s difficulties with stabilization and structural economic reforms during the 1980s and the country’s political system. In the present chapter I will move into an examination of the main political institutions in contemporary Brazil. Chief among these institutions is the Brazilian variant of presidentialism, the system of federalism, party and electoral
systems, and the national congress. All of these formal political institutions are closely linked, making it difficult if not impossible to separate their effects on the overall functioning of the political system. For example, the electoral system for the Câmara de Deputados (the lower house of Congress) is based on an open-list proportional representation system. This system, which presents politicians with incentives to run personalistic campaigns against members of the same party and to utilize a party label opportunistically, in turn has had a direct effect on the party system by fostering fragmentation and indiscipline (Ames 1995a). Furthermore, to understand fully these institutions and their origins, one must also examine the constitution of 1988, which established the institutional framework of the New Republic (Souza 1997; Reich 1998).

There is much evidence to support the thesis that the institutional structure of the Brazilian political system encumbered the implementation of economic reforms following the advent of the New Republic in 1985. However, I will argue that this focus on Brazil’s apparently problematic institutional arrangements has caused scholars to pay insufficient attention to the country’s impressive track record with economic reforms. Successes on the reform front are usually examined anecdotally and seen as cases in which executive resolve has been able to “overcome” the obstacles to reform presented by the political system. What is needed, I will argue in Chapter 4, is a reassessment of Brazilian political institutions and how they influence reforms.

In Chapter 2 I briefly detailed the historical role of the state in the Brazilian economy. Starting in the 1950s the country embarked on a course of state-led industrialization, passing from a largely agricultural country to the largest industrial country in the developing world in the span of two generations. According to most
scholars, including Trebat (1983), Shapiro (1994) and Baer (1995), such rapid
development would have been impossible without the active intervention of the Brazilian
state. State-owned enterprises (SOEs) played an indispensable role in this process. Due
to this particular relationship between the state and the economy, some scholars described
the Brazilian economy as a case of “state capitalism,” in which market forces
predominated, but the state played a larger role in capital accumulation and
industrialization than in Western Europe and North America (Baer et al 1976; Hagopian
1986).

One could utilize any of the three main institutionalist approaches when studying
the vagaries of recent economic reforms in Brazil. An historical institutionalist approach
would highlight the institutional framework created during the course of Brazil’s
development since the beginning of state-led industrialization. One could argue that the
Brazilian state’s developmentalist efforts during the latter half of the twentieth century
created an institutional matrix closely linked to the economy, through myriad direct and
indirect political and bureaucratic channels. Such channels included fiscal policy, the
central bank, federal and state development banks, SOEs, price controls, and corporatist
labor relations (Baer, et al 1973). This complex web between the political and economic
systems consequently made it very difficult to reform the state following the crisis of the
1980s. According to Frances Hagopian (1986: 2), “by concentrating most economic
resources within the public sphere, [state capitalism] enhances political clientelism,
which privileges political elites who control the distributional arm of the State.” Hence,
the original political-economic institutional structure, which provided key politicians with
important patronage resources, would display a great degree of rigidity (or “stickiness”)

in the face of efforts to reform it. The entire economic system proved highly resistant to change precisely because it had long been highly politicized.

Rational choice institutionalism can also be useful in explaining the difficulties encountered in passing reforms in Brazil. Barry Ames (1994; 1995a; 1995b), for example, has studied the effects of the Brazilian electoral system on the strategies employed by candidates for the lower house of Congress, the Câmara de Deputados. He concluded that the system, which is based on open-list proportional representation (see more below), gives politicians incentives to concentrate on small, targeted constituencies during their campaigns for elections. Once in office, politicians behave in such a manner as to funnel as much pork as possible to these constituencies, which is fundamentally at odds at efforts to address the state’s fiscal imbalances. In his study of the party system Mainwaring (1999) employs a rational choice methodology. He defends the use of rational choice theory for this case study, saying:

Brazilian catch-all parties usually behave like self-interested actors whose behavior is shaped by formal rules of the political game. Such rules help explain the individualism of politicians, the decentralization of parties, the weakness of national parties, the lack of party discipline, and the limited allegiance of politicians to their parties. (1999: 10)

In the discussion of political institutions that follows, I will cite literature from all three institutionalist schools of thought rather than utilizing one sole perspective. After first discussing the general links between political institutions and economic reforms in Brazil, I then analyze particular political institutions: the 1988 constitution, federalism, presidentialism, the party system, the electoral system, and the Congress. In each section I will describe the function of these institutions and then will explain how they hinder the implementation of economic reforms.
Political Institutions and Economic Reforms

Brazil possesses one of the most problematic political systems in Latin America, and there is widespread acceptance among scholars that the Brazilian political system contains several institutional features that have impeded the passage of much-needed economic reforms. By mandating a transfer of revenues to state and local governments without a commensurate decrease in the federal government’s obligations, the 1988 constitution lay at the heart of the country’s persistent fiscal problem. Correcting this imbalance, as well as a host of other structural and political reforms, has proven to be difficult. According to Figueiredo and Limongi (1995), politics in post-authoritarian Brazil has been marked by the existence of two separate competing agendas. On the one hand, presidents have generally been interested in economic reforms, while on the other hand the legislature has been more concerned with social issues. These distinct policy orientations have often pitted the executive against the legislative, making reforms time-consuming. Once implemented, many reforms barely resemble the original legislation submitted and are not effective at attacking the problems they are meant to address.

Tim Power (2000) has described politics in the New Republic as a “permanent constitutional convention.” Since the transition from authoritarianism and the start of the New Republic, the very institutional framework of the political system has been called into question. The formation of the National Constituent Assembly to draft the new constitution was itself a highly politicized process, and there has been widespread dissatisfaction with the final document from a number of groups since its promulgation in 1988. As a result, Power explains, Brazil witnessed a “permanent constitutional convention” as legislators and the public mulled over the desirability of tinkering with the constitution. One of the most important events in this process was the plebiscite in 1993.
to decide whether to maintain the existing presidential system, or to switch to either a parliamentary or a monarchical system. Despite the discontent with the presidential system and its supposed deleterious effects, which I will outline below, 55 percent of voters opted for the existing system.

**The 1988 Constitution and the Reform Process**

One of the pressing issues surrounding the transition to democracy during the early 1980s concerned how the post-authoritarian political order would be structured, as well as by what means this structure would be established. The legislature elected in 1986 was to serve as a National Constituent Assembly (*Assembléia Nacional Constituinte*, ANC), which convened in February 1987. The Assembly included representatives (*deputados*) elected in 1986 and senators elected in 1982; together in a unicameral body they served as the ANC. “The ANC shunned any major political reforms,” instead focusing principally on social and economic issues (Fleischer 1998: 120). In effect, the document produced by the ANC “constitutionalized” numerous provisions that generally are the preserve of normal legislation. The new constitution placed stiff restrictions on foreign investment, sanctioned state monopolies in “sensitive” sectors of the economy, and granted public sector employees job security and an array of benefits. Another important provision of the constitution established a new revenue-sharing arrangement between the federal government and the states and municipalities. The new arrangement forced the federal government to transfer significant revenues to local governments without a commensurate decrease in the federal government’s spending obligations. According to Roett (1997: 25), “What it actually did was to open the floodgates for local corruption and mismanagement, as local and state authorities
enjoyed a financial bonanza without any programmatic responsibilities in critical areas of social investment."

To understand the uphill battle fought by the Cardoso administration (as well as his predecessors), one must understand the consequences of the 1988 constitution. Because many of the economic changes Cardoso has tried to enact are in sectors in which the state has constitutionally mandated monopoly power, the constitution itself must be revised to reform these areas. In order to amend the constitution, both houses of Congress must approve the amendment two times by a majority of sixty percent or greater. In 1995, soon after taking office, Cardoso was able to pass several key constitutional amendments. Known as the “Big Five,” these amendments ended several state monopolies (mining, coastal shipping, telecommunications, natural gas distribution) and eliminated the distinctions on domestic and foreign capital. This was one of the greatest achievements of the Cardoso presidency, for it cleared the way for the continuation of the stalled national privatization program and helped to attract record levels of foreign investment, both of which were essential in alleviating balance-of-payments problems and modernizing the economy. The next chapter will examine in greater detail how Cardoso was able to secure these amendments, with the hopes of shedding light on how, in spite of political-institutional “barriers,” widespread economic reforms have been possible in Brazil.

**Federalism**

Like the United States, Brazil is a federal republic. The federation is composed of twenty-seven states and a Federal District, Brasília. Although federalism has a long history in Brazil, the present form of federalism is the result of the 1988 constitution. Due to the new constitution, “the executive has lost power to the legislative and judicial
branches, the union to the states and municipalities, and the state to society, private enterprise, and market forces” (Selcher 1998: 25). Throughout Brazilian colonial and imperial history, there was a balance between an ostensibly powerful central authority and a de facto diffusion of power. In many ways, this decentralization of power assisted in maintaining the country’s territorial unity following independence.

Modern federalism in Brazil has its roots in the early republican era of the late nineteenth century. Following the deposal of the Bragança monarchy in 1888, those actors involved in the republic movement worked to create a federal system that granted individual states a high degree of autonomy vis-à-vis the central government. The constitution of 1891 reflected the interests of the most powerful economic elites, which were also those linked to the anti-monarchist movement in 1888. This document granted states extensive powers. As a result, the most powerful states—São Paulo, Minas Gerais, and Rio Grande do Sul—were able to limit the power of the central government. In practice they did so by maintaining sizable state militias (often much larger than the federal forces stationed within these states), taxing exports, and establishing their own international diplomatic missions.¹

One important implication of the early history of modern Brazilian federalism is that it created a contentious and at times contradictory division of powers. As Alfred Stepan (2000) explains, these initial arrangements have displayed a high degree of “stickiness,” which has made reforming the more problematic aspects of Brazilian federalism very difficult. This is not to say that there has not been significant change in

¹ This was important especially for the state of São Paulo, which aggressively promoted immigration during the coffee boom of the late 1800s.
the structure of the Brazilian political system since the advent of the republic. In fact one sees both centralizing and decentralizing trends during the past century. The era of Getúlio Vargas (1930-1945) and the military regime (1964-1985) displayed a tendency to centralize power, while periods of democratic rule (1945-1964, 1985-present) have shown a movement towards political decentralization. These shifting trends are the result of a dialectic between two separate forces within Brazilian political culture: one based on local patron-clientelism, the other based on the belief in the efficacy of greater federal authority.

While many today feel that the devolution of political power away from the center is beneficial for democracy, Stepan (2000) persuasively argues that in the New Republic decentralized federalism has been injurious to democracy. The Brazilian system of federalism is “demos-constraining,” according to Stepan, for it has distorted to a higher degree than any other federal system in the world the basic democratic idea of “one person, one vote.” The Senate, based on the principal of serving as a voice for less populated states, is by its nature “demos-constraining.” In Brazil, however, the Senate possesses significant powers compared to upper chambers in other federations. With three seats granted to each state, the Senate further skews the representation of the national population. Furthermore, the creation of several lightly populated states in the North and Center-West of the country during the past two decades has greatly enhanced the power of conservative interests in the Senate, with congressmen from these areas often opposed to the executive’s reform measures. The Câmara de Deputados, which in theory is supposed to approximate more closely the actual population distribution within a federation, greatly over-represents rural states and underrepresents more populous ones.
While similar arrangements can be found during the whole of the republican era (Soares forthcoming: chap 12), the 1988 constitution mandated the most skewed system to date. It set a minimum of eight *deputados* and a maximum of seventy per state. Figure 3.1 illustrates the degree of disproportionality created as a result of this arrangement in the Câmara de Deputados. By calculating the percentage of seats awarded to separate geographical regions and contrasting it with each region’s share of the total national population, Lamounier and Bacha (1994: 175) revealed that in 1991 the Southeast, the most economically advanced region of the country, was under-represented by 51 seats (of a total of 503). Stepan (2000: 150) further elaborates this dilemma:

The one-person, one-vote rule would have given the states of Acre, Amapá, and Roraima 1 federal deputy each in 1994 and the large state of São Paulo 114, whereas the Brazilian system actually produced 8 deputies for each of the three sparsely populated states while the citizens of the huge state of São Paulo were represented by only 70.

This overrepresentation of rural states has largely benefited conservative political interests, many of which have been consistently hostile to reform efforts during the New Republic.

Aside from the impact on the composition of the national congress, Brazil’s system of federalism has had a deep impact on the relationship between the federal government, the states, and the *municípios*. During the transition to democracy state governors played an important role in contesting the powers of the military regime. In 1982 the military regime, well along in its plan to liberalize political activity, allowed for the direct elections of governors. This in turn granted the governors a great amount of leverage during the transition to democracy. Since the military regime, which centralized
power within the federal government, had curtailed the traditional powers of the states, the governors (and their state political machines) were eager to enhance their powers following the end of the military regime (Abrúcio 1994).

With their power bolstered following the elections of 1982, the governors became influential actors during the constitutional conventional of 1987-88. Partly as a result of their influence, the federal system created by the new constitution gave the states greater autonomy vis-à-vis Brasília, notably in fiscal terms. The new constitution forced the federal government to redistribute a greater share of revenues to the states and municípios than had been the case previously. However, a transfer of responsibilities did not accompany this transfer of resources. The federal government therefore has been forced to provide the same level of services, yet without the necessary resources. This has been a boon for the states and municípios, with enhanced tax revenues from Brasília aiding in local patronage politics. Two analysts of the current system go so far as to say that

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of seats 1986</th>
<th>Number of seats 1991</th>
<th>% of population 1986</th>
<th>% of population 1991</th>
<th>Ideal number</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>47</td>
<td>65</td>
<td>9.65</td>
<td>12.9</td>
<td>6.55</td>
<td>33</td>
</tr>
<tr>
<td>Northeast</td>
<td>149</td>
<td>151</td>
<td>30.60</td>
<td>30.0</td>
<td>28.50</td>
<td>143</td>
</tr>
<tr>
<td>Southeast</td>
<td>169</td>
<td>169</td>
<td>34.70</td>
<td>33.6</td>
<td>43.63</td>
<td>220</td>
</tr>
<tr>
<td>South</td>
<td>82</td>
<td>77</td>
<td>16.84</td>
<td>15.3</td>
<td>15.15</td>
<td>76</td>
</tr>
<tr>
<td>Center-West</td>
<td>40</td>
<td>41</td>
<td>8.21</td>
<td>8.2</td>
<td>6.17</td>
<td>31</td>
</tr>
<tr>
<td>Total</td>
<td>487</td>
<td>503</td>
<td>100.00</td>
<td>100.0</td>
<td>100.00</td>
<td>503</td>
</tr>
</tbody>
</table>

a: Number of deputies each region would have if regional shares were exactly proportional to their respective populations
b: Difference between the ideal and the number in fact prevailing during the 1991-1994 legislature
Source: Lamounier and Bacha (1994: 175)
“municipal governments in Brazil…should be the envy of all governments in the developing (or even developed) world” (Bomfim and Shah 1994: 536).

By most accounts, Brazil’s particular system of federalism lay at the heart of many of the country’s current problems (Stepan 2000; Mainwaring 1997; Abrúcio 1994; Roett 1997). The federal system is the root cause of the country’s chronic fiscal problems, and as such it will be impossible to improve the federal government’s fiscal position without altering the revenue-sharing arrangement with the states and municípios. Furthermore, until recently states had great autonomy in contracting their own sovereign debt. The federal government has gained control of profligate state spending in recent years, but only by bailing out bankrupt state banks at a cost of $15 billions (Samuels 2000: 17). The Fiscal Responsibility law, passed in April 2000, marked a turning point in the fight for fiscal discipline. The law places stiff limits on the level of discretionary spending allowed by states and placed penalties on those states that do not maintain sound fiscal policies.

**Presidentialism**

With the wave of democratization that occurred during the 1970s and 1980s, there was a growth of research examining questions of institutional design in nascent democracies. One of the central arguments in this debate centered on the efficacy of presidential systems of government. Juan Linz (1990; 1994) was at the fore of this debate. He argues that presidentialism contains several inherent flaws that hinder effective governance in nascent democracies. The first problem associated with presidentialism is what Linz calls “dual democratic legitimacy.” Having come to power through the ballot, both the president and the legislature possess democratic legitimacy. Yet when there is conflict between these two branches of government, does one possess
more legitimacy than the other? “In the absence of any logical principle to define who really has democratic legitimacy, it is tempting to use ideological formulations to legitimize the presidential component of the system and delegitimize those opposing him, transforming what is an institutional conflict into serious social and political conflicts” (Linz 1994: 8). Many times in the past such executive-legislative conflicts have precipitated coups d’état in Latin America.

A second problematic aspect of presidentialism is its rigidity. Presidents are elected to serve fixed periods of time. While constitutional provisions providing for the removal of incompetent or corrupt presidents usually exist, they are rarely invoked; when they are invoked they often signal political crises and virtually paralyze the political system. Some observers justly maintain that democracy ultimately prevailed during the impeachment of President Collor in 1992, yet during the impeachment process legislative activity came to a virtual standstill. Under parliamentary systems, such crises can be solved within a relatively short time frame and without as much interruption of the legislative process. More importantly, under parliamentarism such crises of government are less likely to lead to the crises of regime that have plagued Latin America. For example, Mainwaring (1997) believes that the coup of 1964 was caused in large degree by the problematic structure of Brazilian presidentialism.

This debate over the merits of presidentialism has been the subject of intense public discussion in Brazil more so than in any other country in Latin America. In 1993 there was a plebiscite in which voters had to vote to maintain the presidential system, or adopt either a parliamentary or monarchical system. While presidentialism won by a wide majority, the plebiscite vividly demonstrated the dissatisfaction with the country’s
institutional arrangement. This dissatisfaction arose from the protracted stalemate between the executive and legislature, especially concerning economic issues.

Brazil possesses one of the most powerful presidencies in the world. The 1988 constitution granted presidents sweeping reactive and proactive powers. Presidents may issue both a complete and partial (line-item) vetoes of congressional legislation. Even more significant than these reactive powers are the proactive powers. Brazilian presidents have the right to initiate legislation in several areas, from the size of the armed forces to areas of public administration and ministries. The president also wields significant powers over the federal budget. Perhaps the most important resource available to presidents by the constitution is the *medida provisória*, or provisional measure. These measures immediately become law and are effective for thirty days. During these thirty days Congress has the power to reject or pass the measure; if no action is taken during that time, the law expires.

The *medida provisória* has become the most important tool available to the executive branch. Although the constitution states that they are only supposed to be issued in cases of “relevance and urgency,” in reality presidents have adopted them as a means of controlling the legislative agenda.

Between October 5, 1988, when the new constitution went into effect, and late May 1995, the four presidents issued 1,004 provisional measures . . . Of [these], 640 had previously been issued. Congress had approved 274 provisional measures and had rejected only 18. (Mainwaring 1997: 62-63)

Furthermore, the frequency with which presidents have utilized the provisional measures has increased with each successive administration.

This concentration of power within the executive branch serves to counteract the factors that work against the executive in Brazil: federalism and multipartism. As
discussed above, the Brazilian system of federalism grants significant powers to the states, and the present system of revenue sharing weakens the fiscal position of the central government. The fragmentation and indiscipline of the party system is in some ways a concomitant of federalism, as congressional politicians seek to funnel patronage to their constituencies at home. Sweeping presidential powers may not bode well for the quality of democracy (O’Donnell 1994), but they have been an essential means by which Brazilian presidents have been able to implement economic reforms in the face of congressional resistance. In fact, both Collor’s economic program in 1990 and the Real Plan in 1994 were enacted principally through the use of provisional measures.

The Party System

Political parties are indispensable elements in the functioning of democracy. They “both shape the political arena and are shaped by the political system as a whole; they shape the nature of interests in society and respond to demands and interests of societal groups” (Mainwaring and Scully 1995b: 459). During the period of military authoritarianism, political parties did not receive much attention from scholars, who often viewed them as peripheral to the political process in most Latin American countries. With the demise of authoritarianism, there was a growing awareness of the centrality of parties to politics. While in the past Marxist or dependency analysis discounted their role, it is now clear that, in short, parties matter. They are no longer seen simply as the by-products of class forces, but are viewed as important variables in their own right. Compared to other countries in Latin America, Brazil is striking for its level of party underdevelopment. According to Mainwaring and Scully (1995a: 7), the volatility of the Brazilian party system is comparable to that of Peru, Ecuador and Bolivia, all countries of with substantially lower levels of economic development.
Historically Brazil has never possessed highly institutionalized parties. During the entire Old Republic (1889-1945), there were no parties of national scope. Getúlio Vargas, who served as president from 1930 until 1945 (and later from 1950 to 1954) and was instrumental in shaping the modern political system, was hostile towards parties. In fact, during his first presidency he governed without belonging to a party. Before leaving office in 1945 Vargas created two parties, the Partido Trabalhista Brasileiro (PTB) and Partido Social Democrático (PSD), establishing a pattern of state manipulation of the party system. Another pattern to emerge during the period between World War II and the coup of 1964 was the use of electoral alliances among parties. Electoral laws “encouraged crossparty alliances and the independence of candidates from parties, and rewarded small regional parties” (Coppedge 1998: 198). National parties worked against the driving forces of Brazilian politics: localism and patron-clientelism.

Unlike other bureaucratic-authoritarian regimes, the military regime that came to power in 1964 in Brazil took steps to maintain the trappings of democracy. Whereas the congress was closed and parties were forbidden in Chile, Argentina, and Uruguay, in Brazil the regime organized a two-party legislative system. ARENA (Aliança Renovadora Nacional) was the pro-government party, while the MDB (Movimento Democrático Brasileiro) served as the officially sanctioned opposition party. However, unlike its South American neighbors, which saw the resurgence of traditional parties at the end of authoritarian rule, in Brazil none of the parties founded before the coup survived into the post-military era. In 1979 the military regime allowed for a liberalization of the laws governing party formation, with the intention of splintering the opposition. As a result, the MDB succumbed to infighting, with most members joining
the PMDB (Partido do Movimento Democrático Brasileiro). Likewise, ARENA also fractured, with most members joining the PDS (Partido Demócrata Social). After 1979 there was a rapid growth in the number of parties, and was hastened in 1985 by the passage of laws that further facilitated party formation. The result of these permissive laws has been an unabated fragmentation of the party system. For example, none of the parties serving in Cardoso’s coalition existed before 1970.

There are other aspects of the Brazilian political system which adversely affect the party system. Brazil has a combination of presidentialism and multipartyism, a mix that “is especially unconducive to party building and to democratic stability. This…is further complicated by the strong federalist bases of Brazilian politics. Power in concentrated in the national government, but political careers are based on the local or state level” (Mainwaring 1992-93: 700). Furthermore, the electoral system serves to further weaken party coherence. As Ames (1995a, 1995b) shows, the system of open-list proportional representation provides incentives for politicians to focus on local issues and deliver pork to small, targeted constituencies. Such behavior inevitably weakens party formation and discipline.

The structure of the Brazilian party system, in turn, has had seriously implications for the implementation of economic reforms. Because of the fragmentation of the party system and lack of discipline among party members, the passage of contentious legislation by the president entails a cumbersome process of negotiation with individual politicians. One of the functions of parties is the aggregation of interests; these groupings facilitate the negotiation of issues by lowering, in effect, the transaction costs of negotiation. But in Brazil, there are extensive costs for executives who are attempting
reform. Pork and other perquisites must be distributed, thus “the fiscal impact of securing support is high” (Kaufman Purcell and Roett 1997: 16). Cardoso has had some success in passing elements of his reform agenda, especially at the beginning of his presidency, but he has had to accede to numerous demands for patronage from congressional supporters. Winning this support has worsened the deficit of the central government, which, as mentioned above, had already deteriorated due to the Real Plan. “The net public sector debt doubled under Cardoso, surpassing $300 billion (or about 36 percent of GDP) in early 1998” (Smith and Messari 1998: 9). In recent years government revenues have reached their highest levels in history. However, expenditures are growing even more quickly and these new expenses, rather than being used in critical areas like education and health care, are devoted to interest payments, social security payments, and salaries and entitlements of public-sector employees.

The Electoral System and Congress

Barry Ames (1995a: 407) makes a persuasive argument that “at the core of Brazil’s institutional crisis lies the electoral system.” He employs a rational choice argument in his analysis, highlighting the incentives that the electoral system presents to candidates to the national congress. The Chamber of Deputies (the lower house of congress) is based on an open-list proportional representation PR system. Under this system, each state is a single, at-large, multimember district. In a system of closed-list PR, voters are presented with a list of candidates from each party. Candidates are listed in the rank by which they will be selected. Hence, if a party lists ten candidates and is awarded three, the first three candidates will be granted seats. Under the Brazilian system of open-list PR, parties do not determine which candidates will represent them; the voters do. This forces candidates from the same party to run against each other,
serving to further erode party coherence and discipline. Party fragmentation in turn makes it difficult for presidents to negotiate legislation. They are forced to dole out patronage such as appointments, cabinets positions, and government funds for pet projects to politicians in order for their support of the president’s agenda, a very costly and time-consuming process.

Besides the impact of the electoral system, there are other aspects of the national congress that hinder the passage of reforms, which are almost universally proposed by the president. As mentioned above, the federal system establishes upper and lower limits for the number of deputies from each state, ranging from eight to seventy. This has the effect of bolstering poorer, less-populated regions, which are those most dependent on financial support from the federal government. Hence, more often than not they are the ones most opposed to efforts to correct the government’s fiscal imbalances. Furthermore, several new states have been created during the past two decades in the North and Center-West, themselves poor and sparsely populated areas. Since all states are granted three senate seats, this has made the Senate even more averse to some reforms than the Chamber of Deputies. Most national politicians spend only a few years in Brasília before returning home to run for local office. This focus on local politics, rather than national issues, further complicates efforts to pass reforms in areas such as the economy, social security, and public administration.

**Conclusion**

The institutional design of Brazil’s political system has had adverse effects on the passage of reforms. The 1988 constitution created a problematic revenue-sharing arrangement between the federal government and lower levels of government. It also
mandated state monopolies in various areas of the economy. Since the only way to amend the constitution is with two majority votes of sixty percent or greater in both houses, change proved difficult. The constitution also created lax rules for the formation of political parties and an open-list PR system that further erodes party discipline. Party underdevelopment has been offset to some degree to the Brazilian variant of presidentialism, which possesses extensive reactive (veto) and proactive (legislative) powers. Still, presidents cannot always govern by decree, and the fragmentation and weakness of parties makes negotiation and coalition-building tedious, if not impossible at times. All these factors taken together help to explain why Brazil delayed so long in implementing reforms that would stimulate its stagnant economy.

Since the start of the New Republic in 1985, Brazil was faced with a deteriorating economic situation. The first two civilian presidents, Sarney and Collor, introduced numerous stabilization plans, all of which failed. Most explanations of these failures pointed to the relationship between the still-tentative transition to democracy and Brazil’s political system, which, most agreed, possessed institutional aspects that encumbered the implementation of much-needed economic reforms.

It was not until the introduction of the Real Plan in 1994, under the leadership of then-finance minister Cardoso, that the economy was finally stabilized. After his election as president, Cardoso was able to pass an array of reform legislation, which will be the focus of the next chapter. Still, other facets of his reform agenda—including reform of the social security, tax, and judicial systems as well as the public sector in general—have fallen short of the president’s expectations. Again, scholars point to institutional factors as causes for these shortcomings. What these explanations lack, however, is precisely a
framework with which to account for Brazil’s extensive economic reforms. This chapter has sought to demonstrate the relationship between political institutions on the one hand, and the difficulty of implementing reforms on the other. As I will argue in the next chapter, what is needed is a reassessment of the relationship between political institutions and outcomes in the Brazil. There I will what factors account for the reforms that have been successfully implemented during recent years, thus calling into question the standard institutionalist critique of Brazilian politics.
CHAPTER 4
ACCOUNTING FOR ECONOMIC REFORMS IN BRAZIL

In the previous chapter I analyzed the principal political institutions of Brazil and the ways in which they have impeded efforts to pass economic reforms. As mentioned in that chapter, there is consensus among scholars that the institutional design of the Brazilian political system has complicated the passage of reform legislation. Many point to this institutional design as the root cause for Brazil’s late start with structural economic reforms vis-à-vis other Latin American countries. Despite the insights provided by this institutionalist literature, it too often focuses on the failures of reform in Brazil rather than the successes. What is needed, I argue in this chapter, is a reassessment of the impact of political institutions on the passage of economic reform legislation in Brazil, for extensive structural reforms have been enacted during the past decade, especially since the start of the Cardoso presidency in 1995.

In this chapter I will examine the efforts made by presidents in the New Republic to pass economic reforms. The administration of President Fernando Henrique Cardoso will receive most scrutiny, for it has been during his time in office that reforms have proceeded furthest. After outlining the vagaries of the reform process since the transition to democracy, I will analyze one set of reforms from early in the Cardoso administration. Known as the Big Five, these reforms were a set of five separate constitutional amendments that ended the state’s monopolies in several sectors of the economy. One of the amendments also eliminated the legal distinction between foreign and domestic capital. I will examine the Big Five in detail because they were one of the earliest, and
most important, successes of the president’s economic agenda. Finally, I will conclude the chapter with observations about how, in spite of the institutional obstacles discussed in Chapter 3, economic reforms have been possible in Brazil. Too much emphasis has been placed on the obstructionist nature of the country’s political system, I argue, and scholars must therefore reassess the impact of political institutions on economic reforms in Brazil.

The Changing Brazilian Political Economy

I contend that significant changes have occurred in the Brazilian political economy during the past decade, especially during Cardoso’s tenure. What evidence is there to support this contention? Writing in 1992, Riordan Roett provided the following description of the Brazilian economy:

In spite of [President Collor’s] efforts, Brazil remains one of the world’s most protected economies with an average import tariff of 40 percent (compared with Argentina’s 11.5 percent). Business remains under the control of cartels and does not cooperate with the government’s economic stabilization efforts. Only at the end of the year did the first privatization take place—with widespread protest and violence. The public sector deficit is a giant obstacle to efficient policy-making. (Roett 1992: 179)

In 1993 an article in Forbes disparaged Brazil as the “sick man of Latin America,” as inflation reached over 2000 percent and no solution to the problem seemed in sight (Forbes 1993). Yet during the following year, 1994, inflation, the persistent economic demon of Brazil, was successfully controlled by the Real Plan. The stabilization caused by the Real Plan paved the way for resumed growth and an influx of foreign investment. Just as impressively, the national privatization program has generated more revenue in Brazil ($102 billion between 1991 and 2001 [BNDES 2001]) than in any other county in the developing world. Foreign trade has been greatly liberalized, with an average import
Table 4.1 Key Economic Events in the New Republic, 1985-2001

<table>
<thead>
<tr>
<th>President</th>
<th>Period</th>
<th>Reforms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sarney</td>
<td>1985-1990</td>
<td>Four stabilization plans, all of which failed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Privatization on very small scale</td>
</tr>
<tr>
<td>Collor</td>
<td>1990-1992</td>
<td>Initiated national privatization program</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Began liberalization of trade</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Failed stabilization plans</td>
</tr>
<tr>
<td>Franco</td>
<td>1992-1994</td>
<td>Tepid towards the reforms introduced by Collor</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Overshadowed by then-finance minister Cardoso</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Introduction of Real Plan</td>
</tr>
<tr>
<td>Cardoso</td>
<td>1995-present</td>
<td>Deepening of privatization program</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Deepening of trade liberalization</td>
</tr>
<tr>
<td></td>
<td></td>
<td>End of state monopoly on reinsurance (1996)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Administrative reform (March 1998)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Watered-down social security reform (Nov. 1998)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fator Previdenciário (Nov. 1999)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Law of Fiscal Responsibility (April 2000)</td>
</tr>
</tbody>
</table>

tariff of 14.3 percent in 1999 (IDB 2000: 125). And in spite of many setbacks, the fiscal deficit is slowly coming under control. Within a decade, then, the Brazilian economy has undergone extensive restructuring. Yet these changes have not happened by chance. They are the direct result of changes within the political system. And as I shall argue, these changes call into question the prevailing institutionalist critique of Brazilian politics.

The Vagaries of Economic Reforms in the New Republic

Almeida (1996: 223) cites three factors that account for the delay in economic reforms in Brazil: “the power and profile of interest groups; the decentralization of governmental structures; and changes in the structure and capacity of the federal
government.” Because of these factors, economic reforms in Brazil have been guided, in Almeida’s words, by “pragmatism by necessity.” Rather than disparaging the slow pace of change, Almeida posits that Brazil has in fact benefited from it for several reasons. First, the country has avoided large-scale de-industrialization, as has occurred in some countries that undertook a more orthodox approach to reforms.¹ Second, she believes that the slowness of reform bodes well for democracy in Brazil. Rather than having a rubber-stamp Congress, the Brazilian legislature has given voice to many concerns about the consequences of economic reforms. While this may have slowed the pace of reform in Brazil, she contends, such a situation is preferable to cases in which presidents have autocratically implemented draconian stabilization measures.²

As touched upon in Chapter 2, Brazil underwent the transition from authoritarian to democratic rule at the same time that the economy was suffering from the debt crisis. When the first civilian president, José Sarney, took office in 1985, there was still no final agreement with Brazil’s foreign creditors, nor was there any clear plan on how to tame inflation. Sarney’s answer to the country’s economic dilemmas came in February 1986 with the introduction of the Cruzado Plan. The plan introduced a new currency, the cruzado, a temporary wage and price freeze, and a temporary freeze to indexation. While the plan initially brought about price stabilization and a boom in consumption, producers were not able to maintain the price freeze for long. Furthermore, the government was accumulating a growing deficit. “The problem for the Sarney government was that it had

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¹ For a criticism of the quick move towards market reforms in Chile, see Collins and Lear (1994).
² Chile under Pinochet, Peru under Fujimori, and Argentina under Menem are three prominent examples of the autocratic implementation of neoliberal reforms, indicative of what O’Donnell (1994) calls “delegative democracy.”
neither the political will or the political capacity to reduce its budget deficit…the Sarney government could function only by paying out patronage resources and by preserving congressional access to those resources” (Kingstone 2000: 189). After less than a year, then, it was clear that the Cruzado Plan would not be effective at stabilizing inflation.

During 1987-88 Congress met as the National Constituent Assembly (ANC), which meant that other legislative matters were put on the back burner. The final result of the ANC, the constitution of 1988, was a further setback towards stabilization, for, as mentioned in Chapter 3, it mandated a greater role for the state in the economy (by means of monopolies in several sectors of the economy) and also created a fiscally deleterious revenue sharing arrangement between Brasília and lower levels of government. Sarney introduced three other stabilization plans during his term, all of which failed. At the end of his term public dissatisfaction was extremely high, leading people to look for someone who could improve the deteriorating economy, as well as control what most perceived as a highly corrupt political system. With inflation accelerating and the economy stagnating, the Brazilian public found such a person in Fernando Collor de Mello.

It was during the administration of Collor (1990-1992) that Brazil made its first, hesitant steps towards economic reform. Sarney left office in ignominy, having introduced four unsuccessful stabilization plans. It was under these conditions that the dark horse candidate Collor, a former governor of the poor northeastern state of Alagoas, was able to rise to power. Collor won the presidency by emphasizing his commitment to fight corruption and stabilize the economy. He created his own party, the Party of National Reconstruction (PRN), to run for office, eschewing alliances with any established parties. Upon taking office, he had no firm congressional base with which to
work. Furthermore, his harsh rhetoric against the political class did little to enamor him with members of Congress. With an extremely conflictual relationship with Congress, Collor found himself besieged when allegations about corruption by him and his family and associates surfaced in 1992. Later that year he became the only president in Brazilian history to be impeached.

Despite the ignoble circumstances under which Collor left office, during his brief tenure in office Collor implemented several reforms that laid the groundwork for subsequent reform efforts. His two greatest accomplishments were spearheading the national privatization program in 1990 and opening the Brazilian economy to greater foreign competition. It should be noted that these were areas in which the president could act alone, through his decree power, to effect change; privatization and trade liberalization were two areas where the president has a free hand vis-à-vis Congress. Yet Collor’s habit of riding roughshod over Congress, such as making frequent use of decrees, did little to help him as the corruption allegations began to arise (Weyland 1993).

The interregnum of President Itamar Franco, Collor’s successor, was a time of growing uncertainty about the future of Brazil. Franco was not a supporter of Collor’s earlier reforms measures, but at the same time Franco did not work actively to reverse these reforms. Franco’s most important move in the economic realm was appointing Senator Fernando Henrique Cardoso as finance minister in early 1993. As will be discussed in greater detail below, Cardoso’s role in crafting the Real Plan was to have profound political ramifications during the early days of his presidency.
The Real Plan, which Cardoso devised and implemented as finance minister to President Franco, sought to cure the country’s hyperinflation by creating a new currency, the *real*, and linking it to the dollar with a crawling exchange rate (managed float). In order to address successfully the hyperinflation problem, it would be necessary to rein in public expenditures. In this respect privatization was to play an important role. The divestiture of state assets would add additional revenues to the national treasury, thus alleviating the government’s deficit. Furthermore, if foreign participation in the program were expanded, foreign investment could help the country’s balance of payments. In order to attract foreign capital, however, the laws governing foreign investment had to be changed so as to end discrimination between foreign and domestic capital. Without such changes, it would be difficult to attract the investments needed to modernize the country’s infrastructure, much of which had been under control of the state for decades and was in desperate need of improvements. As we shall see shortly, President Cardoso was acutely aware of these facts as he quickly pushed for an extensive array of economic reforms upon taking office.

**Cardoso and the Economic Reform Agenda**

Since taking office on 1 January 1995, President Fernando Henrique Cardoso has worked to promote legislation that would liberalize and make more competitive the Brazilian economy; to reform the political system, ranging from the laws governing party formation and representation in Congress, to the system of revenue sharing between the federal government and lower levels of government; and to restructure the country’s bloated social security and other pension programs that are near bankruptcy.
Table 4.2 Monthly Inflation Rates, 1994

<table>
<thead>
<tr>
<th>Month</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>42.2</td>
</tr>
<tr>
<td>February</td>
<td>42.4</td>
</tr>
<tr>
<td>March</td>
<td>44.8</td>
</tr>
<tr>
<td>April</td>
<td>42.5</td>
</tr>
<tr>
<td>May</td>
<td>40.9</td>
</tr>
<tr>
<td>June</td>
<td>46.6</td>
</tr>
<tr>
<td>July</td>
<td>5.5</td>
</tr>
<tr>
<td>August</td>
<td>3.3</td>
</tr>
<tr>
<td>September</td>
<td>1.6</td>
</tr>
<tr>
<td>12 months to end-Sept</td>
<td>3748.1</td>
</tr>
<tr>
<td>January-December 1993</td>
<td>2708.6</td>
</tr>
</tbody>
</table>

Source: LARR-Brazil (1994b: 7)

Figure 4.1 details the dramatic drop in inflation brought about by the Real Plan. When the plan was implemented in June 1994, monthly inflation exceeded 40 percent. By September of that year, it had dropped to less than 2 percent. As the Real Plan was implemented and inflation slowed dramatically, millions of Brazilians quickly saw a rise in their purchasing power. The stabilization plan had, in short, ended the onerous “inflation tax” that had haunted the poor for years. The rapid improvement in the population’s living standards, especially the poor who worked outside of the formal economy and whose wages were not indexed to inflation, gave Cardoso enormous clout as he decided to run for president. He warned the public that his opponent, Luis Inácio “Lula” da Silva of the Workers’ Party (PT), would return Brazil to its previous days of statism and fiscal irresponsibility, thus erasing the recent gains made in the fight against inflation. Cardoso won the support not only of the nation’s business leaders (Kingstone 2000), but also the overwhelming support of the population at large, who had seen the tangible benefits of Cardoso’s stabilization plan. On 3 October 1994, Cardoso garnered a
first-round victory in the presidential election, receiving 53 percent of the vote (LARR-Brazil 1994a). Thus, as he assumed power Cardoso enjoyed immense popular support, and, as the president would soon argue, a mandate to reform the state and its role in the economy. His hope was to translate his popularity from the Real Plan into political capital in his attempt to promote economic reforms early during his administration.

Before entering a life of politics, Cardoso established his reputation as one of Brazil’s foremost social scientists. His writings on dependency theory placed him at the fore in the debate about capitalist development and its effects on underdeveloped countries. He was exiled along with other leading Brazilian social scientists during the late 1960s, during which time he lived in Santiago, Chile, with other Latin American intellectual exiles and also spent time at universities in the United States and Europe. Following his return to Brazil, Cardoso launched his political career in the 1970s, running for the Senate in his home state of São Paulo. Over time his political views moderated, moving to the center on economic issues while maintaining a social democratic philosophy on social policy (Goertzel 1999). During the 1980s he was a founding member of the Brazilian Social Democratic Party (PSDB), which also counted among its ranks long-time Cardoso friends José Serra (Cardoso’s current Health Minister) and Mário Covas (the late governor of São Paulo).

As his stock rose during the early 1990s, Cardoso was to draw upon his extensive academic knowledge and political experience, both of which influenced his thinking. He acknowledged that the root of many of Brazil’s problems lay within the nation’s political system. As Peter Evans, writing about the necessary conditions in which to undertake economic adjustment, states, “Dismantling the state is not the answer. It must be
reconstructed” (1992: 141). Evans highlights the following paradox arising from recent attempts at economic reforms in developing countries: the state, which is believed to be the root problem of recent economic crises, is now trusted with the task of implementing solutions to these crisis. Cardoso has been acutely aware of this paradox (Kingstone 2000: 201). Reform of the Brazilian economy and an improvement in social welfare would necessarily entail a reform, and hopefully strengthening, of the state itself.

Reflecting his avowed social democratic philosophy, Cardoso pledged during his 1994 campaign to make agriculture, employment, security, education, and health the main priorities of his administration (Kingstone 2000: 197). Upon assuming office, however, the new president dedicated himself to swift economic reforms, arguing that it would be impossible truly to improve social welfare until structural adjustments has been undertaken and the state itself had been reformed. One of the president’s first, and most successful, moves was an attempt to end the state’s monopolies in several areas of the economy and to end discrimination against foreign capital. It is to this subject that I now turn.

The Big Five Constitutional Amendments of 1995

Cardoso assumed the presidency in early 1995 with a resounding mandate. Having authored and implemented the Real Plan the previous year as finance minister under President Franco, Cardoso was able to capitalize upon his success in tackling inflation during his bid for the presidency. Upon taking office, he attempted to make use of his enormous popularity by pushing for a series of economic reforms, later dubbed the Big Five, that would require amending the constitution.
The passage of these amendments was important to Cardoso’s economic plan for several reasons. First, and most importantly, they would end the state’s mandated monopoly in key sectors of the economy, therefore opening them to foreign participation. This step had two purposes, one purely economic, the other economic and psychological. From a purely economic standpoint, these constitutional changes would allow for the infusion of badly needed capital into key sectors of the economy. With the exception of the mining sector, these were areas in which the state had performed poorly in recent years and as result had not received adequate investment. Furthermore, the administration and even many within the business community realized that competition was needed in order for Brazil to grow rapidly.

Another purpose of these amendments was to send a clear and strong signal to international investors that Brazil was serious about structural reforms. The simultaneous end of the discrimination between foreign and domestic capital and the opening these sectors to private (foreign and domestic) participation consequently assisted in attracting record levels of foreign investment to Brazil.

Despite the new president’s popularity, the passage of these pivotal measures was in no way assured. First, they were likely to draw criticism on nationalist grounds, as these amendments would pave the way for the privatization of SOEs in politically sensitive sectors. Second, there were possible political obstacles. As discussed earlier, amendments to the constitution require two separate majority votes of sixty percent by

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3 See the collection edited by Barbosa Lima Sobrinho (1994) for a scathing criticism of the Brazilian privatization program, mainly on nationalist grounds.
Table 4.3 Cardoso's Legislative Coalition, 1994

<table>
<thead>
<tr>
<th>Party</th>
<th>Chamber</th>
<th>Senate</th>
</tr>
</thead>
<tbody>
<tr>
<td>PMDB</td>
<td>107</td>
<td>22</td>
</tr>
<tr>
<td>PFL</td>
<td>89</td>
<td>18</td>
</tr>
<tr>
<td>PPB</td>
<td>88</td>
<td>11</td>
</tr>
<tr>
<td>PSDB</td>
<td>62</td>
<td>11</td>
</tr>
<tr>
<td>PTB</td>
<td>31</td>
<td>5</td>
</tr>
<tr>
<td>Coalition Total</td>
<td>377</td>
<td>67</td>
</tr>
<tr>
<td>Total Seats in Each House</td>
<td>513</td>
<td>81</td>
</tr>
<tr>
<td>Coalition Percent</td>
<td>0.73</td>
<td>0.83</td>
</tr>
</tbody>
</table>

Source: Kingstone (1999: 200)

both houses of congress. Hence, tampering with the constitution in Brazil requires a rather broad consensus among legislators. The 1988 constitution grants presidents some of the most sweeping decree powers in the world (Power 1998b), the most important of which is the *medida provisória* (provisional measure). However, the constitution also codified a number of nationalistic economic tenets, such as granting the state monopolies over traditionally sensitive sectors, namely those related to sectors that had once been controlled principally by foreign companies. In order to liberalize these sectors of the economy, therefore, Cardoso could not utilize his own presidential legislative powers but would instead have to jockey with Congress.

Cardoso’s electoral alliance included his own Brazilian Social Democratic Party (PSDB), the conservative Liberal Front Party (PFL), and the smaller Brazilian Workers Party (PTB) and the Liberal Party (PL). Following the election, the president included all these parties except the PL in his coalition. It also expanded to include the catch-all centrist Brazilian Democratic Movement Party (PMDB) and the Progressive Brazilian Party (PPB). Coalition members held 73 percent of seats in the lower house and 83
percent of seats in the Senate (see Figure 4.2). This was a solid majority, yet the breadth of the coalition meant that certain parties would be less amenable to certain measures. For example, the PFL, controlled by the powerful senator Antônio Carlos Magalhães from the state of Bahia, favored a neoliberal economic agenda but was extremely conservative on social issues. The president’s party, in contrast, was one of the most reserved in its support of economic reforms but favored a progressive social agenda.

From the outset Cardoso realized that he would have to create sets of “shifting alliances,” looking for support on the right for his economic proposals and turning to the left for help in passing his social agenda (LARRB 1994b: 7). Despite his avowed credentials as a social democrat, Cardoso’s first priority upon taking office was economic reform. Towards this end, the Big Five amendments stand out as one of the earliest and boldest of the president’s proposals.

Table 4.4 The Big Five Constitutional Amendments of 1995

<table>
<thead>
<tr>
<th>Amendment</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amendment 5</td>
<td>Allowed for private participation in natural gas distribution</td>
</tr>
<tr>
<td>Amendment 6</td>
<td>Eliminated legal distinction between Brazilian and foreign capital</td>
</tr>
<tr>
<td>Amendment 7</td>
<td>Opened internal Brazilian shipping to foreign participation</td>
</tr>
<tr>
<td>Amendment 8</td>
<td>Permitted private participation in telecommunications services</td>
</tr>
<tr>
<td>Amendment 9</td>
<td>Allowed for private participation in petrolium exploration</td>
</tr>
</tbody>
</table>

Source: BNDES (1996: 37)

**Accounting for Economic Reforms in Brazil**

To this point I have attempted to justify my rationale for reassessing the impact of institutions on economic reforms in Brazil. The evidence demonstrates that significant economic reforms have been passed during the past decade, which has helped restore
growth and has increased investor confidence. Now I want to suggest some reasons for how economic reforms have been possible in Brazil. I look specifically at four factors: timing; the type of reform proposed; ideology and ideas; and the influence of political and economic factors. Taken together, I believe, these four variables help to explain the depth of economic reforms in Brazil.

**Timing**

When looking at attempts to pass economic reforms in the New Republic, it is clear that timing plays an important role. More specifically, economic reforms have been easier to pass at the beginning of a president’s time in office. This is not to say that it has been impossible to pass reforms well into a presidential mandate. However, an analysis of successful reforms shows that they are overwhelmingly stacked towards the beginning of a president’s tenure. In fact, all presidents from Sarney to Cardoso have proposed drastic reforms near the beginning of their terms, though not all have had the same level of success. The timing of reform is linked to Brazil’s system of presidentialism. “The combination of presidentialism, a fragmented multiparty system, undisciplined parties, and robust federalism is often difficult...[and] makes it difficult for presidents to establish reliable bases of support” (Mainwaring 1997: 56). Because of this institutional structure, since the restoration of the democracy presidents have attempted to use their honeymoon period to push for contentious economic reforms.

In presidential systems the transfer of power from one executive to another is a momentous occasion. Parliamentary systems generally provide relatively easy mechanisms for the removal of unpopular executives, such as the vote of no confidence. Parliamentarism also tends to be more flexible vis-à-vis presidentialism because under the former executives do not have to serve for a fixed mandate. Popular prime ministers
can call for early elections if it is thought opportune, or the opposition can attempt a vote of no confidence if it senses that the government has lost popular support. Moreover, under parliamentarism prime ministers inherently possess a congressional majority, either with a coalition of parties or by just their own party. In presidential systems, it is common for the executive and legislative branches to be controlled by different parties (Linz 1994).

Brazil has a long history of presidentialism, yet its post-authoritarian variant has been attenuated by the fragmentation of the party system. The high number of parties, as well as their general lack of discipline, forces Brazilian presidents to rely on often unstable and undependable congressional coalitions to support the presidential legislative agenda (Mainwaring 1997). Even if a president’s coalition possesses a majority (or super-majority) in the Congress, there is still fear that coalition members will break ranks and go against the wishes of the president and party leaders. Brazil’s particular system of federalism further undermines a president’s authority. A further hindrance to presidents is the weakness of the “coattails effect,” in which presidents are generally able to muster support for their agendas following an election. Samuels (2000) finds that in Brazil governors, rather than presidents, possess powerful coattails. As he explains,

In Brazil federalism cuts presidential coattails short—or simply rips the president’s coat off his back, cuts it up, and divides it among the governors. The root of this problem—and the reason why it remains so intractable—lies in the impact of the institutions of Brazilian federalism on the party system in limiting the linkage between national executive and legislative elections. (Samuels 2000: 17)

Because of the volatile nature of coalition politics and the limited coattails effect, Brazilian presidents must adroitly take advantage of the political capital afforded to them during their honeymoon.
All presidential systems witness the honeymoon effect to some extent, as the new leader is initially given some leeway by the opposition. However, in Brazil this period signifies an important window of opportunity in which it has been possible to muster support for important, yet contentious, legislation. This phenomenon has been apparent with every president in Brazil since the end of the military regime, from Sarney to Cardoso. One of Sarney’s first moves was the introduction of the Cruzado Plan, which failed to stabilize inflation. On his first day in office, Collor announced the firing of thousands of public sector employees, introduced a draconian stabilization plan (which also failed), and took the first steps towards liberalizing foreign commerce. Finally, Cardoso achieved most success with his reform agenda during his first year in office.

In short, all post-transition presidents have used their honeymoon as a period to attempt to pass economic reforms, though with varying levels of success. With items still left on Cardoso’s economic and political reform agenda, it is possible that the next president (to be elected in October 2002) will also pass through the same experience. With the passing of time it is possible that this phenomenon will be less powerful than to date. Nonetheless, recent history has demonstrated the importance of this period for new presidents.

**First- vs. Second-Generation Reforms**

In Brazil it has been easier to pass first-generation as opposed to second-generation economic reforms. First-generation reforms refer to areas such as stabilization, liberalization, and exchange rate policy, all of which are directly related to macroeconomic activity. These were generally the first measures undertaken in countries during the 1980s in response to the debt crisis (Haggard and Kaufman 1992). In contrast, second-generation reforms aim at changing areas such as the tax system, public
administration, social security and other social programs, and the political system. While these areas do not have an immediate impact on the macroeconomy, collectively they are important because they form the root cause of the state’s fiscal imbalances. When speaking of reforms, it is easy to compress first- and second-generation reforms into one monolithic whole.

Differentiating between these two categories is necessary, for different kinds of reforms face different kinds of political obstacles. This is because the ultimate success or failure of a particular reform depends much on the relationship between the various branches of government. Some political systems allow presidents personally to implement certain types of legislation, sometimes without the consent of the legislature. This is the case in Brazil, where presidents wield significant legislative powers, such as the *medida provisória*. Two of the most significant achievements in the economic realm during the past decade—the start of the privatization program under Collor and the implementation of the Real Plan by Franco—were legislated by means of presidential decree.

In other cases, the legislature is given the exclusive prerogative over certain types of laws. In Brazil has been the case when changes were sought in the constitution. Amendments must be approved twice by a three-fifths vote of both houses of Congress. While Congress supported Cardoso with the Big Five, it has been much less receptive to second-generation types of reform, such as altering the social security system. The judicial branch can also be a key player by deciding on constitutionally questionable reforms, by itself ordering certain measures, or by some other related means. In Brazil the judiciary has often been ultimate arbiter of several economic reforms. For example,
the Supreme Court struck down in early 1999 a proposal from the Cardoso government that forced retired public workers to contribute to the social security system.

Hence, when speaking of reforms, one must always be cognizant of the specific kind of reform being proposed, as well as the legislative means by which such a reform is to be implemented. Second-generation reforms are politically less palatable in Brazil compared to first-generation reforms. The latter, unlike those pertaining to social security or the bureaucracy, are subject to fewer veto players, “individual or collective actors whose agreement…is required for a change of the status quo” (Tsebelis 1995: 289). This is partially due to the legislative powers available to the executive, as presidents are able to implement many laws by decree. Even in those areas in which the executive cannot act alone, congressional agreement with economic reform is often more forthcoming than in other areas of reform. For example, during the 1990s the Brazilian Congress generally sided with Presidents Collor and Cardoso in their plans for privatization. Since much of the privatization program required congressional approval (and not just presidential decrees), it would have been impossible for the program to have progressed as far as it has: $102 billion in divestitures from 1991-2001 (BNDES 2001). Such success is directly attributable to the relative absence of what Tsebelis (1995) terms “veto players” with privatization vis-à-vis broader, second-generation reforms.

The case of social security reform further illustrates the role of veto players. Figueiredo and Limongi (1998) contend that reform of the social security system (previdência) failed not only because of the content of the proposal itself, but also because of the rules governing Congress. Reforming the social security system would have required amending the constitution. As mentioned previously, amendments require
two separate votes of three-fifths of both houses of Congress. The reforms proposed by Cardoso would have an immediate impact on a large number of people (pensioners), which dissuaded politicians from voting for most of the president’s proposals. Furthermore, the procedures governing social security, which allowed the opposition to force a vote on piece by piece basis, further hindered the passage of the reform. The case of social security reform is an some ways the opposite of the Big Five, which involved a much smaller number of veto players, namely workers in particular SOEs.

The Power of Ideas

Changes in politicians’ opinions about the proper role of the state in the economy are another reason for the success of economic reforms. The spectacular growth of the Brazilian economy and the country’s rapid industrialization following the Second World War were directly attributable to the state’s active involvement in the economy (Trebat 1983; Baer 1995). Although a state’s involvement in the economy inherently involves political considerations, a balance must be established between satisfying political considerations and the need for economic growth. Over time the Brazilian economy became increasingly politicized, with the result being a worsening of performance. During the heyday of the military regime the number of SOEs expanded dramatically, large-scale inefficient investments were undertaken, and by the late 1970s growth stagnated. Following the debt crisis of the 1980s, most Latin American countries implemented structural reforms with the aim of restoring growth. Brazil was the last major country in the region to pursue such reforms.

There were several causes for this late start. A concern for social issues and a desire to address the country’s enormous inequalities marked the transition to democracy and the promulgation of the 1988 constitution. The military regime was viewed as
hostile towards the poor and the working class. The drop in living standards and the worsening of income distribution during the 1970s and 80s further fueled resentment at past economic policies. Hence, there were pressures to address social ills either brought about or ignored by the previous, military-led government. Yet another reason for the delay with economic reforms, however, came from within the political class. Politicians were long accustomed to using economic tools as patronage. Attempts to liberalize the economy, privatize SOEs, reform the system of revenue sharing between the federal government and lower levels of government—all these signified a reduction in the instruments of patronage available to politicians. Although this was (and still is) the case in countries the world over, many believed the problem to be intractable in Brazil, since corruption and cronyism grease the wheels of national politics.

Despite this pessimistic prognosis, recent research indicates a change in Brazilian politicians’ attitudes toward the state’s role in the economy. Timothy Power (1998a) analyzed several data sets to discover whether there has been an attitudinal shift among Brazilian congressmen (both deputies and senators) in regards to economic issues. Power was able to reach several conclusions from his analysis. First, he found that neoliberalism has made inroads among congressional politicians since the late 1980s. Second, politicians from the center-left to the far right generally accept neoliberalism, although there are still questions about the depth of politicians’ commitment to neoliberalism. Third, “President Cardoso has achieved an impressive string of legislative victories in his pursuit of neoliberal reform,” mainly through skillful coalition management (Power 1998a: 67). According to Power’s study, party discipline within the Cardoso coalition has been remarkably high, in contrast to what most analysts claim.
Finally, the Left is isolated in its economic views, a fact that may bode poorly for its future political prospects.

What do these findings have to say about the future course of economic reforms in Brazil? Power cautions that his study is preliminary, yet believes that further research will support these initial findings. His belief is that with the exception of the far Left the political class in Brazil will continue to accept neoliberal economic tenets, at least during the short term. Studies like Power’s are important, for they reveal the underlying modes of thinking within the political class.

As recent scholarship has shown, ideas play an important role in politics (Hall 1989). In one case study, Sikkink (1991) describes the way in which the idea of desenvolimentismo, or developmentalism, took hold in Brazil during the Kubitschek era, leading to the creation of state development-oriented institutions. Neoliberalism likewise brings with it repercussions in the political sphere. President Cardoso, while ostensibly a social democrat, has aggressively pursued a neoliberal agenda. He has successfully enacted most first-generation reforms and consequently has focused his attention to reform of the state, which is directly linked to the nagging problem of the fiscal deficit. However, as discussed above such second-generation reforms have been more difficult to implement in Brazil.

**Influence of Political and Economic Variables**

One criticism lodged against institutionalism is that it overemphasizes the explanatory power of institutions in political outcomes. This has been the case in much of the scholarship on Brazilian politics in recent years. For example, Brazil is said to possess a system of “paralyzed federalism,” with a “paralyzed competitive arena” characterized by intractable tensions between the federal government on the one hand and
the state and municípios on the other (Souza 1997: 170). The result of this “paralyzed federalism” has been a lack of governance, a highly problematic structural fiscal problem, and a lack of authority for Brasília vis-à-vis lower levels of government. While Brazilian presidents, especially Cardoso, have attempted to recover the federal government’s authority, such efforts have been hampered by weak parties, clientelistic politicians most interested in securing patronage for allies at the local level, and an apathetic political culture that is distrustful of the political system.

Considering this gloomy scenario, it should seem a miracle that economic reforms were ever passed in Brazil. Yet they have been passed, and it is doubtful that the country will experience a large-scale regression to the statism of the past. These developments clearly call into question the institutionalist critique of Brazilian politics. First, the political landscape is changing, as evinced by politicians’ shifting attitudes towards neoliberalism. Hence our past assumptions about the “obstacles,” i.e. political resistance, to reforms must be revised. Second, despite the influence of institutions, one must still pay heed to the power of political and economic variables. For example, by most accounts President Cardoso has been a skillful if cautious negotiator, displaying a high degree of political acumen when pursuing his reform agenda. We may legitimately question how different events would have been in Brazil since 1995 if Cardoso or a similarly capable politician had not been in the Planalto.

Besides political skill, there are a host of other factors at play in the course of the reform process. For example, economic pressures, both domestic and international, have been decisive in influencing the passage of economic reforms. According to Haggard and Kaufman (1992: 4), “decision makers operate in a matrix of international, social, and
institutional incentives that sets limits on the range of policy alternatives.” In the scholarship on economic reforms in Brazil, institutional factors have been given almost exclusive attention while others, such as international and social ones, have received inadequate consideration.

An important case demonstrating the influence of external economic pressures was the international financial assistance package of late 1998. Totaling $41.5 billion, the package was tied to an agreement between IMF and Brazil. The distribution of these funds was contingent on Brazil’s reaching specified primary account surpluses, which many doubted could be accomplished. Yet, to the surprise of many, the country has consistently met its targets with the IMF. Cardoso has vigorously sought measures that would enhance fiscal discipline, both at the federal and local levels. Towards this end he secured passage of the Fiscal Responsibility Law in April 2000, which puts tight limits on discretionary “social” spending at the federal level and imposes penalties on fiscally profligate states (EIU 2000: 9). International pressures played a role in imposing fiscal discipline on Brazil. Following the devaluation of the real in early 1999, analysts were deeply concerned about the future course of the Brazilian economy. It was imperative to assuage the fears of international investors, and towards this end Cardoso was able to meet the fiscal targets agreed upon with the IMF, as well as the Fiscal Responsibility Law even though such measures limited the discretionary spending available as pork to congressional politicians.
Conclusion

Despite the bleak assessments offered by most political scientists, Brazil has undergone widespread economic reforms during the past decade. Factors such as the timing of reforms, the kind of reform proposed, changing ideas about the role of the state in the economy, and (non-institutional) political and economic pressures all help to explain how economic reforms have been possible in Brazil’s “inchoate” (Mainwaring and Scully 1995a) political system. Rather than criticizing the speed of reform in Brazil, Kingstone (2000) believes that this success is directly attributable to the slow pace of reform. According to him

> each of the New Republic’s presidents has been able to pass some small portion of the overall [reform] program. In turn, each successor has been able to use those reforms as a base on which to build further . . . which has permitted the continuation of the process and has consequently kept Brazil “muddling through gridlock.” (Kingstone 2000: 186)

He recognizes the problems presented by Brazil’s institutional design and is doubtful that Brazil will be an immediate resolution of the economic problems emanating from the political system, such as a persistent fiscal deficit. He adds that “long-term resolution is likely to come, if at all, only with slow, incremental reforms” (Kingstone 2000: 202).

Reform has occurred and will continue to occur in Brazil, yet subject to the constraints of the country’s political system. This is not to say that further reform will not be possible. As recent years have demonstrated, reforms in Brazil occur at a slower pace than in other Latin American countries. This alone is not reason for pessimism.
CHAPTER 5
CONCLUSION

The purpose of this study has been twofold. First, it has provided an overview of contemporary scholarship on Brazilian politics. Much of this literature draws on institutionalism in its various guises to explain the difficulties encountered in implementing reforms in Brazil. Second, this study has attempted to highlight the gap between the predominant interpretation of Brazil’s reform efforts—what I termed the institutionalist critique of Brazilian politics—and the country’s successful record with economic reforms, which has seem much progress under Cardoso’s leadership.

Main Findings

Specifically, I argued that four factors help account for economic reforms in Brazil. First, the timing of a proposed reform can influence its ultimate success or failure. Brazil’s combination of presidentialism, federalism, and multipartyism complicates the passage of economic reforms (Mainwaring 1997). Hence, Brazilian presidents at times have made use of their honeymoon period in office in order to pass reform legislation. In Chapter 4 I analyzed in detail the passage of some of the most important reform measures during the New Republic, especially the government of Fernando Henrique Cardoso, showing that most significant economic reforms were proposed at the beginning of a presidential term. Not coincidently, most successful reforms occur during this period.
Second, first-generation economic reforms have been easier to pass than second-generation reforms. This fact is due partially to the powers bestowed upon the Brazilian president. The constitution of 1988 provided significant reactive (veto) and proactive (legislative) powers to the executive. Many first-generation reforms have been realized by means of presidential decree, thus circumventing the Congress. In those areas in which Congressional support has been necessary, one sees that the areas in which significant reform has occurred entails fewer of what Tsebelis (1995) calls “veto players.” That is, those areas with fewer actors whose interests involved are easier to reform. Thus privatization has been impressive in Brazil, while social security reform, which effects millions of people, has proven much more difficult to change.

Third, reforms have been possible thanks in part to changing attitudes among politicians. As discussed in Chapter 2, Brazil has a history of heavy state intervention in the economy. The state’s role had not only an economic logic, but also played an important political tool by providing the state and key politicians with patronage resources. Following the debt crisis of the 1980s and the hyperinflation of the early 1990s, it proved difficult to alter this traditional relationship between the state and the economy. In the words of historical institutionalism, the Brazilian political system displayed a high degree of stickiness in regards to economic policy. However, as Power (1998) has shown, only the Left still supports the traditional statist economic model, while most others sectors of the political class support, at least in theory, neoliberal ideals. This shift in politicians’ opinions has played a role in securing economic reforms in Brazil.
Fourth and finally, institutionalist studies have too often emphasized domestic political factors while ignoring or paying inadequate attention to domestic and international economic forces. Brazil’s vulnerability to international forces has been a key explanatory factor in the passage of several pivotal reforms in recent years, such as the Law of Fiscal Responsibility. There is growing recognition that the country’s persistent fiscal deficit, as well as profligate spending by the states, harms the country by raising interest rates and worrying international investors. Beyond economic forces, I also argued that one must still pay heed to non-institutional, political factors such as leadership. For example, one could argue that much of the success with economic reforms since the mid-1990s is attributable to the acumen of President Cardoso. He has been to “overcome” the problems emanating from Brazil’s political institutional design, thus furthering his economic reform agenda.

Collectively these factors help explain the passage of extensive economic reforms in Brazil. Although studies of Brazilian politics since the transition to democracy have been fixated on the institutional inadequacies of the New Republic, one can now perceive a shift in scholars’ attitudes towards the effect of institutions on Brazilian politics in general. In a recent review of the literature on Brazilian politics and political economy, one scholar noted that “works on Brazilian party systems and legislative-executive relations continue to be dominated by outdated, impressionistic, and overdrawn arguments and evidence,” with the result being the perpetuation of “pessimism regarding the nature and accomplishments of post-transition democracy in Brazil” and the country’s efforts to reform its economy (Resende-Santos 2001: 209). This shifting attitude is most
apparent among Brazilian political scientists, with many North American scholars still subscribing to the institutionalist critique laid forth in Chapter 3.

One of the problems with the prevailing institutionalist critique of Brazilian politics may not be so much overemphasizing the power of institutions as it is examining the wrong institutions. With so much attention given to the political institutions examined in the Chapter 3, scholars have often overlooked the impact of other variables. Such a move has already started to occur, again spearheaded by Brazilian scholars. According to Figueiredo and Limongi (2000: 168), “the characteristics of the decision-making process—the legislative powers of the president and the legislative organization—may be more appropriate determinants of governability than the form of government, the characteristics of party system, or the electoral system.” They find that since the promulgation of the 1988 constitution, presidents have had a very high rate of success in implementing their agendas, due principally to “the legislative powers of the president and the centralized organization of the legislative work” (Figueiredo and Limongi 2000: 151).

Their findings counter the conventional description of Brazilian political parties. Riordan Roett, one of the foremost U.S. analysts of Brazilian politics, states that “Brazilian political parties are best understood as shifting groups of self-interested individuals who find it convenient to come together under a bland banner that usually includes the words progressive, social, or democratic” (1997: 21). While Roett’s criticism still possesses some truth, research like that done by Figueiredo and Limongi demonstrate that common notions of the Brazilian political system are becoming increasingly outdated.
Suggestions for Future Research

The conclusions of this study point to topics for future research. Considering the outmoded perspective of much of contemporary scholarship on Brazilian politics and political economy, future studies must move beyond the conventional notion that the Brazilian political system inherently impedes reform. Scholars must take it upon themselves to reassess the impact of institutions on economic policy in general and to look for answers to how reforms are passed. In some cases, studies could benefit from a comparative, cross-country perspective.

First, future research should explore in greater detail the attitudes of politicians towards the proper role of the state in the economy. Power’s (1998) analysis, as he himself states, only offers tentative conclusions. While his survey data from members of Congress suggest that politicians have increasingly accepted neoliberal ideals, only time will show the depth of their commitment to less state intervention. With a new administration to be elected in late 2002, it will be interesting to see the level of continuity in economic policy between the present and incoming administrations. The success of the Cardoso government has been due in large part to the maintenance of a broad coalition, which has remained united principally through the dispensation of favors and pork to coalition members.

Further studies of the party system are needed, as presently there are conflicting accounts of the level of coherence and discipline of Brazilian political parties. On the one hand, scholars such as Mainwaring (1999) stress the low level of institutionalization of parties in Brazil. However, others such as Figueiredo and Limongi (2000) stress that parties have displayed a high degree of discipline since the start of the New Republic, thus aiding president’s in promoting their agendas. Certainly, the proliferation of parties...
has stabilized in recent years, but problems such as party switching by politicians remain. Understanding the party system is essential for the reasons addressed in Chapter 3. Political parties are an integral part of a democratic system, facilitating the functioning of government by aggregating citizens’ interests and allowing for bargaining between the executive and the legislative branches. One hopes that Brazilian political parties are in fact becoming more stable and programmatic, yet much research still needs to be done on the topic before we can know with certainty.

One of the most important areas for greater study is the role of international economic factors on contemporary economic policy-making. Brazil’s position in the global economy makes it vulnerable to external pressures, as the devaluation of the real in early 1999 and subsequent IMF agreement attest. During the 1980s and early 1990s Brazil often eschewed the prescriptions of the Washington Consensus. Now the current government is staffed with several prominent neoliberal adherents. There are even signs that a future PT government would be sensitive to international economic forces (Jornal do Brasil 2001).

As Haggard and Kaufman (1992) state, economic policies are shaped by a mix of domestic, international, and institutional factors. Recent scholarship on Brazil has focused heavily on domestic institutional factors, yet international economic forces seem to have significantly influenced economic policy in Brazil during the past several years. In November 1999 the Fator Previdenciário was passed, which created a new system for calculating pension benefits for private sector workers. In April 2000 the government successfully passed the Fiscal Responsibility Law, which placed limits on spending by states and imposes penalties on those that do not maintain fiscal discipline. And while
much work still remains to be done with shoring up the social security system, measures have been enacted that at least temporarily ease pressure on the government’s coffers. All these measures have helped to improve the government’s accounts. Understanding the relationship between these measures and the exigencies of international economic and financial forces should be the subject of future enquiry.

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As the past century has shown, Brazil is a country of immense potential. Between 1900 and the 1980s, Brazil had one of the highest rates of growth in the world (Rigolon and Giambiagi 1999: 6). The country was transformed from a poor, agricultural country into the industrial powerhouse of the developing world. During the past two decades, however, economic growth has remained below historic averages. Political scientists saw Brazil’s political institutions as the cause for the country’s poor reform record. While institutionalism helped explain Brazil’s late start with reforms, it has been less useful in explaining the reforms that have occurred since Fernando Henrique Cardoso took office in 1995.
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BIOGRAPHICAL SKETCH

Brandon Lee Knox received his Bachelor of Arts in economics from Stetson University in 1999. During his time as an undergraduate he spent a semester at the Universidad de Guanajuato in Mexico, as well as a month in Peru studying the activities of non-governmental organizations. While at the University of Florida he studied at the Instituto Brasil-Estados Unidos and the Pontifícia Universidade Católica, both in Rio de Janeiro, Brazil. During the fall of 2001, he will participate in a University of Florida-sponsored internship program with Prudential-Icatu Gestão de Investimentos Imobiliários, a real estate investments firm in Rio de Janeiro. After receiving his master’s degree in December 2001, he hopes to pursue a career in international business.