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Throughout the twentieth century, many political movements adhered to the idea that the state should be the key historical agent to alleviate human misery and advance social and economic development. But by the end of the century, processes of reform radically changed or ended not only state socialism in Eastern Europe, the Soviet Union, China, and Vietnam, but also various types of developmental states throughout East Asia and Latin America. Chile and Mexico were pioneers in processes of state reform in Latin America. The reforms, embraced with varying degrees of success by a large number of countries, sought to open and liberalize the state-centered development model. Privatization, administrative change, and the push for fiscal adjustment initiated a major process of state reform and the search for new economic strategies. The perspective of time, reliable long-term information, and careful study will be necessary to draw mature assessments of these shifts and innovations. This volume seeks to contribute to that undertaking by documenting and probing the reform process in Brazil, a key country that came late to the reform process.

Significance of the Reform Process

Brazil is also a key case to study because of its sheer size: the largest country in Latin America in terms of geography, population, and economy. It embraced a distinctive form of state interventionism in the 1940s and 1950s, and only in the 1990s would it change its statist economic model.

Dirigisme grew deep roots in Brazilian society within a distinctive political context. The Revolution of 1930 initiated a long era of centralized rule, one etched into a national regime by the authoritarian *Estado Novo* of 1937–1945 and later refurbished by the military regime of 1964–1985. The twenty years of populist democracy between 1945 and 1964 witnessed some efforts

at decentralization and liberalization, but most governments after the early 1940s relied on elaborate development programs to justify their own versions of centralized rule. In general, the post-World War II developmental state relied on an industrial policy based on protectionism and subsidies, planning, state ownership, and extensive regulation. Shaped by clientelistic, corporatist, and populist practices, this regime prevailed into the early phase of the post-1985 democratizing era.

Brazilian statism became increasingly incompatible with the new era of democratization and experienced broad challenges in the 1990s.¹ The Fernando Collor government (1990–1992) placed a massive reform drive into the national agenda, but the bold proposals it advanced aborted with his impeachment. By 1993, a disastrous bout of hyperinflation and profound economic difficulties, building on the debt crisis of the 1980s, finally began to convince Brazilians of the need to embark on a sustained period of reform. The main impetus for sustained change came with the two-term administration of Fernando Henrique Cardoso (1994–2002). After putting in place the successful stabilization program known as *Plano Real*, the Cardoso government aimed at a broad and deep package of liberalizing reforms, articulating them in the framework of a fundamental transformation of the Brazilian state and economic regime. That the Luiz Inácio Lula da Silva presidency (2003–) subsequently maintained the course with regard to the core of the reform process tends to confirm Brazil's commitment to reforms as well as the view that the country is experiencing a complex process of realignment characterized by a new policy paradigm, institutional innovation, the consolidation of emergent political elites, and a new development strategy (Font, 2003).

A sustained focus on the lineaments and evolution of the Brazilian reform era opening in the nineties is hence of critical importance in understanding the country's present and probing what the future may hold.

Fernando Henrique Cardoso was elected president largely because of the success of the 1993 stabilization plan he implemented as finance minister. His presidency sought to deepen and broaden the process of stabilization and equilibrated fiscal model, reform the state and political system, liberalize the economy, and change Brazil's international role. The essays in this volume provide perspectives and information essential to the assessment of key reforms proposed and implemented by the Cardoso governments. They help determine the extent to which the latter succeeded in setting a new course for the country.

The significance of an in-depth study of the policies of the Cardoso government also derives from the role of Cardoso as one of Latin America's

1. My own account of the Brazilian reform process, with particular focus on the Cardoso years, is found in Font (2003).

best-known intellectuals and development analysts. Trained as a sociologist at the University of São Paulo, Cardoso embraced development as the central problematic of his intellectual career. His promising career as a professor of sociology at his alma mater was abruptly interrupted in 1964, when the military coup of March 31 of that year forced him into exile in Chile. Cardoso spent several years in Santiago, working at Cepal (UN Economic Commission for Latin America) and also teaching and participating in various activities in Chilean universities and research centers. His work built on pioneering empirical studies of the role of entrepreneurs in Brazilian and Latin American development. His Santiago stay resulted in important contributions to the elaboration of the dependency approach to development and underdevelopment, particularly the influential volume *Dependency and Development in Latin America*. To many, he had become the leading intellectual in Latin America's search for its own distinctive approach to development.²

Upon his return to Brazil in late 1968, Cardoso and colleagues founded Cebrap (Brazilian Center for Analysis and Planning), an independent research center focusing on critical assessments of Brazil's development model and military regime, the prospects for democracy, and the search for alternative economic strategies. As president of Cebrap and as a public intellectual, Cardoso engaged himself with the struggle for democracy, as Brazil experienced gradual political liberalization in the 1970s. By the early 1980s he had emerged as a major political figure and was elected senator. His big political opportunity came in 1993, when he was asked to become finance minister with the charge to stop the vicious process of hyperinflation. Designed by a team of Brazilian economists under his supervision, the new stabilization plan led to monetary and macroeconomic stability. The success of the *Plano Real* made Cardoso an unbeatable candidate in the presidential elections of 1994 and 1998.

Several prominent academic or intellectual figures joined the Cardoso cabinet or occupied other high offices. The long list includes Pedro Malan (Finance), José Serra (Health, after a short stint as Planning Minister), Paulo Renato de Souza (Education), Francisco Weffort (Culture), Luiz Carlos Bresser Pereira (Administrative Reform), and Celso Lafer (Foreign Relations). The first lady, anthropologist Ruth Cardoso, played a major role in social policy, while sociologist Vilmar Faria became a close adviser. Not a small number of cabinet positions were given to politicians from the parties allied to Cardoso's PSDB (Brazilian Social Democracy Party).

Forming winning coalitions large enough for the congressional adoption of constitutional amendments (repeated two-third majority votes at the lower house and the Senate) would be a formidable challenge in any political sys-

2. For Cardoso's trajectory, see F. H. Cardoso [Font] (2001).

tem, but it is particularly so in Brazil due to its splintered party system. Cardoso's strategy was to form large alliances with parties of different ideological and regional bases. This permitted the passage of a round of critical reforms. But a series of financial and political mini-crises after 1998, deepening right after the elections, impeded a major breakthrough in such badly needed reforms as those of the social security and tax systems. Toward the end of the Cardoso years the broad alliance had been unable to make much progress in the reform agenda. The Cardoso years had put Brazil on a new course, but could not take all the steps needed to ensure the durability of the shift. In spite of its shortcomings, that government did succeed in more than a core of specific reforms. An important part of its legacy is the sea change with regard to political and economic thinking, as well as the inauguration of a more civil way of conducting politics.

Many feared that the 2002 victory by Lula da Silva and his Workers' Party (PT) would mean abandoning the course set by the previous government. But the Lula presidency moved rapidly to embrace stabilization, fiscal adjustment, and economic liberalization as priorities. Strikingly, it embraced the critical but politically difficult ideas of reforming the social security and taxation systems. The considerable continuity in policy tends to confirm the view that the 1990s indeed represented a major chapter in a new era of reform in Brazil (Font, 2003). While Brazilian policy making is still subject to great debate and challenges that should be expected to impact on the survival or adoption of specific policies, the country appears to have made difficult but lasting choices about its political and economic organization.

Democracy and Reform

One of the characteristics of the Brazilian case is that the liberalizing reforms have been designed and implemented by leaders with profound roots in the process of democratization. The military, who formally ruled until 1985, had been historically associated with the idea of a centralizing and interventionist regime—as were the elites allied with them, many of whom survived into the post-1985 democratic era. This contrasts with Chile, but also Mexico and Argentina, where the path to reform was defined and opened by technocratic elites working within authoritarian or quasi-authoritarian frameworks. The Brazilian case hence denies the alleged superiority of authoritarianism in matters of structural reform.

Brazil's path to reform thus far suggests that the democratic, consultative road can be effective and sustainable, but also that this approach is likely to be bumpy and slow. Brazil's process of democratization has shaped and will continue to shape the design and implementation of reforms. The political weaknesses of democratic presidents through 1994 partly explains the inability to arrive at new development strategies in the face of clear evidence that

the old model no longer worked. The governing style inaugurated by the Cardoso administration emphasized dialogue, consensus-building, and the abandonment of a preexisting style inclined to shocks. The very design and adoption of the *Real Plan* came about in this manner—unlike the “economic packages” adopted in the period 1985–1992.³ President Lula da Silva appears to adhere to a similar style. If so, this continuity of political style, together with the expressed commitment to liberalizing reforms, augur well for the reform process and its economic impact.

In fact, the government of the Workers’ Party has certain advantages in advancing the reform agenda. The principal may be that, as the locus of the original reform drive, the PSDB and the PFL (Liberal Front Party), the core of the opposition, fully support the reform agenda.⁴ So long as it stays the course, the Lula government should be able to make considerable progress in reforming Brazil.

In a nutshell, there is considerable consensus among the political elite about the need to reform Brazil. The general direction includes macroeconomic and fiscal stabilization, liberalization, promoting competitiveness and exports, forging trade alliances, creating conditions for rural development, emphasizing a social policy based on human capital (education and health), and eliminating flaws in the political system.

Toward a New Approach to Development

Reforms are justified by reference to a greater social value—in Brazil’s case, creating conditions for sustained development. High rates of poverty still plague the country, and it maintains one of the most unequal distributions of wealth and income on earth. Creating propitious conditions for development is thus an urgent matter.

The core of the reforms has an external logic that centers on the country’s ability to attract foreign capital and technology and expand exports. When the debt crisis of the 1980s led to the retraction of capital and investment from the outside, it brought out the inability of domestic actors to steer the economy toward healthy development. The government faced a fiscal crisis that made clear the need for major state reform—made all the more clearer by worsening inflation and economic woes. Meanwhile, the domestic private sector, though it had continued to expand, lacked the capital and technology to generate the high levels of saving and investment needed for faster growth. The reforms adopted in the 1990s were not sufficient. If a balanced fiscal

3. See F. H. Cardoso “Além da economia: Interação de política e desenvolvimento econômico,” paper delivered at Cepal (Chile), August 8, 2003. In this essay, Cardoso also cites the success of the responses to the financial crisis after 1998 and to the energy crisis of 2001 as a result of extensive consultation.

4. The PSDB is on record as pleading support for the reform agenda even as the new government co-optatively embraced it.

model is as essential as monetary stabilization to attract foreign investment, specific reforms such as that of the social security system are also unavoidable.

The inability to adopt a real reform of the social security system left the country's financial system vulnerable. After 1998, Brazil suffered four successive financial crises. Together with the energy crisis of 2001, and political turmoil within the ruling coalition, they generated a climate that impeded more substantial progress in the reform process.

In fact, the deterioration of economic conditions erased a significant portion of the progress made in the mid-1990s. As a result, the net rate of economic growth into the early years of the new century was nil. The liberalizing reform process had come short of ushering in and sustaining an era of high economic growth.

The climate of frustrated expectations following the sacrifices made in the 1990s helps explain the defeat of the ruling PSDB's candidate in late 2002. During the campaign, candidate Lula seemed to argue that the reform agenda as conceived would be abandoned in favor of a new model. However, the Lula presidency itself came to agree with original advocates of the reforms that they had to be completed in order to reduce the vulnerabilities of the financial system and in order to create conditions for sustained economic growth and the ability to attract foreign capital.

The Workers' Party government made a public commitment to pass the reforms of the social security and tax systems during its first year in office. If its actions and statements during the first few months in office confirm the existence of a Brazilian near consensus on key economic reforms, the PT government also declared social and overall development a national priority and continued the strategy toward international trade and integration sketched out by earlier administrations. While maintaining a number of the social programs begun in the 1990s, the federal government adopted the elimination of hunger as a key goal. The government re-confirmed Brazil's commitment toward South American trade integration (Mercosur) and began to develop a framework for the challenging negotiations surrounding the Free Trade Area of the Americas (FTAA) and the multilateral negotiations at the World Trade Organization (WTO).

Conclusion

This volume discusses in detail the Brazilian reform agenda sketched at the turn of the century, one that will occupy the country's political imagination for years to come. The essays provide perspectives and information *essential* to the assessment of key reforms proposed and partly implemented at the dawn of the new era of reform. Many analysts will no doubt deepen and

extend the analysis of Brazil's overall reform process, its new approaches to social and sustainable development, and the evolution of the reform drive. Illuminating a critical phase in the reform process is in itself an important contribution. In addition, this volume provides what we hope is a solid baseline to probe the course of policy-mediated change in twenty-first-century Brazil.