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# Compared to What?

## Assessing Brazil's Political Institutions

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A rich and plausible academic literature has delineated reasons to believe Brazil's democratic political institutions—including electoral rules, the political party system, federalism, and the rules of legislative procedure—are suboptimal from the viewpoints of democratic representativeness and policy-making effectiveness. The authors concur that specific peculiarities of Brazilian political institutions likely complicate the process of solving societal collective action dilemmas. Nonetheless, Brazil's economic and social track record since redemocratization in the mid-1980s has been reasonably good in comparative regional perspective. Perhaps Brazil's informal political negotiating mechanisms, or even other less obvious institutional structures, provide sufficient countervailing influences to allow "governance" to proceed relatively smoothly despite the appearance of chaos and political dysfunction.

***Keywords:*** *Brazil; democracy; political institutions; policy making, economic reform; developing countries*

Many comparative political scientists and economists now emphasize the incentives for "good governance" created by a country's set of formal political rules. Though numerous scholars judge Brazil's political institutions to be almost paradigmatically poorly designed, the country has adopted and implemented politically difficult economic reforms, suggesting an apparent puzzle. One's view of Brazil also influences judgments

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about other imperfect yet reasonably stable new democracies. What we term the hyperactive paralysis (HP) interpretation of Brazil has been especially prominent in comparisons with postcommunist polities (Beyme, 2001; Clark & Wittrock, 2005; Kitschelt, Mansfeldova, Markowski, & Tóka, 1999, pp. 55, 90; Moser, 1999, p. 362; Papadoulis, 2004; Shvetsova, 1999). Is HP the only legitimate assessment of democratic Brazil?

## Political Institutions in New Democracies: Reigning Hypotheses

Linz and Valenzuela (1994) have used the experiences of Latin America to argue that a shift from presidential to parliamentary systems would increase the survival chances of new democracies (see also O'Donnell, Schmitter, & Whitehead, 1986; Stepan & Skatch, 1993). The presumed defects of presidentialism include a fixed term for the chief executive and competing claims of democratic legitimacy for the often warring executive and legislature (Linz, 1990; Lyne, 2001, p. 4). Shugart and Carey (1992) and Mainwaring (1993, 1997) also fear for governability under electoral rules, such as proportional representation (PR), that multiply the number of political parties or weaken internal party discipline.

Cox and McCubbins (2001) evaluate national political institutions along several continua. In "decisive" systems, the chief executive has broad personal decision-making authority and is able to shift policy rapidly in response to a crisis. However, a mercurial leader, or one subject to strong and conflicting pressures from societal interests, may change her or his mind too often or too quickly, leading to policy instability. In contrast, policy "resoluteness" is increased by higher numbers of "veto players," or those institutional roles whose occupants explicitly must acquiesce to any significant policy shift (Tsebelis, 1995). Resoluteness can support economic growth by reassuring investors of regulatory stability, but an excessively resolute polity may be unable to respond to crisis. Polities located at either extreme of this continuum will be dysfunctional. Separation of powers rises with the number of veto players—being greater in a bicameral rather than unicameral legislature, a federal rather than unitary polity, and a presidential instead of parliamentary system—and may represent the familiar set of presumed political virtues captured in the phrase "checks and balances." However, separation of *powers* often also implies separation of *purpose*, meaning that elected or appointed officials answer to diverse constituencies, separated by geography, sector, or even ascriptive group (as

in India's tradition of "reserved" legislative seats for women, Muslims, and lower castes). Separation of purpose makes mutual trust among diverse veto players difficult, increasing the need for chief executives to induce policy cooperation via political "pork" and "rents." It increases the likelihood of fiscally irresponsible public policy (Cox & McCubbins, 2001, pp. 47-48; cf. Easterly, 2001, chap. 13).

Combining these propositions, the scholarly consensus suggests that a new democracy that is presidential, has centrifugal electoral rules (such as PR), and has extensive institutional separation of powers and purpose (as with a bicameral legislature and/or federal system) should be particularly difficult to govern. It might also be more than usually prone to fiscal deficits.

## The Hyperactive Paralysis Syndrome: The Dominant View About Brazil

Brazil possesses virtually all of the problematic characteristics identified in the general political institutions literature, plus additional unfortunate features peculiar to itself.[1] Brazil is presidential and thus faces the possibility of divided government. Brazil has a bicameral legislature, each of whose chambers exercises significant power. Any amendment to Brazil's extremely detailed 1988 Constitution requires approval by a 60% majority of the total membership of both chambers of the legislature, and each chamber must pass the amendment twice. The rules of legislative procedure compound the problem of forming a stable governing coalition: There are no thresholds for a party to win representation in the legislature, no penalties for members of Congress who switch parties while in office, and a party with a single deputy receives all of the congressional privileges accorded to larger parties. Brazil has PR, which creates a fragmented party system. For example, the October 2002 elections returned 19 parties to the national legislature, including 9 in President Lula da Silva's governing coalition. Brazilian parties are undisciplined, exacerbating frequent executive–legislative deadlocks (Mainwaring, 1999). The president uses cabinet appointments to reward coalition partners, thus importing dissent into the executive itself (Ames, 2001, p. 160). True, the 1988 Constitution increased the powers of the president with respect to the legislature. Presidents now

1. For example, Abranches (1988), Lamounier (1994, 1996), Mainwaring (1995, 1997, 1999), Ames (1995, 2001, 2002), Samuels (2000, 2003), Samuels and Abrúcio (2000), Abrúcio (1996), and Power (2000).

may issue legislation by provisional decree (PD, or *medída provisória*). However, laws passed by presidential decree expire in 60 days, unless they are reissued (requiring at least a slight alteration in the text) or Congress votes on the measure. PDs are the last resort of a weak chief executive who cannot get bills passed by any other means (Power, 2000, p. 24).

The national parties are federations of state parties obsessed with local issues. Even after late 1990s reforms, the fundamental elements of Brazilian federalism remain: a constitutionally mandated resource base for subnational governments (without clear state responsibilities), powerful state governors, and domination by traditional political elites with parochial political concerns (Hagopian, 1996; Sola, 1995; Willis, Garman, & Haggard, 1999). Governors have stronger electoral coattails than presidents and can control members of Congress. Nominations for most political offices, electoral coalition formation, and the distribution of free media time for campaigns all happen at the subnational level (Desposato, 2003). Abrúcio (1996) and Samuels (2003) term Brazil's robust federalism *predatory*.

Brazilian institutions also ensure separation of purpose, or multiple actors responsive to diverse and fragmented constituencies. Brazil has open-list PR, in which the candidates for each party also compete against one another, encouraging the "personal vote" and undisciplined political parties.[2] Brazil also has home-grown peculiarities, such as the *candidato nato* rule, which provides that no incumbent can be denied a spot on the next ballot, irrespective of his or her behavior in office, including switching political parties. Consequently, most federal deputies pay little attention to national issues or ideology, instead concentrating on "wheeling and dealing" (Ames, 1995, p. 430). Presidents seek support from legislators through offering jobs and resources—that is, pork and rents—and the resulting congressional coalitions are loose and shifting (Mainwaring, 1997; Weyland, 1996). Brazil has long had a high number of political appointees in the federal bureaucracy (Schneider, 1991), and presidents have frequently so despaired of controlling an existing executive branch agency that they have opted to create a new, duplicate bureau in the same functional area (Geddes, 1994; Nunes & Geddes, 1987).[3]

These features establish multiple veto points, profound clientelism, and overly resolute decision making. Bolivar Lamounier (1996) once characterized Brazil as subject to a "hyperactive paralysis syndrome" (HP), a term we

2. This contrasts to an alternative system (closed-list proportional representation [PR]) in which the party leadership creates an ordered list of candidates, thus creating incentives for all party members to cooperate to elect as many candidates from the slate as possible.

3. Several governors have recently employed a similar coping tactic (Melo & Pereira, 2004).

**Table 1**
**Implementation of Market-Friendly Reforms, Latin America**

| | 1985 | 1990 | 1995 | 1999 |
|---|---|---|---|---|
| Argentina | .338 | .468 | .595 | .616 |
| Brazil | .259 | .430 | .515 | .610 |
| Chile | .488 | .570 | .577 | .606 |
| Colombia | .291 | .425 | .524 | .562 |
| Mexico | .290 | .424 | .531 | .511 |
| Peru | .279 | .335 | .598 | .659 |
| Venezuela | .284 | .343 | .477 | .514 |
| Regional average | .341 | .436 | .539 | .583 |

Source: Lora (2001).
Note: .00 indicates a perfectly unreformed regulatory framework; 1.00 suggests a perfectly market-friendly regulatory framework.

adopt for this general interpretation. In sum, it would seem that Brazil's political institutions make the country unusually difficult to govern.

## Brazilian Policy Making in Comparative Perspective: Not So Bad After All?

But what does ungovernability mean? Brazil has been politically stable since redemocratization, despite a president who resigned to avoid impeachment in 1992, and the unprecedented election of a leftist of lower class origins in 2002. The difficult but necessary task of implementing structural economic reforms has proceeded steadily though incrementally. On Lora's (2001) composite index of adoption of market-oriented reform *policies*, Brazil's score has improved in line with that of its regional neighbors, as shown in Table 1 (cf. Armijo & Faucher, 2002, pp. 4-10). Brazil's macroeconomic *outcomes* also have been at or above the regional norm, as shown in Table 2. Among developing countries, Brazil was second only to China as a destination for foreign investment from 1995 to 2000. Yearly capital inflows averaged almost US$29 billion, 1998 to 2001. Exports have increased about 10% annually since 1999.

Even Brazilian social indicators, though still abysmal, have improved recently. Infant mortality has fallen, from 64.4 per thousand 1985-1990 to 38.1 per thousand as projected for 2000-2005, due to public programs in food distribution, habitation, and sanitation (United Nations 2004; see also

**Table 2**
**Macroeconomic Outcomes, Latin America**

| | GDP Growth 1992-2001 (% Annual Average) | GDP Growth per Capita 1992-2001 (% Annual Average) | Gross Fixed Capital Formation 1992-2001 (% GDP, Annual Average) | Inflation, CPI 1999-2001 (%, Annual Average) | Urban Unemployment 1999-2001 (% Annual Average) |
|---|---|---|---|---|---|
| Argentina | 2.6 | 1.3 | 15.5 | –1.3 | 15.6 |
| Brazil | 2.7 | 1.3 | 18.1 | 5.5 | 7.0 |
| Chile | 5.5 | 4.0 | 22.1 | 3.1 | 9.4 |
| Colombia | 2.5 | 0.5 | 15.0 | 8.5 | 18.3 |
| Mexico | 3.0 | 1.3 | 21.7 | 8.6 | 2.4 |
| Peru | 3.8 | 2.0 | 18.1 | 2.2 | 10.1 |
| Venezuela | 1.6 | –0.5 | 16.3 | 15.3 | 9.8 |
| Regional average ($n$ = 20) | 2.8 | 1.2 | 18.5 | 8.3 | 8.6 |

Source: Economic Commission on Latin America and the Caribbean (ECLAC, 2002).

World Bank 2003).[4] In sum, Brazil has not done worse than other Latin American countries in either policy reform or macroeconomic performance. Though all of Brazil's neighbors are presidential, and Argentina, Venezuela, and Mexico also are federal, few Latin American countries have as many formal rules that appear to maximize both executive–legislative gridlock and separation of purpose. Thus, we have an anomaly: a seemingly "feckless" (Mainwaring, 1995) political system with reasonably good policy performance. There are two possibilities: either other, less obvious rules and procedures counterbalance the "dysfunctional" formal institutions, giving the president more influence than often recognized; or we have been comparing Brazil against an unrealistic ideal, and the glass is really half full.

## De Facto Executive Dominance: Revisionist Interpretation Number 1

Some recent interpretations of Brazilian political institutions may be characterized as revisionist, in that they credit the system with higher

4. Brazil's rating on the Human Development index increased from .695 in 1985 to .775 in 2002 (United Nations, 2004).

levels of governability.[5] Several authors suggest that Brazilian presidents are stronger vis-à-vis the legislature and state governors, political parties more disciplined, and coalitions more stable than recognized. In short, policy making is more *centralized, decisive,* and *predictable* than is claimed. We call this de facto executive dominance (ED; cf. Palermo, 2000). Revisionist scholars have reinterpreted, inter alia, the use of provisional decrees, the formation of coalition cabinets and legislative majorities, and presidential control over the distribution of patronage. For example, Figueiredo and Limongi (2000) argue that provisional decrees enable the president to take effective decisions and shield the government coalition from debates and votes on politically sensitive issues. Moreover, presidents wield both package and partial vetoes and have extensive agenda-setting powers, including the exclusive right to initiate budget and civil service legislation.

As noted, Brazilian presidents have to form a multiparty legislative coalition to pass ordinary legislation, which they do in part by distributing cabinet posts. Contrary to the dominant view, one could tell this as a story of executive strength, in that it gives the chief executive a lever with which to manage otherwise fractious political parties. Moreover, although congressional representation is highly fragmented among multiple political parties, patterns of interparty coalition are recurrent and predictable. In practice internal party discipline in the Congress is high: Legislators vote with party leaders more than 80% of the time (Figueiredo & Limongi, 2000, p. 151; see also Alston, Melo, Mueller, & Pereira, 2004, p. 10). In addition, the centrifugal effects of Brazil's "robust federalism" are weakened by the chief executive's power to allocate state resources—or not. A congressional vote to appropriate funds for a project is not in practice a guarantee that the government minister in charge actually will release the funds, because appropriated funds are liberated only with the president's explicit approval, each time giving him an opportunity to exact a quid pro quo (Capiberibe, 2004; Desposato, 2003, p. 9). Belonging to the government coalition translates into more than proportionate access to federal resources (Limongi, Figueiredo, & Cheibub, 2002, p. 19). Governors thus push their states' congressional delegations to join the ruling coalition.

In sum, those analysts who posit de facto ED interpret the actual operation of Brazil's often byzantine political institutions as considerably more centralized (that is, more concentrated, decisive, and with fewer veto players)

5. For example, Figueiredo and Limongi (2000); Cheibub, Figueiredo, & Limongi (2002); Amorim Neto and Santos (2001); Amorim Neto (2002); Amorim Neto and Tafner (2002); Palermo (2000); Desposato (2004); and Alston, Melo, Mueller, and Pereira (2004).

than in the hyperactive paralysis view presented above. Some though not all scholars in the ED camp go further, worrying that Brazilian political institutions are so centralized as to be undemocratic. In other words, competent governance is achieved only by sacrificing political legitimacy, as the system only functions when the president employs questionable tactics to circumvent the opposition (Palermo, 2000). This more pessimistic version of ED puts us close to O'Donnell's (1994) "delegative democracy," or to the pejorative label "hyperpresidentialism" (Ducatenzeiler & Oxhorn, 1994).

## Recurrent Bargaining: Revisionist Interpretation Number 2

We suggest an alternative revisionist analysis, one consistent with other recent interpretations that stress Brazilian pragmatism, especially that of Palermo (1999, 2000).[6] Let us term this view *recurrent bargaining* (RB). It rests on four propositions. First, we agree with the HP perspective that Brazilian political institutions are decentralized and thus tend toward excessive resoluteness (aka gridlock, divided government). Political institutions are centrifugal, decisions inevitably involve numerous players, and reaching policy agreement necessarily is messy. Brazilian institutions exhibit high separation of both power and purpose. Chief executives and their ministers distribute multiple clientelistic side-payments to stitch together even temporary policy coalitions. However, and second, we also concur with the ED perspective that Brazilian presidents, elected by and thus responsive to the population as a whole, possess considerable bargaining resources vis-à-vis legislators, political parties, and governors, each of whom only need please narrower constituencies. Features such as provisional decrees and the executive's de facto control over the release of even legally mandated funds for subnational government tend to empower the executive.[7]

Yet third, and in subtle contrast to the other interpretations, we identify the reasonably successful core of Brazil's framework of political institutions as its production of multiple incentives to all significant players to negotiate and

6. See also Kingstone (2000); Tavares de Almeida (1996); Amorim Neto and Tafner (2002); and Sola, Kugelmas, and Whitehead (2002).

7. Constitutional Amendment No. 32, of September 11, 2001, was intended to make it more difficult for presidents to impose their legislative agendas on Congress via provisional decrees. Nonetheless, the practice has continued much as before. See http://www.v-brazil.com/government/laws/laws.html.

cooperate. Each player retains some politically relevant resources, but no one, aside from (perhaps) the president, possesses actual veto power: The choice confronting actors is to bargain or risk being sidelined, as neither private goals nor collective action problems can be solved without allies. These incentives induce compromise by the holders of formal institutional positions, including presidents, bureaucrats, legislators, governors, and judges.[8] Societal players also bargain and compromise, more or less continuously. Fourth, Brazil's policy-making process, while wasteful, is highly participatory and even somewhat representative, which helps to construct stable, legitimate mass democracy. We will not enshrine Brazil's often clientelistic and chaotic politics as an alternative superior to clear and principled contestation among political parties representing ideologically consistent policy programs. But "muddling through gridlock" (Kingstone, 2000) is not a bad second best.

We illustrate this view by again reinterpreting three specific institutional features: PDs, sunset legislation, and legislative party discipline. PDs expire after 2 months unless they are explicitly renewed or the legislature votes to continue them. Amorim Neto and Tafner (2002) suggest that PDs can be considered negotiating instruments between the Congress and the president. On one hand, this is a way for the chief executive to signal that a particular bill is really important. On the other hand, deputies and senators may hesitate in approving a new law if they are unsure of its impact on their electoral base. One way to resolve this uncertainty is to let the executive bear the whole responsibility of the reform, while waiting to see its impact on society. PDs should be particularly useful to legislators in the case of policies whose costs are expected to be felt immediately but whose benefits show up only over the medium to long term—that is, those policies that suffer from "time inconsistency."

Frequent use of sunset legislation—or laws passed by the regular legislative process that expire after a year or three, and which ostensibly are employed only in temporary or crisis situations—also can be read as signifying executive weakness, as a weak president might settle for a law with a sunset provision when he or she lacks the votes to secure a permanent change in the law. Alternatively, we might instead consider laws passed with sunset provisions as a quintessential example of continuous executive–legislative bargaining. Under this latter interpretation, legislators might oblige the president by passing, and then later voting to extend, and then later voting to extend again, a controversial piece of legislation on which

8. On the judiciary as a political actor see Alston et al. (2004).

the president was willing to expend substantial political capital. However, each vote gives federal deputies and senators a new opportunity to extract offsetting concessions from the executive. This is the sunset provision as a bargaining tactic. It has been used with great regularity in Brazil. The techniques that chief executives use to construct legislative coalitions may be understood similarly. The president selects a multiparty cabinet to lure enough parties (and votes) into his or her camp to pass legislation. But in Brazil the executive needs to negotiate for every issue. Negotiations involve both parties represented in the cabinet and those officially in the opposition. Thus, all parties are "*conditional legislative parties*, where leaders' actions depend on the support of party members on a case-by-case basis and where influence flows from the bottom up" (Ames, 2002, p. 214). Under these conditions, ideology plays a relatively small part in politicians' decisions to support or oppose particular legislation. Thus, President da Silva's party, the PT (Workers' Party), now receives conditional support from politicians whose political base is with workers and peasants—but also from those representing entrepreneurs, agro-business, and the urban middle class.

Is this glass half empty or half full? Though time-consuming, constant negotiation performs the essential but sometimes underappreciated function of interest aggregation. In a polity as large and diverse as Brazil, the process of enabling multiple sectors and regions and interests to feel themselves to be participating in the national policy-making process is of utmost importance for democratic legitimacy. Thus, a continuous debate between state governors and federal authorities over fiscal matters and allocation of funds, producing legislation with sunset provisions requiring periodic renegotiation, can be viewed as predatory federalism. Or it might instead be reconceptualized as a Brazilian version of checks and balances, which on fiscal matters is very much like Canadian federal–provincial relations. In an odd, highly incremental, and arguably frustrating fashion, the system does work. Moreover, its very weaknesses paradoxically might provide the system with a certain resilience, or even strength.

## Choosing Among Interpretations: Three Brazilian Cases

What is in dispute is not so much the facts but how particular facts are weighted, summed, and interpreted. Table 3 compares the alternatives. The HP view takes Brazil's formal institutions at face value and finds multiple veto players. Implicit in this analysis, we argue, is a judgment on the policy process, which we will use to compare the three alternative framings of

**Table 3**
**Three Interpretations of Contemporary Brazilian Democracy**

| | Hyperactive Paralysis | Executive Dominance | Recurrent Bargaining |
|---|---|---|---|
| Veto players: | President<br>Political parties in ruling coalition<br>Key governors<br>Judiciary? | President | President |
| President employs: | Inducements | Inducements<br>Coercion | Inducements<br>Persuasion |
| Policy making is: | Inefficient<br>Ineffective (costs of pay-offs exceed benefits)<br>Undemocratic (because clientelistic) | Inefficient<br>Sufficiently effective<br>Undemocratic (because top-down) | Inefficient<br>Sufficiently effective<br>Sufficiently democratic |

contemporary Brazilian political institutions. Under the HP view, the president constructs a viable legislative coalition principally through "remunerative power" (Etzioni, 1975, p. 12) or material inducements, that is, the clientelistic distribution of political pork, rents—or even bribes. Policy making is inefficient: Chief executives and other leaders expend enormous effort in building and maintaining legislative coalitions. It is also ineffective: Private pay-offs waste public resources, making construction of a focused, responsive state impossible. Politicians confront multiple incentives to eschew substantive reform, which would reduce their patronage resources, control of which determines their political survival. Finally, policy making is undemocratic, as the public interest is sacrificed to a distributive politics of "personalism," "segmentalism" (Weyland, 1996, p. 42), and perennial backroom deals.

In the ED model, numerous officials and groups participate in policy making, but only the president enjoys an actual veto. Policy making is still inefficient: A reform-minded chief executive makes multiple pay-offs and continuously negotiates. However, mechanisms exist to render the process passably effective, at least if the president is willing to employ both inducements and administrative coercion to build workable reform coalitions. Unfortunately, policy making is also centralized, opaque, and thus undemocratic.

From the RB perspective, as within the ED view, only the chief executive is a true veto player. The RB framework acknowledges the same sources of inefficiency as the other two models but, unlike the ED view, is skeptical of

the chief executive's ability to prevail for long by bullying other politicians. Effective policy changes instead occur through a combination of material favors exchanged and normative appeals (Etzioni, 1975, p. 12) by the president as leader. He or she eventually may convince other politicians and special interests on the merits but may also employ the bully pulpit to take problems directly to voters. This process is sufficiently, though not wholly, democratic, in that (a) all or most concerned parties have an opportunity to make their case; (b) the chief executive, if not all policy participants, confronts electoral incentives to seek the broad public interest; and (c) the bargaining process is reasonably transparent to the press and public.

Inasmuch as these are contending qualitative, and ultimately subjective, assessments of the set of all Brazilian political institutions operating together as a system, none—including the dominant HP view—is subject to unimpeachable proof. They are more or less plausible summaries of complex reality. We propose that the choice among interpretations ought to rest on the goodness of their fit with the trajectories of key economic reforms. Our comparative methodology is behavioral and more focused on the *policy process* than on formal institutions. To illustrate, we reassess three recent market-oriented economic reforms, each widely agreed by analysts operating within each of the three alternative mental models to have been among the most significant since the democratic transition. We ask, (a) What was/is the core policy task, as defined by one or more incumbent presidents? (b) Who were/are the likely winners and losers from the desired policy shift? (c) Which political actors have had influence, and veto power, in this issue arena? (d) What has been the record of goal achievement? (e) Have the president and key advisors employed mainly inducements, coercion, or persuasion? and finally (f) How might we evaluate the policy process in terms of efficiency, effectiveness, and democracy? Table 4, whose structure replicates the bottom row of Table 3, summarizes our answers. For each issue arena, we find that the actual policy process is most consistent with the RB interpretation.

## Inflation Stabilization

Ending chronic high and very high inflation was Brazil's most urgent economic policy priority of the late 20th century.[9] Annual inflation reached the low triple digits in the early 1980s and expanded to the mid–quadruple

9. On inflation stabilization, see Bresser Pereira (1996, pp. 161-199), Armijo (1996, 2005), Goertzel (1999), Amann and Baer (2000), Kingstone (1999, 2000), Cardoso (2000), and Chaffee (1998).

**Table 4**
**Economic Policy Making in Democratic Brazil**

| Administration | Presidents' Reform Objective | Was Policy Making: Efficient? | Effective? | Democratic? | Policy-Making Style |
|---|---|---|---|---|---|
| Sarney<br>Collor<br>Franco<br>Cardoso I | End hyperinflation | No | Yes | Yes, finally | Recurrent bargaining |
| Collor<br>Cardoso I<br>Cardoso II | Privatize | Moderately | Yes | Yes | Recurrent bargaining |
| Cardoso I<br>Cardoso II<br>Da Silva | End state-level deficit spending | No | Moderately, so far | Yes | Recurrent bargaining |

digits by the mid-1990s. The federal government had been a principal contributor to inflation with its own deficit spending, both acknowledged and disguised through various off-budget accounting manipulations. Total current government outlays needed to be reduced (or funded through additional taxes or borrowing), making this a classic collective action problem, as no group wanted its share of public spending cut. Moreover, various economic ministries of the executive branch set many crucial prices in the economy by administrative fiat. Certain of the most essential prices, notably the minimum wage and the formula by which it would receive nominal corrections for accumulated inflation, were jointly determined by the executive and the legislature. Finally, most of the formal economy was indexed to one or another inflation measure. Though indexation served to project past inflation into the future, each actor feared relative losses from de-indexation of its income. Short-term policy tasks were to (a) end all indexation simultaneously and definitively, (b) sop up excess liquidity to avoid demand-driven short-term price rises, and (c) convince investors that chronic government deficits would disappear permanently and the accumulated public debt gradually be paid down.

The winners from macroeconomic stabilization would be the general public—particularly those whose incomes and assets were not fully indexed—and the economy as a whole, as the immense creativity and real resources once devoted to coping with inflation were released for other pursuits. Short-term losers would include all sectors who believed that their incomes

had been stabilized at low levels relative to those of other sectors—as well as those who had learned to manipulate Brazil's complex regulatory system so skillfully that they had managed to earn profits from inflation. The latter included bankers and the financial sector (Armijo, 1996), as well as many government agencies, who had perfected the art of delaying nominal payments to suppliers. Any stabilization package would be designed within the Finance Ministry. However, its successful implementation would depend on (a) leaders of other executive branch ministries, including functional ministries with entrenched interests in continued spending; (b) Brazil's multiparty, bicameral Congress, which would need to ratify any stabilization programs initially passed by provisional decrees; and (c) business, union members, and their leaders, all of whom would need to forebear from seeking compensation for their perceived relative income losses.

Stabilization was the top policy priority under five late-20th-century presidents: Figueiredo (1979-1984), Brazil's last military chief executive; and his democratically chosen successors, Sarney (1985-1989), Collor (1990-1992), Franco (1993-1994), and Cardoso (during his first term, 1995-1998). From 1985 through 1993, Brazil had nine major and minor stabilization programs and six new currencies (Cardoso, 2000, p. 71; Chaffee, 1998, pp. 16-23). All programs were designed in secret by government economists. Once each was announced to the nation, major economic rules governing prices, costs, currency, and contracts shifted immediately, imposing instantaneous gains and losses on economic agents and unleashing a scramble as firms, citizens, and government agencies all tried to protect themselves by searching for loopholes in the new regulatory net.[10] Monthly inflation in these years shows enormous spikes, then valleys, followed by even higher spikes as each new plan collapsed.

The Real Plan, first announced in late 1993 by President Franco's then–Finance Minister, F. H. Cardoso, is the stabilization plan that finally worked: Annual inflation since 1995 has averaged around 10%. Why? There were, as always, new and improved technical features, including the use of a quasi-fixed exchange rate as an inflation anchor (Amann & Baer, 2000; Cardoso & Helwedge, 1999; Fishlow, 1997). In our view, however, what fundamentally differentiated this policy from previous stabilization plans is that it was publicly announced, presented to Congress, and widely debated—that is, recurrently bargained—for many months during its gradual implementation

10. The Collor Plan of 1990, which instantly froze more than 70% of all bank deposits, initially for a period of 18 months, was perceived as particularly authoritarian—and thus fiercely resisted.

process. In June 1993, Franco's finance minister, Cardoso, announced the Plan of Immediate Action, this time beginning not with a price freeze or radical de-indexation but instead with public sector adjustment, including federal budget cuts and a temporary tax on financial transactions. In August 1993, three zeros were dropped from the currency, then the *cruzeiro real*. In December, the finance minister presented details of the expected components of the plan over the coming year. In March 1994, the economic team used a provisional decree to announce creation of a new, unified, inflation-indexed unit of account, known as the URV. Gradually contracts were to be converted to URVs, with plenty of time for special interests to complain to the ministry about relative prices. In May 1994, Congress passed the URV as ordinary legislation. In July, as promised, an executive decree terminated use of the old currency, substituting the URV, which now became equal to the new currency: the *real*. Congress duly ratified the Real Plan a year later, in June 1995, after Cardoso had been elected president in late 1994 by winning a first round victory on the strength of the plan's success.

The opposition, led by the PT and its presidential hopeful, Luiz Inácio Lula da Silva, had made political hay by denouncing previous plans that had used the invasive and unpredictable "shock therapy" approach to stabilization and thus were unprepared for Franco and Cardoso's more open and democratic approach to economic policy making. The PT initially attacked the government's fiscal restraints; pleaded vigorously for immediate investment, employment, and growth; and denounced the intolerable constraints imposed on Brazil's economy by international financial markets (Goertzel, 1999, p. 119). Nonetheless, after having explained at length what it intended to do, debated with the opposition and other policy players, and responded to criticisms, the Cardoso team followed the plan and introduced the reforms. This consistency proved crucial for sustaining the newly restored and fragile confidence of society in its political leaders.

Overall, anti-inflation policy was inefficient, as failed programs accumulated over a decade. Yet ultimately, Brazilian stabilization was effective, though only after the executive ceased trying to employ administrative and regulatory coercion, which did not fit the country's political institutions. The Real Plan's implementation process—and to some extent even its design, details of which were altered in the process—was transparent, bargained, and ultimately democratic. The previous plans, both orthodox and heterodox (see Pastor, 1992, on this distinction), were entirely products of clever economists in the finance ministry. As such, they addressed the *economic* knot that was inflation but made no progress with the associated, and arguably prior, *political* conundrum. The response of each adversely affected societal

interest was simply to find ways to raise its prices surreptitiously, meanwhile fiercely lobbying executive branch ministries and members of the legislature for formal exceptions from the inevitable (and always overturned) wage–price freeze. In contrast, Cardoso's Real Plan was preannounced by the executive, debated in Congress, and minutely negotiated with powerful societal interests. Essential follow-on legislation, including constitutional amendments, was passed by the Congress, a process requiring the painstaking construction of a multiparty coalition (Chagas, 2002). Tellingly, policies were maintained, despite early losses to influential players. The financial sector had large short-term losses, and business's pricing power was kept in check by an overvalued exchange rate plus trade liberalization. The policy was politically sustainable because the end of inflation brought immediate improvements in income distribution (Smith & Messari, 2001). Moreover, even losers had had time to voice their objections and secure symbolic concessions during the implementation process.

## Privatization

By at least the early 1980s, there were multiple reasons for the national government to sell Brazil's historically state-owned enterprises (SOEs).[11] First, fiscal deficits and debt were a serious problem, and the money raised would be extremely welcome. Second, the reasons that the federal government originally had begun producing electricity, petroleum, steel, iron ore, and industrial chemicals had to do with the paucity of capital and technical expertise in Brazil's private sector, combined with an arguably rational fear of complete foreign domination of the commanding heights of the industrial economy. Those days were long gone. Third, the public sector's fiscal troubles had deprived the SOE sector of needed long-term investment since the early 1980s, and services were beginning to deteriorate. Fourth, in the 1990s, private foreign investors and the international financial institutions used progress in privatization as a key yardstick for evaluating the creditworthiness of emerging market countries. Public sector finances—and by extension the general public with an interest in macroeconomic stabilization—would be a clear winner from privatization. If postprivatization service was as good or better than under public management, then the general public also could expect gains—though these were uncertain ex ante. Public sector unions (important vote banks for many federal legislators), and the state governors

11. On privatization, see especially Pinheiro and Schneider (1994), Manzetti (1999), and Tavares de Almeida (2001).

and the political heads of many functional executive branch ministries, who had traditionally had patronage rights over many SOE jobs, could expect significant short-term losses. The consequences for the business community, which feared price increases for utilities and critical intermediate industrial inputs, were uncertain.

The policy of privatization had to pass through Brazil's Congress, particularly since the new, democratically negotiated Constitution of 1988 had explicitly designated as public sector monopolies the exploitation of subsoil deposits of petroleum and other minerals, as well as the rights to operate many utilities, including in electricity and telecommunications. Privatization in these sectors would require a legislative supermajority of three fifths (in two votes in each chamber) to amend the Constitution. Governors, union leaders, and executive branch political appointees could exercise political voice through influencing the votes of federal deputies and senators. Moreover, Brazilian law gave a wide variety of actors—the president, the attorney general, Executive Committees of either house of Congress or of any state legislature, the Brazilian Bar Association, the leadership of any political party represented in Congress, and even many organized economic interest groups—standing to bring a suit, in either national or subnational courts, challenging the constitutionality of almost any new law (Manzetti, 1999, p. 190).

Sales of public firms formed part of the stabilization package announced by Collor at his inauguration in early 1990 and remained a top presidential priority for most of the subsequent decade. However, Franco, a traditional clientelistic politician, openly criticized the policy while vice president and had to be convinced by his economic advisors to support privatization after unexpectedly becoming president on Collor's resignation in late 1992. The process was gradual, cumulative, and responsive to the need to convince politicians and the public of its wisdom. Collor began with the less controversial sectors of steel, chemicals, and petrochemicals but nonetheless faced strong resistance, including street mobilizations, from Governors Brizola and Fleury of the powerful industrial states of Rio de Janeiro and São Paulo, respectively. Brazil's respected public sector industrial development bank, the National Bank for Economic and Social Development (BNDES), which had operational responsibility, structured the privatizations to create local allies by, for example, initially limiting foreign participation; declaring a variety of nearly worthless domestic debt securities of various public agencies to be usable "privatization currencies" at their nominal values; and offering special discounted share issues, as well as generous redundancy benefits, to employees of the privatized firms. Under

Collor, sales of 18 firms raised about $4 billion, but only 1% in cash and the remainder in "rotten monies" from discounted public debt certificates. Under Franco, privatization of another 18 firms generated $5 billion, of which a third was in cash. This was a solid but slow start: Other Latin American countries such as Chile, Mexico, and Argentina privatized much more quickly.

During his first administration (1995-1998), Cardoso championed the sales of large, symbolic public firms in sectors requiring constitutional amendments. Unions and the left parties correctly viewed as the tip of the iceberg a proposed constitutional amendment allowing foreign firms to compete with the petroleum giant, Petrobrás, South America's largest company by annual sales and assets, in oil and natural gas exploration. Following a 5-month strike by oil workers in 1996 that severely reduced production and energy availability, the president won the public opinion war. Cardoso persuaded citizens to conserve energy and back him in the controversial step of sending in Army troops to resume production, while convincing legislators to pass an amendment allowing foreign competition in energy exploration (Goertzel, 1999, pp. 132-134). Subsequent amendments authorizing privatization in energy, telecommunications, and coastal shipping all passed despite opposition from the PT, other left parties, and unions. A record 148 lawsuits delayed the sale of Brazil's largest exporter, mining giant Rio Doce Valley Company (CVRD), but it eventually went forward (Manzetti, 1999, p. 190). Privatization of 30 SOEs netted $12 billion, of which three quarters was in cash. In the first 3 years of Cardoso's second term, sales of public companies, plus concessions to operate new telecommunications services, raised $36.5 billion in cash, and the purchasers assumed another $2 billion in telecommunications sector debts (Tavares de Almeida, 2001, pp. 20-21).

How should we characterize the process? Chief executives pursued privatization by log-rolling and inducements to party politicians. Yet these were mostly via transparent quid pro quos (such as compensation for laid-off workers or increased patronage employment rights for governors today in exchange for their abolition tomorrow), rather than the illicit side payments (including kickbacks to officials by bid-winning private firms) that have distorted many other national privatization processes. There was a role for coercion, as when Cardoso's finance minister, Malan, refused to allow the central bank to roll over state debts to it unless recalcitrant governors agreed to privatize state-level public sector banks. But these were legal and thus politically legitimate maneuvers, not authoritarian disrespect for the established rules. Patient, iterative persuasion—of the business community, the public, state governors, federal legislators, and even union members—by presidents

and their economic teams was ubiquitous. From the vantage point of the early 1990s, Brazil's privatization looked slow and inefficient, but by the later 1990s there was greater appreciation of the comparative absence in Brazil of the postprivatization revelations of insider trading, regulatory incompetence, and distributive politics present in many other countries' hastier processes (see Manzetti, 2000; Schamis, 1999). Brazilian privatization has been effective: Most of its goals have been achieved, although Petrobrás remained in federal hands as of mid-2005. Finally, Brazil's privatization process has been generally open and democratic, with much congressional debate over its rules and goals.

## Reforming the Finances of Subnational Government

Under decades of high and very high inflation, both the national government and individual state governments routinely employed nontransparent accounting and large-scale and frequently undisclosed borrowing. But once the Real Plan of 1994 succeeded in stopping inflation, governments had to stabilize their finances. The national government had been in particularly dire straits since the passage of the economically populist new Brazilian Constitution of 1988, which had reallocated a significant chunk of previously federal tax revenues to state and municipal governments.[12] One central government goal for reform of subnational public finances was thus either to reverse these new fiscal transfers or assign to state and municipal governments commensurate new spending responsibilities in health, education, sanitation, or other social infrastructure. Moreover, as of 1995, the accumulated debt of subnational governments, mostly to domestic creditors, was 10.4% of GDP (Amann & Baer, 2000, p. 1812). To prevent future deficits, the Cardoso administration sought legal ceilings on the percentage of subnational government expenditures going to salaries and pensions. The Finance Ministry also hoped to prevent future debt buildup by privatizing state-level public banks, long used by governors to fund campaigns, extend credit to supporters, and cover budget deficits.

The principal expected beneficiaries of reforming subnational finances would be the Brazilian population as a whole, and particularly the poorest

12. Calculation of the effects of the transfers mandated by the 1988 Constitution is complex. Willis et al. (1999, p. 13) estimate that the center's share of public spending fell from 50.2% under the centralized military government in 1974 to only 36.5% after the 1988 Constitution. Montero (2000, p. 65) reports a more modest decline from 65% in 1975 to 54% in 1990, recovering to 58% in 1993. Good sources on subnational finances also include Samuels (2003), Boniface (2002), Nassif (2002), and World Bank (2002).

40% who were unlikely to hold civil service jobs, receive government loans, or even have secure access to services such as primary education or basic health care. If reforms could be sold to voters as desirable, then incumbent politicians might expect electoral pay-offs. However, governors and mayors would lose substantial patronage powers if they had less discretionary funds, fewer jobs to fill, and no friendly state-level bank to cover their budget holes. As noted, mayors and especially governors have many levers of influence over their state congressional delegations, often including de facto powers of candidate selection, even for political parties other than their own! Reform thus necessarily involved negotiations among the executive, the legislature, and subnational politicians, any of whom might attempt to include additional actors, such as the judiciary or interest groups, if this seemed temporarily advantageous.

Efforts to put state finances on a sounder footing have extended through both Cardoso administrations and the first half of the Lula da Silva administration. Cardoso's economic team first attacked the problem of public finances by measures focused on the central government. The stabilization plan of 1994 increased taxes by 5%, cut federal public spending, and created the Social Emergency Fund (FSE) to receive up to 20% of all federal tax receipts, before obligatory transfers to subnational government, for a period of 2 years (Amann & Baer, 2000). In other words, the FSE (first introduced via executive decree and then passed by Congress) temporarily and provisionally reversed most of the effects of the new transfers mandated by the 1988 Constitution. The FSE, now more accurately renamed the Fiscal Stabilization Fund (FSF), was renewed for 2 years in 1997 and again in 1999. Each time, key congressional leaders were unwilling to make the drawback permanent. Finally, in 1999, and following a major financial crisis, forced devaluation, and float of the *real* early in the year, Cardoso in his second term secured a constitutional amendment that permanently "de-linked" federal tax revenues from the requirement that they be transferred to subnational government.

Clawing back fiscal resources for the center worsened the problems of subnational fiscal balance. Moreover, like the rest of Brazil's financial system, state-level public sector commercial banks had found adjusting to stable prices difficult. The deal on offer from the central government, in essence, was that Brazil's Central Bank would assume the banks' bad loan portfolios, much of which represented obligations questionable loans to state governments, in exchange for governors' agreements to bank closure or privatization. Because the more industrialized states of the southeast with the largest debts were also home to key leaders of the core political

parties in Cardoso's legislative coalition, the president could not push too hard. At the same time, the congressional representation of large debtor states of São Paulo and Minas Gerais was not commensurate with their 47% of the population, which meant that they had to accommodate the sometimes divergent goals of lesser debtor states to build a working coalition to bargain with the executive. The zenith of gubernatorial resistance over the central government's intended reforms of subnational finance arrived in January 1999. Former president Franco, recently elected governor of Minas Gerais, publicly defied Cardoso (his former finance minister) by announcing a moratorium on state payments due to the Central Bank and organizing an open letter from six other governors opposing the executive's reforms. This act was the immediate precipitant of Brazil's financial crisis, as investors concluded that Cardoso could not deliver further reform and began dumping the currency.

In the end, the other governors deserted Franco, and he too accepted a face-saving "concession" from the central government and resumed debt payments. By the close of Cardoso's second term, most state banks had been restructured and/or privatized, at a cost of approximately $80 billion through 2001.[13] The culmination of this multiyear process was the Fiscal Responsibility Law (LRF), which passed the lower house in May 2000 and the Senate in August. It set debt limits for all levels of government and committed them to spend no more than 60% of their revenues on salaries and pensions. Moreover, subgovernments are required to set explicit, preannounced annual targets for revenues and expenditure. Governors and mayors who exceed these targets face automatic consequences, including denial of credit and penalty interest imposed on any outstanding loans from the Brazilian Central Bank.

As with macroeconomic stabilization and privatization, policy reform in subnational finances has been prolonged, incremental, and rife with backtracking (Boniface, 2002; Samuels, 2003). The administration traded favors with legislators and governors to inch its program forward. The big state governors tried coercion, even temporary intransigence, but backed away from the precipice when it became clear that they would lose allies. The federal executive employed its more "authoritarian" instruments such as provisional decrees only sparingly, for fear of deepening the ideological divide between the "right" and the "left," which became gradually more salient as the memories of hyperinflation weakened over time. Cardoso's

13. Interview with former Central Bank President Gustavo Loyola, Oxford, UK, February 25, 2002. This estimate includes the cost of restructuring the federal Bank of Brazil.

team quite intentionally chose not to attempt to win specific battles by means of techniques that might cause them to forfeit the war. Persuasion has been essential. All sides have given interviews on television and in the press, in an effort to woo the public, thereby constraining rival politicians.

From the vantage point of the 1990s, this policy trajectory appears wildly inefficient, but after a decade it finally looks moderately effective. Through the end of Cardoso's second term, total public debt to GDP continued to rise, at least partly due to the one-off costs of restructuring subnational finances (partially offset by privatization of attractive federal public firms). The late 2002 election of PT candidate Lula brought to power a president committed to growth and redistribution and with strong support from public sector unions, yet who also had come to understand the importance of fiscal balance as a populist issue. Total public debt to GDP was 55.5% in 2002 but had fallen to 51.3% by February 2005 (dos Santos, 2005). Recognizing his inability to coerce compliance with public sector belt-tightening, one of President da Silva's first official acts was to convene a conference in Brasília of 3,000-plus mayors, each of whose hands he personally shook as he listened to their concerns and requested their help with the LRF. This seems a fundamentally democratic process (cf. Palermo, 2000).

## Conclusions

What, then, is good governance, and how important are optimal formal political rules and institutions? The experiences of Brazil since its democratization in 1985 are consistent with each specific proposition of those whose interpretations we have summarized as the HP model. Multiparty legislative coalitions must be painstakingly reassembled by the president and his or her economic team for each incremental modification of inherited economic regulations and rules, even in situations in which an overwhelming consensus of professional economists, in Brazil and abroad, judges the existing regulatory framework irrational and unsustainable. Governors, when united, can hold federal reform plans hostage—at least for a while. These same governors, who also dispense much state-level patronage, arguably hold more influence over federal senators and deputies than do the official party leaders in the legislature, particularly when sitting legislators can switch parties without penalty. The populist 1988 Constitution is ridiculously detailed, requiring Constitutional amendments to reform such minutiae as the formula for calculating civil service pensions. The "political class," to employ the Brazilian term, consequently is "undisciplined." From the viewpoint of formal political

institutions, in fact, we find more to agree with in the HP interpretation than the strong version of ED. Collor, the postdemocratization chief executive who tried hardest to streamline his intended economic reforms via a combination of political insulation and "authoritarian" coercion, was not a political success. Had Collor been more willing to engage in log-rolling and mutual back-scratching, his fellow politicians would have been less eager to impeach him. The reason the system, on the whole, seems to "work" is probably not that the president has hidden powers of coercion.

Yet in our inevitably subjective view, the sum of the parts proposed in the HP analysis is faulty. The theoretical import of our essay is to question what may be today's excessive scholarly emphasis on formal political rules and institutions, to the detriment of comparative, often qualitative, analysis of the *policy process*. We would reinterpret contemporary Brazilian democracy as a system that requires reformist chief executives to engage in RB, a process understandably frustrating for participants but *not necessarily dysfunctional* from the viewpoints of (a) consolidating democracy and (b) simultaneously accomplishing profound structural reforms of the national economic regulatory system. In other words, when an incumbent government has ambitions to make policy changes with significant redistributive consequences for society, then political institutions that require incrementalism and the painstaking construction of a public consensus sufficient to overcome entrenched special interests paradoxically might even have some advantages relative to alternative political institutions that structure an apparently more rational, programmatic, and substantively coherent political process. Despite extensive separation of power and of purpose, policy making in contemporary Brazil in practice falls somewhere in the desirable middle between extreme decisiveness and excessive resoluteness (Cox & McCubbins, 2001). There are quite likely implicit lessons here for other new or fragile democracies contemplating major structural reforms—whether of their formal political institutions or their economic regulatory architectures.

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