



CHAPTER 7

Political Leadership and Economic Reform: The Brazilian Experience in the Context of Latin America

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Brazil grew 2.4 percent per year on average in the last 25 years—somewhat less than Latin America, a good deal less than the world, far less than the emerging countries of Asia in the same period, and indeed far less than Brazil itself in previous decades. If anything stands out favorably in recent Brazilian experience, it is not growth but stabilization and the successful opening of the economy. To this should be added a political achievement: democracy. Democracy was the grand cause of the people and groups who have governed the country since the departure of the military in 1985. Democracy, it should be stressed, rather than economic stability and growth. These are not mutually exclusive goals, of course, although authoritarian regimes sometimes display faster gross domestic product (GDP) growth rates. For Brazil, as for other Latin American countries, there would be no trade-off among these goals—all three presented themselves as inseparable challenges at the start of the 1990s.

To assume that a political leader in today's world can freely determine the pace and direction of a country's economy as he or she wishes is as questionable as believing that an inspired military leader alone could ensure victory on the battlefield. In *War and Peace* Tolstoy mocks the princes and generals who behave as if their attitudes, words, and resolutions dictate the course of history. His most acid irony is directed at the military theorists who claim to extract scientific laws from the infinite multiplicity of events. The paradox, as he sees it, is this: "The higher soldiers or statesmen are in the pyramid of authority, the farther they must be from its base, which consists of those ordinary men and women whose lives are the actual stuff of history."¹ Spy satellites, smart bombs, guided missiles, and other technological wonders may have dispelled the "fog of war" (albeit only to some extent). Advances in information technology and financial engineering, in contrast, have shown an immense capacity to increase the unpredictability of markets at certain times. Anyone who has been in charge of the foreign-exchange trading desk at the central bank of a peripheral country during a global crisis knows how hard it can be to keep calm and hold a steady course in this kind of fog on a stormy sea.

Without venturing into a philosophical discussion of the limits to free will imposed by the course of nature and history, one must acknowledge the virtual impossibility of distinguishing between what was due to the initiatives of local governments and what was imposed from outside in the economic changes experienced by Brazil and its neighbors in the region. The second oil shock (1979) and the U.S. interest-rate shock (1982) plunged almost the whole of Latin America into a decade of stagnation and inflation, while the industrialized world was recycling its economy. The search for solutions to the crisis inevitably responded to the new forms of operation adopted by investors, multinational corporations, governments of central countries, and multilateral economic agencies.

This does not mean, as some market economics theorists seem to suppose, that there are complete recipes for development that will open the doors of globalization to all countries if they are prepared to "do their homework." Nor that Latin Americans are condemned forever to underdevelopment or merely reflex development, as used to be supposed by vulgar dependency theorists and as some people still believe. Countries experience specific historical courses, which are not limited to mechanically reproducing the global structural "model."

A historical and structural analysis of this complex reality would start with the rules according to which the global economy operates—the general, abstract determinations, in Marxist jargon—and reconstitute how they were experienced, adapted, or transformed in each relatively homogeneous group of peripheral countries. This would be the way to expose the dynamic relations between local and international social forces, as well as to see how adaptations and innovations in the linkages between

1 The quotation and the points about Tolstoy are from Berlin (1979: 22–80).

each country or group of countries and the global economy produce different results, albeit subject to the same general conditioning factors. The framework for change is established by globalization and the information economy, but each country fits into it or defends itself from it in different ways. The responses can be creative; some may be more advantageous than others, and each will depend both on circumstances such as the country's location, population, and natural resource endowment and on political decisions. National societies have different degrees of economic and cultural development, which facilitate better or worse alternatives for adapting to new circumstances.²

The purpose of this chapter is more modest. It is limited to setting out our particular view of recent efforts to consolidate democracy in Brazil while controlling inflation and resuming economic growth. At the same time the chapter presents, as objectively as possible, some thoughts on the limits but also the relevance of action by political leaders to set a course and circumvent obstacles to that process. On occasion the chapter refers to the experiences of other Latin American countries, especially Argentina, Chile, and Mexico, not to offer a full-fledged comparative analysis, but merely to note contrasts and similarities that may shed light on the peculiarities of the Brazilian case and suggest themes for a more wide-ranging exchange of views.³

From Inflationary Crisis to the Consolidation of Stability: Democracy in the Expectations Race

In October 2006, Luiz Inácio Lula da Silva was reelected president of Brazil, winning 60 percent of the valid votes cast in the runoff ballot, after leading the first round with 49 percent, 10 points ahead of the runner-up. Reelection was the crowning achievement for a politician with extraordinary talent as a mass communicator at the service of a democratic symbol—a migrant from the Northeast who became a union leader, the founder of a political party, and president of the Republic. To voters in the least developed regions, who ensured his victory, it also embodied their recognition of the poverty alleviation policies introduced by the previous administration, which Lula extended and converted into a material anchor for his symbolic relationship with the poor. At the same time it represented a renewal of the somewhat reticent support shown for his economic policies during his first term, when expectations of faster growth were frustrated but inflation was kept low and Brazil's integration with the global flow of trade and finance was deepened. The challenge Lula faces in his second term is to convert the contradictory messages from the ballot box into government actions that reaffirm belief

2 This was the approach used to analyze "dependency situations" in Latin America by Enzo Faletto and Fernando Henrique Cardoso in the 1960s. See Faletto and Cardoso (1979).

3 This account of the Brazilian experience of stabilization and economic reform is based extensively on Cardoso (2006).

not merely in symbols but in democratic institutions and their ability to foster new social and economic advances without relinquishing stability.

There are uncertainties on the horizon, as usual: doubts about the long-term sustainability of the economic policies in place, with high interest rates and taxes and with a strong real, especially if the long cycle of global economic expansion should end. Difficulties in continuing to finance the rising cost of social programs and the government machine by increasing the tax burden, cutting investment, and incurring more debt. Conflict between the president's appeals to private investors and the statist tendencies preferred by so many in the ruling coalition. Concern with the disrepute into which politicians have fallen after a series of corruption scandals involving senior government officials, their party, and allies in Congress.

None of this seems to disturb the perception of most Brazilians that "the country is doing all right," in the words of one of Lula's campaign jingles—far from brilliantly, not as well as other developing countries, but "all right." Translation: there is political and economic stability and some income distribution to the poorest of the poor, but with losses for the middle class. The assessments of analysts and local and foreign investors are also positive for the most part. Banks and major corporations closed 2006 with modest investments but strong earnings. At the start of 2007 projected inflation was around 4 percent per year; the international reserves were close to \$100 billion, for imports of \$91 billion and external debt of \$192 billion; and country-risk premiums fell below 200 basis points, the lowest level since calculations began.

Brazil's situation was very far from being as comfortable at the start of the 1990s. Economic stagnation prevailed, a foreign debt moratorium had been declared, hyperinflation was at the gates, and the hopes and expectations awakened by democratization were giving way to widespread despondency. A consensus had formed among political scientists, economists, and observers that a combination of anachronistic ideas, defective institutions, and lack of leadership was preventing Brazil from making the changes needed to control inflation and resume economic growth. While sectors of academia, the state techno-bureaucracy, the business community, and the media were discussing reforms, the national-statism that had inspired several provisions in the "economic order" chapter of the 1988 constitution continued to exert a decisive influence on the opinions of most politicians. In the everyday scrimmage of political activity, old clientelist and populist practices sprang back like weeds in the shade of democracy. Major decisions concerning the design of the nation's institutions weakened the parties and undermined support for the legislative proposals sent to Congress by the president, threatening to reproduce the pattern of executive-legislative conflict that had led to the 1964 coup. The prospect was not of a complete breakdown but of slow deterioration in democracy for lack of governability.⁴

4 A representative sample of this view can be found in papers delivered by Brazilian and American experts at a conference organized by the University of Miami and Fundação Getúlio Vargas in late 1991. See Marks (1993).

The political literature uses the term *doble minoria* to describe the recurrent situation in Latin America in which a president is brought to power by a minority of the electorate and faces difficulties in governing for lack of a majority in Congress (Lins and Valenzuela 1994). In Brazil the two-round system for presidential elections introduced by the 1988 constitution solved the first problem, but fragmentation of the party system worsened the second. The Partido do Movimento Democrático Brasileiro (PMDB) had been the sole party of opposition to the authoritarian regime and won a large majority in the 1986 Constituent Assembly, but then split over key issues in the constitutional debate and whether to support President José Sarney or remain in opposition. Collor de Mello won the 1989 presidential election even though he formally belonged to a practically nonexistent party, evidencing the premature decay of the parties that had led the transition to democracy. In the 1990 elections the PMDB's share of the lower house fell to a fifth, representing a slim relative majority among the 19 parties with seats in the Chamber of Deputies.

Lacking a majority in Congress was not a problem for Collor in his first year as president because he was at the height of his popularity and a congressional election was looming. In his second year he realized that he would have to negotiate with the main parties that had won seats in the new Congress, but by then it was too late. With his popularity rapidly eroded by the failure of his anti-inflation policy and a massive corruption scandal, the lack of a consistent majority in Congress prevented him from implementing the reforms he had promised and in December 1992 forced him out of office.

Rising inflation and falling governability seemed to have caught Brazil in a trap that was draining its energy. This inspired pessimistic prognostications about democracy's ability to win or at least tie the race with the expectations of social and economic progress that democracy itself had aroused.

The Real Plan

Peaceful mass demonstrations against Collor and compliance with due process of law during his impeachment rekindled confidence in democracy. Vice President Itamar Franco, an experienced politician, took over as president and appointed a cabinet based on a broad coalition of parties that ensured him a stable majority in Congress.

The economic climate continued to deteriorate, however. The wage-price spiral accelerated, fueled by indexation, and deprived business and government of any stable value reference on which to base medium- and long-term decisions. Investors remained retrenched, although corporate rates of return and liquidity were generally positive. Inflation had reached 30 percent *per month* when President Itamar Franco appointed his fourth finance minister, in May 1993.

As if this were not enough, political turbulence was back with a vengeance as Congress plunged into rancorous investigation of a corruption scandal

involving kickbacks in the distribution of budget resources that was to lead to the expulsion of several congressmen, including the majority leader.

Under these circumstances it is understandable that our promise of frontally combating the inflation scourge was received with skepticism, albeit tempered with good will, by the media, business, most congressmen, and the general public. With a president who had not been elected to that office (in Brazil, unlike the United States, the vice president is simply the running mate of the presidential candidate, and most voters do not even know who he is) and with Congress semiparalyzed, few believed the political conditions existed to wage this battle against inflation. Time was running out, moreover: general elections were scheduled for October 1994, and a constitutional amendment had brought forward the presidential election to coincide with them. In little over a year, congressmen would leave for their constituencies to campaign, and it would be impossible to pass complex legislation requiring the physical presence of a majority on the floor of the house.

What Congress, the president, and the people actually preferred was a price freeze in the style of the 1986 Cruzado Plan, which had been followed by short-lived euphoria but was still recalled with gratitude. Analysts accustomed to project the future as a rerun of the past predicted that the fiscal austerity measures included in the FHC Plan, as it was initially called, would end up like similar proposals in the Sarney and Collor administrations, gathering dust on some shelf in Congress or the Office of the President.

The success of the Real Plan, as it later became known, and the cycle of change unleashed by the plan refuted or at least relativized the diagnoses that stressed political obstacles to stabilization of the economy and the implementation of reforms in Brazil.

Even in the short time frame allowed by the electoral calendar, it proved possible to assemble at the Finance Ministry an experienced and creative technical team to furnish indispensable support for a minister who was not an economist, formulate an innovative stabilization strategy combining orthodox and heterodox measures, and win the political support to implement it. In this case the minister's experience as a member of Congress was valuable.

Fiscal policy had undermined the credibility of previous stabilization programs under Presidents Sarney and Collor. The first stage of the Real Plan comprised a series of measures designed to cover this flank: cuts in public spending, de-earmarking of some revenues that the constitution had automatically allocated to specific expenditures, a new tax to be collected by banks on all financial transactions including the cashing of checks, and debt renegotiations with the states, several of which had been in or close to default for some years. Although they were insufficient to assure long-term fiscal equilibrium, these measures were submitted to the president, to Congress, and to the nation as a first step in tackling the structural causes of inflation. In bringing forward the proposals, the government made clear that it had no intention of repeating the discredited "shock therapy" tactics applied under previous anti-inflation programs with a heterodox core, and

it showed the determination to dissolve the marriage between inflation and the public purse that had become a hallmark of the Brazilian fiscal regime.⁵ In passing the measures, Congress indicated that it would be possible to build a consensus around a broader reform program, giving economic agents a positive signal about the stabilization policy's chances of success. This momentum and the resulting credibility were boosted in October 1993 when Brazil ended its debt moratorium in direct negotiations with creditor banks and only informal support from the International Monetary Fund.

We believed that orthodox fiscal measures were a necessary but not sufficient condition to tackle inflation at the very high levels that it had reached. At some point it would be necessary to dismantle the wage and price indexation mechanisms that had become generalized in the 1980s and were feeding back into inflation via inertia, making past inflation rates the floor for future inflation. The innovative, and to a certain extent audacious, aspect of this operation was the radicalization of indexation as an antidote to indexation itself, in a move that recalled homeopathy's first law, *similia similibus curantor*. A daily indexation mechanism was introduced in February 1994 (the "real value unit" or URV) as a reference for spontaneous resets to contracts and prices before the new currency began circulating on July 1. This avoided litigation among private agents, or between them and the state, to "decouple" contractual rights and obligations before and after the onset of the stabilization program. Litigation arising from previous programs has resulted in a towering stack of liabilities for the National Treasury. In the case of the Real Plan, only one provision has ever been invalidated by the courts, with comparatively minor consequences. Legal armor plating was a key factor in the Real Plan's credibility.

From 47 percent per month on the eve of the currency change, inflation fell to less than 3 percent per month after 30 days and has remained at a single-digit-per-year level ever since.

The first batch of opinion polls on the presidential election, released in May 1994, had shown Lula clearly in the lead with 40 percent. In October we won the election outright in the first round with over half of all valid votes cast. This result was due mainly to the optimism aroused by the Real Plan, which also cemented the coalition of parties that backed our campaign, comprising our own party, the Partido da Social Democracia Brasileira (PSDB), and two center-right parties, the Partido da Frente Liberal (PFL) and Partido Trabalhista Brasileiro (PTB), broadened in the center by the inclusion of the PMDB after the election. Although our program was by no means limited to this issue, consolidating stabilization (or "holding on tight to the real" as the popular saying put it) became the basic commitment as a function of which our government sought support from Congress and society and would be assessed at the end of the day.

5 The implicit rationale for this marriage was that nominal revenue growth coupled with corrosion of expected expenditure in real terms guaranteed a balanced budget a posteriori, or something along these lines, allowing the government and Congress to avoid the discomfort of negotiating priorities and spending cuts a priori.

Stabilization and Structural Reform

Controlling inflation was to be not the end but the beginning of an ambitious agenda for change, as we had insisted all along. We had a clear vision of the course to steer. The overall vision as well as several specific measures on this agenda had been outlined in the original planning documents for the Real Plan.⁶ The path was made by walking, however, and many unexpected boulders and bends lay ahead.

The initial impact of price stabilization on wages and incomes in general at the base of society anticipated the bonus and deferred the onus of the reforms needed to consolidate stability. A neoclassical economist would have advised us to do the opposite, anticipating the onus while fueling expectations of the bonus. Recalling Machiavelli's teachings about the risks that lie in wait for a reforming ruler, we saw this inversion of conventional economic logic as a political opportunity to sustain the support of the unorganized majority who stood ultimately to gain from the reforms and neutralize resistance from well-organized affluent minorities. We were by no means unaware of the risk of "reform fatigue." However, we were confident that relief at the sharp reduction in inflation would help Brazilian society finally see its age-old ills for what they were and fuel demands for more progress in combating them. We would have to walk a razor's edge between these two collective sentiments: the blossoming of aspirations in response to the changes we had begun, and frustration with the pace and cost of completing the changes.

Our starting point was the conviction that the combination of superinflation, fiscal disequilibrium, foreign debt, and economic stagnation, which had dragged on since the 1980s, signaled the end of a development cycle in Brazil without the foundations having been laid for another cycle. The crisis had well-known proximate causes, from external oil and interest-rate shocks to mistakes and omissions by successive governments. Its underlying cause, however, was the bankruptcy of the centralist interventionist state founded by the dictatorship of Getúlio Vargas (1937–45) and reinforced by the military regime (1964–85). Having enabled Brazil to enjoy 50 years of strong growth, albeit with income concentration and social marginalization, this state model had exhausted its ability to drive industrialization via state-owned enterprises, protectionist barriers, and subsidies to private enterprise.

In our view there could be no lasting economic stability, let alone a sustained resumption of growth, if Brazil remained outside the expanding international flow of trade, investment, and technology. Despite the crisis, many Brazilian companies had managed to modernize their production and management methods, albeit less so their plants and equipment. In contrast with the public sector, private enterprise was not excessively indebted. Although business organizations had been taken by surprise by

⁶ See the Explanatory Memoranda to the July 1993 Immediate Action Plan and the July 1994 measure that introduced the real. Both can be accessed on the Finance Ministry's Web site: <http://www.fazenda.gov.br/portugues/real/realhist.asp>.

the abrupt trade liberalization promoted by the Collor administration, generally speaking they displayed the capacity to face greater exposure to international competition.

To make its economy more competitive overall, however, Brazil needed a different state model. Neither the grand protagonist of development, as in the past, nor the neoliberal minimalist state, but the “necessary state,” as we preferred to call it: with more brains and muscle than bureaucratic mass to respond in a timely manner to the opportunities and turbulence of globalized capitalism. More focused on coordinating and regulating private enterprise than on intervening directly in the economy. Just as important, capable of fulfilling the promises of democracy in the social sphere without making the very beneficiaries of those promises—workers, pensioners, the poorest in general—pay for them via inflation “tax.”

The 1988 constitution was not only vast, rambling, and excessively detailed; it was also highly contradictory, and still is to a large extent. It embodied major advances for fundamental citizens’ rights and safeguards, as well as generous provision for social rights, yet at the same time it reflected the entrenchment of vested interests linked to the structures of the Vargas state, as well as privileges typical of the deep-seated patrimonialism of Brazilian culture and political institutions.

The state-owned enterprises were accommodated by inclusion in the constitution of the monopoly that they already held in oil and gas as well as telecommunications. In mining and shipping there was no state monopoly, but the constitution established exclusivity for Brazilian-owned companies. In both cases the consequence was insufficient investment or none at all. The state-owned electric power utilities were also lagging behind with investments. The severe fiscal crisis meant that it was necessary to eliminate or ease the constraints written into the constitution and define rules whereby the effort to foster expansion in these sectors could be shared with private enterprise, including foreign capital. Otherwise the incipient resumption of growth would be aborted by infrastructure bottlenecks.

For public-sector workers and civil servants the constitution guaranteed a highly privileged pension scheme, both in terms of the age, length of service, and contribution requirements and in terms of the cash values involved. Private-sector employees covered by the official scheme had far fewer advantages but nevertheless saw their benefits guaranteed, extended, or both. Expenditure was rising faster than the capacity to generate revenue, and as a result both systems began to display growing deficits that would eventually place a huge burden on society as a whole, by forcing an increase in taxation, driving up inflation, or pressuring interest rates. Any increase in payroll taxes for the private sector as a palliative measure to contain deficit growth, on the other hand, would lead to a rise in informality, whereby a large proportion of the workforce would be left without any social security coverage at all. In sum, contrary to the promised universalization of rights, the constitution enshrined a social security and pension system that was highly stratified, lopsided, and unsustainable in the long term.

Public-sector workers also benefited from the extension to all civil servants, including the large number hired without competitive examinations, of job security for life and a ban on pay cuts, both of which are reserved for judges in most countries. This hindered any more ambitious effort to modernize the machinery of government, as well as making payroll expansion almost inevitable in all three tiers of government (federal, state, and municipal).

It was imperative to correct these distortions for reasons of both efficiency and equity. This is what we proposed in a series of bills to amend the constitution's provisions on state monopolies, the definition of a Brazilian-owned company, social security and pensions, and public service. The package was submitted to Congress shortly after the new government took office in January 1995. The committee stage and voting on the entire swathe of constitutional amendments lasted throughout the 1995–98 presidential term. Passage of enabling legislation took longer, with pension reform extending until the end of our second term in 2002.

Battle on Several Fronts

For the general public the debate about reform was basically indistinguishable from the marches and countermarches that revolved around the constitutional amendments. These were an important part but only a part of the state reforms carried out in this eight-year period. Consolidation of stability entailed efforts on several fronts.

Financial relations, and behind them the balance of power, in the sphere of the federation were arduously renegotiated until agreement was reached on a legal framework that would limit the future indebtedness of states (as well as some medium and large cities), encourage them to adjust their accounts, and guarantee payment of installments on debts assumed by the federal government. In this process several state banks used by the respective governments for uncontrolled debt issuance were closed or privatized.

Private-sector banks were affected to varying degrees by the loss of the inflation revenue that they were accustomed to pocketing on unremunerated deposits. A program was established to restructure and strengthen the banking sector; this led to changes of ownership for distressed institutions, limiting the losses to depositors, and above all averting systemic or cascading bank failure, whose effects would have been devastating. Federal financial institutions were also restructured and capitalized.

The Collor administration had removed most nontariff barriers and reduced import tariffs. Currency stability and appreciation against the dollar made trade liberalization effective. Contrary to widespread predictions, this did not lead to the destruction of Brazilian industry. Despite difficulties in certain areas, industry as a whole responded positively to liberalization. It took advantage of the favorable exchange rate to import high-tech plant and inputs, benefited from expansion of the domestic market, and basically maintained the same level of complexity and integration across branches.

The state had to make its own contribution toward the reforms needed for growth to resume under the new conditions arising from economic opening.

BNDES, the national development bank, increased disbursements fivefold in the period 1994–98, to a level above R\$20 billion per year. The presence of such a large development bank is unique among the emerging countries and was of key importance to the restructuring of production capacity in Brazil's private sector.

Government agencies of no significance or simply nonexistent in a closed economy had to be strengthened or created in areas such as export promotion, antitrust, agricultural defense, intellectual property, and support for innovation. Structuring such agencies helped to pave the way for strong export growth in both commodities and manufactures beginning in 1999.

The entry of private enterprise into infrastructure sectors required a new legal framework for the granting of public service concessions and the creation of a hitherto unknown entity in the organization of the Brazilian state: regulatory bodies with the powers and political independence to protect the rights of consumers in their relations with service providers. Several such regulators were created following the passage of constitutional amendments on oil, electricity, and telecommunications.

The real was born close to parity with the dollar but not legally pegged to the dollar as the Argentine peso had been by the Cavallo Plan (1991). Rather than dollarization, we insisted on less attractive issues, such as combating the public deficit and balancing the budget. This had important implications for the consolidation of stability in Brazil. Successive attempts to realign the exchange rate in terms more favorable to Brazilian exports were aborted by external financial crises in the second half of the 1990s. Gradual devaluation of the real against the dollar until the end of 1998 lagged behind domestic inflation. Realignment eventually happened of necessity in January 1999, when the risk that our foreign-exchange reserves would be dangerously depleted by a fierce speculative attack forced the Central Bank to float the real. Widespread fears of a banking crisis and inflation acceleration proved unfounded. The structural changes already in place, albeit incomplete from our standpoint, proved sufficient to stabilize the economy without the “exchange-rate anchor.”

The battle to bring states, municipalities, and the federal sphere itself into line behind the banner of fiscal sustainability intensified with the introduction of a floating exchange-rate regime and inflation targeting in 1999. To crown this normative effort, the Fiscal Responsibility Act passed in May 2000 applied strict rules to all three tiers of government regarding indebtedness and the creation of payroll and other permanent expenses.

Last but by no means least, instruments of state action had to be redesigned to fulfill promises of rights universalization in the social sphere. Also via constitutional amendment, new rules were established for participation by the federal, state, and municipal governments in the financing of primary education and health care, and a Fund to Combat Poverty was created. The

criteria for investment of these funds represented a major advance toward equity in public spending, because they prioritized the poorest and most vulnerable strata of the population, who had traditionally benefited least from social programs. Comprehensive changes to the design and execution of essential programs in these areas enhanced spending efficiency, especially through decentralization via the transfer of federal funds and activities to states and municipalities, partnerships with civil society, and systematic assessment of outcomes.

Not all the reforms advanced as much as we would have liked. We lack the necessary distance to judge how far they succeeded, and we cannot guarantee that they have reached the point of no return. However, it seems undeniable that they have now helped sustain the stability of the Brazilian economy for more than 12 years. It may be too soon to say whether they have also laid the foundations for such a significant long-term change as the creation of a new development model, as we intended.⁷

The Drawbacks and Force of Democratic Reformism

Modern formulations of the notion of political leadership emphasize institutional position and “mission.” Outside this context the discussion of a leader’s motivations and personal attributes falls into the banality of psychological and even biological generalization (Petracca 2004). Our thoughts on the role of leadership in the reform process start from these two dimensions. In the case of the head of a democratic government, position is basically defined by power sharing and “mission” by the expectations of the led in their triple status as citizen-voters, voices of public opinion, and members of organized social sectors.

Plebiscitary or Consensual Democracy?

Let us begin with the relations with Congress and the parties, which are critical to any president’s ability to lead in Brazil and other Latin American countries with presidential systems.

Our reform agenda was extensive and complex, and (it bears repeating) took up most of the order of business in Congress for several years. In all, 35 constitutional amendments were passed between 1995 and 2002—36 if the amendment is included that enabled the requisite fiscal adjustment to be made in preparation for the Real Plan in 1993.⁸ Each could be passed only by three-fifths of both houses, with two readings in each house, the Chamber of Deputies and Senate. Because the rules of the lower house allowed (and, within certain limits, still allow) any party to demand that

7 Mauricio Font (2003) speaks of “structural realignment” in referring to the balance of change in Brazil in this period. For an analysis of the reforms by Brazilian scholars, some of whom participated actively in their implementation, see Giambiagi, Reis, and Urani (2004).

8 The text of the Brazilian constitution, including all passed amendments, can be found at the Office of the President’s Web site: http://www.planalto.gov.br/ccivil_03/Constituicao/Constitui%E7ao.htm.

parts of a bill be voted separately, the three-fifths quorum had to be achieved for hundreds of votes. Over 500 supplementary laws, ordinary laws, and relevant provisional measures were passed in the same period.

It is most unlikely that a reform process would have entailed such a huge effort at building a consensus with the legislative branch in any other Latin American country. Did this represent a disadvantage? Considering the gap between our goals and what we actually succeeded in achieving, the answer is perhaps affirmative: the need to negotiate with Congress and the social sectors represented there every single step of the way did result to some extent in a slower pace and a narrower scope for the measures we proposed. However, democracy and economic efficiency are not mutually negotiable goals in our view, as noted at the start of this chapter. Nor has Brazil done worse than those of its neighbors that implemented reforms in the authoritarian way.

Chile under General Augusto Pinochet (1973–90) is always cited as an example of successful reforms imposed without consulting Congress, which had been closed, or society, or at least the working class, which was silenced by vicious repression. Dictatorship is said to have been a necessary evil that enabled the Chilean economy to steer the “right course to growth” from the liberal standpoint, including deregulation, privatization, trade liberalization, and fiscal equilibrium. This view underestimates the price paid by the Chilean people, not only in lost liberties and rights but also in terms of material hardship. An orthodox shock program to tackle inflation caused a recession of more than 11 percent in 1975. The financial crisis that forced devaluation of the peso (Pinochet’s “Chicago boys” also used an exchange-rate anchor) triggered another recession in 1982. Unemployment soared to nearly 20 percent and fell below 10 percent only in the late 1980s.⁹ The proportion of the population living below the poverty line reached 45 percent in 1985; today it has returned to the level prevailing at the end of the 1960s, around 17 percent (Racynski and Serrano 2005: 259–60).

Nor can it be said that Concertación por la Democracia was lucky enough to receive the house in order in 1990. Inflation was 17 percent in Pinochet’s last year and did not fall to single-digit levels until 1995. Although the Concertación coalition retained the principles of deregulation, privatization, and economic openness, it introduced a more rigorous fiscal policy while also restoring workers’ rights and investing strongly in social policies.¹⁰ It did this by consensus building in Congress and with organized sectors of society despite the discretionary resources conferred on the executive by Chile’s hyper-presidentialist constitution (Siavelis 2000). Chile’s GDP grew 5.5 percent per year on average in the period 1990–2004, under Concertación-led governments, compared with only 3.1 percent in the period 1974–89 (Landerretche 2005).

9 Unless otherwise noted, all data on GDP, unemployment, and inflation in Latin American countries are from the World Bank, compiled for this paper by Juliana Wenceslau at the Brasília office of the International Bank for Reconstruction and Development.

10 For a detailed analysis of the economic and social orientations and achievements of Concertación-led governments compared with the legacy of the dictatorship, see Meller (2005).

If Chile stands out in Latin America as a successful case of integration into the global economy, it is thanks not to the legacy of the dictatorship but to what its democratic leaders have been able to achieve by leaving that legacy behind.

In Argentina the military junta that seized power in 1976 attempted liberal reforms similar to Chile's via the same authoritarian road, but the results were disastrous, and the Malvinas/Falklands war made a handover to civilian rule inevitable in 1983. President Raúl Alfonsín (1983–89) received an economy that had been in deep recession for two years with inflation running at over 300 percent.

In contrast with Chile's, Argentina's democratic leaders had a difficult time establishing a lasting consensus on the direction of the economy. Alfonsín's reform proposals foundered in the face of Peronist opposition and lack of support from his own Unión Cívica Radical (UCR). A price freeze attempted under the Austral Plan ended in more recession and inflation of more than 600 percent in 1985, opening the gates for the Peronists to return to government with President Carlos Menem (1989–99). In 1991, as hyperinflation threatened to break out, Menem managed to wrest support from the Peronist Partido Justicialista (PJ) and the opposition for the stabilization program mounted by Finance Minister Domingo Cavallo. In addition to fixing the peso by law at parity with the dollar, the plan included a fast-track privatization process. In 1992 the Olivos Pact between Peronists and Radicals laid the basis for convening a Constituent Assembly that introduced some of the reforms proposed previously by Alfonsín. But Menem's preferred instrument for implementing economic policy, including privatization, deregulation, and what little downsizing of government he undertook, was legislative delegation to the executive, which freed the president of the need to negotiate measures point by point with Congress.¹¹

Without ceasing to be democratic, the road to reform in Menem's Argentina appears to have had a pronounced plebiscitary element, in which the inflationary crisis predisposed the parties and society to accept "heroic" measures and concentrated the initiative in the hands of the president. In contrast, the Chilean and Brazilian experiences fell distinctly into the camp of "consensual democracy," in which the executive must negotiate and trade concessions with the groups that have the power to veto its proposals.¹²

Argentina's shortcut to stabilization may look faster at first sight, but it did not go so far in terms of structural reform, and ultimately seems to have resulted in weaker rather than stronger institutions, as evidenced by the 2001–02 foreign-exchange and financial crisis. A preference for tortuous consensus building led Chile and Brazil to more solid results from the institutional standpoint. There is a significant difference between the two

11 On Argentina's experience with stabilization and reform, see Palermo (2004).

12 The distinction between majoritarian and consensual democracy is explored in Lijphart (1984: 177–207).

countries in this regard: whereas the agenda pursued by the *Concertación* can perhaps be said to have focused on rebuilding democratic social and political institutions on the scorched earth left behind by the dictatorship, the Brazilian reforms simultaneously addressed the need to build new institutions and to remove the detritus of the old Vargas state, possibly paying a higher political price for that.

The “Political Preconditions” Fallacy

The inflationary crisis also functioned as the “midwife of history” in Brazil. With almost daily price rises averaging more than 20 percent per month, practically no sector was immune from the burden of superinflation. Everyone was affected in some way: wage workers, pensioners, and retirees, by accelerating corrosion of the purchasing power of their fixed earnings; self-employed workers and small business owners without access to the banking system, by depreciation of their limited cash assets; the upper-middle class and business, by the immense difficulty of calculating, planning, and investing in a superinflationary environment, even with access to index-linked financial instruments. This boosted potential support for any plausible proposal to control inflation insofar as it diminished resistance to the necessary sacrifices.

Thus Brazil under the Real Plan and Argentina under the Cavallo Plan are examples of the tendency detected by Albert Hirschman in the early 1980s, when he investigated what he called the social and political matrix of inflation in Latin America: “Beyond a threshold of tolerance, inflation certainly is the kind of pressing policy problem that increases the willingness of governments to take action, in spite of opposition from powerful interests, if there is firm expectation that the action will help restrain the inflation” (Hirschman 1981: 206).

To this effect of inflation was added in our case the weakening of traditional political forces for strictly political reasons. We mentioned earlier the exceptional circumstances that justified skepticism about the chances of success of a frontal attack on inflation after the impeachment of Collor: lack of direct electoral backing for his legal alternate, the corruption scandal that had all but paralyzed Congress, and pressure from the electoral calendar. Paradoxically, these very circumstances were what made the Real Plan possible. What analysts diagnosed as a lack of political preconditions turned out to be a window of opportunity. In normal conditions the groups that benefited one way or another from inflation and state disorganization, including segments of Congress, the private sector, and the state bureaucracy itself, would have mobilized more effectively to defend their interests. Only the disarray in which traditional political forces found themselves can explain why they allowed themselves to be defeated—or persuaded—by a minister and his small group of aides and sympathizers in the government, with the president’s support, it is true, but with very hesitant backing from other parties apart from our own, the PSDB.

The art of politics consists of creating the conditions to achieve an objective for which the conditions are not given in advance. This is why politics is an art and not a technique. Its principal weapon in a democracy is persuasion. Thanks to persuasion, to the winning over of public opinion, it eventually proved possible to build a minimum of consensus where it was presumably most difficult and certainly most necessary: inside the government, in Congress, and in the parties—that is, among the actors who make political decisions or prevent them from being made. In the midst of many doubts we had one certainty, grounded in the values of our democratic upbringing: that only a program capable of being explained and understood by ordinary people would be able to inflict a lasting defeat on inflation and set in motion the reorganization of the Brazilian state.

Credibility was a key prerequisite in a country that had suffered the consequences of the failure of successive stabilization programs in recent years. We benefited from the good will of the media, most business leaders, other organized sectors of society, and Congress itself. Despite skepticism about our chances of success they trusted the minister's seriousness of purpose and the competence of his team. Aware of the importance of maintaining and broadening this basis of trust, we decided that there would be no surprises and no promises that could not easily be met: each step in our stabilization strategy would be announced in advance and explained to the general public, always making clear that what was involved was not unilateral action by the government but a *process* whose outcome depended on the continuing convergence of the efforts of government, Congress, private economic agents, and society as a whole.

We often came close to losing the battle for trust. As the months went by, society became more and more anxious about the acceleration of inflation, pressure built up in the government itself for decisive action, and there was increasing resistance from parties and leaders who saw the possibility of a successful stabilization program as a defeat for their own political plans.

The removal of an entire currency from circulation and its replacement with a new one brought a fundamental reinforcement to this battle for trust and credibility: the *symbol* represented by the real, which synthesized the expectations of change diffused throughout society.

Even before the new currency began circulating, the parties' and politicians' radars had begun capturing the public's change of mood. The perception that this could drive a competitive presidential candidacy facilitated the task of winning support for our proposals in Congress.

This is how the breakthrough was achieved: launched under the sign of a "lack of political preconditions," the Real Plan was itself to become the precondition for a realignment of political forces in favor of the reforms.

Almost by saturation, the old order gave way to the new. Victory in the presidential election provided the opportunity and responsibility of anchoring this new situation in the bedrock of the nation's institutions, of moving forward with an extensive agenda of reforms necessary to "hold on tight to the real" and keep the hopes deposited in it alive.

Testing the Limits of Latin American Presidentialism

The success of the Real Plan owed much to this seizing of a window of opportunity. It took eight years of unremitting effort to consolidate stability. The continuity of the progress that was possible to achieve throughout this period depended on a political strategy with two pillars: (1) building a stable majority in Congress by sharing power in the executive with the parties in the ruling coalition and (2) leveraging the president's leadership to bring to bear both the government's forces and those of the coalition parties to push for reform, with the support of public opinion and the organized sectors of society.

A president can often use constitutional instruments to transform his will, if not into law, at least into decrees or provisional measures with the force of law,¹³ and even the authority to ensure his orders are obeyed through recognition of the legitimacy of his decisions. However, to be politically effective by winning more support or smoothing the way to implementing his proposals, he does not fully exercise this virtual power but instead goes about creating situations in which, although his will is not entirely patent, the policies and decisions he aims to pursue stand a greater chance of success.

It so happens that the executive, represented by the president and his cabinet, is only a part of the system of power (not to mention the domination structurally exercised by classes and segments of classes, organized in the nonformal command structure, and that bring pressure to bear on a day-to-day basis and have at their disposal power resources entrenched in a thousand ways in social practices). Congress, the parties, and the courts, to cite only the formal components of the command structure, condition the political game.

The crises that led to the resignation of President Jânio Quadros and the ouster of President João Goulart in the 1960s, as well as to the impeachment of Collor, left a clear lesson: the main question for the president is not *if* but *how* he should share power. The worst mistake he can make is to imagine he has a mandate to govern alone. To do what he has promised those who voted for him, he needs Congress. And to ensure himself of a majority in Congress, he needs to build alliances, because the heterogeneity of the federation and the peculiarities of the Brazilian system of proportional representation produce party-political fragmentation in which no single party wields a majority.

With these lessons of history in mind, we set out to weld an alliance between our own party, the PSDB, and the PFL and PTB in the presidential election, and later to include the PMDB and Partido Progressista Brasileiro (PPB) in the ruling coalition. A balance among the larger parties, preventing our own party from controlling Congress even when it won a majority in

¹³ The Brazilian constitution authorizes the president in cases of urgency to issue provisional measures with the force of law, which lose validity unless they are ratified by Congress in 90 days.

the lower house after the 1998 elections, proved fundamental to ensuring political stability.

A respectable current of political scientists considers Latin American presidentialism a lost cause. Party fragmentation, on the one hand, and the independence and rigidity of the mandates of the president and Congress, on the other, are believed to lead to recurrent political impasses.¹⁴ The PSDB, inspired by this sort of diagnosis, declared itself parliamentarist in its 1988 founding manifesto. Parliamentarism sustained a crushing defeat in a plebiscite held in 1993. In an irony of history, we lost the plebiscite and a year later won the presidential election, thus having to assume the task of ensuring not just the survival but the good health of the system we had considered doomed.

More recent studies underscore the idea that in Latin America, instead of presidentialism it is more appropriate to speak of presidentialisms in the plural. The risk of an impasse is ever present. The means and modes of avoiding it vary according to the specificities of executive-legislative relations, party organization, and the contents of the decisions on the agenda. Only by taking these variables into account, in addition to generalizations about systems of government, would it be possible to explain the positive, albeit problematical, results achieved by democracy in some countries of the region.¹⁵

A peculiarity of Brazil in this regard is the coexistence between the relative weakness of the parties and the strength of Congress as an arena for negotiating and decision making. We are an extreme case of multiparty politics, with some 20 parties represented in the Chamber of Deputies, five or six of them relevant, and none with more than 20 percent of the seats. Argentina, Chile, and Mexico, in contrast, are cases of moderately concentrated pluriparty systems.

The Argentine and Chilean dictatorships closed Congress and banned parties but were unable to destroy them in practice, at least not the largest parties. The UCR (Radicals) and PJ (Peronists), which had polarized Argentine politics since 1945, like Chile's Partido Demócrata Cristiano (PDC; Christian Democrats) and Partido Socialista (PS; Socialists), which date back to the 1920s and 1930s, survived and again assumed a leadership role after redemocratization. Their strength is due to long-standing loyalty on the part of voters and card-carrying members, as well as the discipline of backbenchers. This discipline derives from the electoral system—closed-list proportional representation in Argentina, two-member (“binominal”) districts in Chile—and is reinforced by tradition. The usual penalty for congressmen who vote systematically against the party line is removal from the list at the next election or expulsion before it. Given the weight of tradition and the relative concentration of votes for the larger parties, the chances of reelection for those who leave or are expelled are slim.

¹⁴ Lins and Valenzuela (1994) is representative of this type of approach.

¹⁵ For analyses that emphasize possibilities for executive-legislative cooperation, despite the conflict, see Morgenstern and Nacif (2002).

We Brazilians often imagine that fewer and more united parties would facilitate negotiations between the president and Congress and ensure a faster, more consistent decision-making process. Our neighbors' experience suggests that may not always be the case. United and pugnacious parties may be a synonym for governability under parliamentarism. Under presidentialism they sometimes serve to organize gridlock. Polarization between the PJ and UCR in Argentina, and exacerbated rivalry between right-wing, centrist, and left-wing blocs in Chile, set the stage for the collapse of democracy in both countries.

Polarization persisted in postauthoritarian Argentina, and although it did not reach a breaking point, it severely hampered both UCR-led administrations. The intransigence of the Peronist opposition and galloping inflation led President Alfonsín to resign months before the official end of his term. President Fernando de la Rúa, who succeeded Menem, failed to complete a year in office. His government was stymied by its inability to halt or manage the crisis of confidence in the peso's parity with the dollar. In response to popular rejection of all politicians (*¡Que se vayan todos!*), the UCR broke up and shrank, while the PJ, despite electoral damage, strengthened its relative predominance, sustained by the Peronist party-union machine and its symbolic identification with the *descamisados* (Torre 2004). Argentina thus appears to be shifting away from a virtual two-party system to a pluriparty system with a dominant party, in which executive-legislative relations will tend to oscillate between cooperation and confrontation depending on whether the president is a Peronist.

Argentina's military junta departed the scene without leaving anyone to claim a political legacy. Pinochet's legacy, in contrast, was recognized until the end of his life by the right-wing UDI and RN, which have consistent social and electoral grassroots. This led to an alliance of the center and left represented by the PDC and PS. The unstable triangle of the past was thus replaced by a sort of virtuous circle in which the Concertación's political consistency and economic success reinforce each other, ensuring control of both the executive and Congress.

Mexico's transition to pluralist democracy is a case apart in this mosaic: it was somewhat of a Latin American perestroika, in which a semi-authoritarian regime opened up from the inside out and from the top down in a process led by those who were both head of government and head of the almost single party. This concentration of power enabled Presidents Miguel de la Madrid (1982–88) and Carlos Salinas de Gortari (1988–94) to overcome the Partido Revolucionario Institucional's (PRI) deep-seated national statism and implement the economic reforms that paved the way for Mexico to join the North American Free Trade Agreement in January 1994. Successive electoral reforms since 1978 enabled the opposition to strengthen its representation in the lower house from 17 percent of seats to 48 percent in 1988 and 52 percent in 1997, leaving President Ernesto Zedillo (1994–2000) with a minority in Congress in the second half of his term. The 2000 presidential election brought the democratic routine of

party alternation and made Mexico a member of the club of presidents in *doble minoria*. Partido Acción Nacional (PAN) candidate Vicente Fox was elected president (2000–06) with 48 percent of the votes and failed to win congressional approval for his main fiscal, energy, and labor reforms.

The PRI's hegemony for more than 70 years forged a peculiar mechanism whereby the party controlled its representatives: prohibition of reelection to Congress. Without the possibility of a second consecutive term, congressmen depended on the party for access to other elective offices or political appointments. Far from questioning this legacy, the PAN and Partido de la Revolución Democrática (PRD), which grew in the electoral soil lost by the PRI, used it to increase the power of their national leaderships. One wonders whether this party setup will lead to negotiating and coalition practices similar to those in Chile today or to a three-sided tug of war more like that of Chile before Pinochet.

Unique to Brazil: Strong Congress, Weak Parties

The iron law of what in Brazil has been called “coalition presidentialism” says that to maintain a stable majority in Congress the president must share power in the executive sphere by appointing representatives of allied parties to seats in the cabinet and other positions.¹⁶

If power sharing safeguards the president, other political actors, and the nation from the unforeseeable consequences of an impasse between president and Congress, it does not in itself guarantee the support of a majority in Congress for the legislative measures proposed by the executive. This has to be won vote by vote, bill by bill, in a Sisyphian labor for the president and his inner circle—within which the function of “political coordinator,” normally performed by a minister with an office in the presidential palace, stands out as a high-turnover job.

The key problem here is that except for the so-called left-wing parties, from the variants of communist origin to the Partido dos Trabalhadores (PT), Brazilian parties have little control over how their elected members vote in Congress.

Although some people insist on seeing our parties through European eyes, Brazilian society is entirely different. It has less hierarchy, more mobility, and far fewer stable reference points. Ideologies are too weak to define behavior. Under the dictatorship there was a straightforward alternative: some supported the regime, others fought for democracy. In a free country other choices are available. At the same time, however, there is less difference between the ideologies professed by the parties. Their platforms are very similar, and unfortunately so are their practices.

Unlike the Argentine and Chilean dictatorships, the Brazilian military kept Congress open and shut down existing parties on two occasions: in 1965, when it imposed a two-party system, and in 1979, when it abolished it. This effectively truncated evolution of the party system. The Brazilian

¹⁶ The Brazilian institutional system up to 1964 was first characterized as “coalition presidentialism” by Abranches (1988).

dictatorship itself did not leave behind an electorally competitive right-wing party or bloc, as did the Chilean, and this in turn deprived the democratic forces of a common adversary that could prevent them from dispersing. Several leaders and some of the old parties reappeared, but the political system was reorganized on a different basis: first, for a short time, it revolved around the PMDB; more recently, it has revolved around the polarization between the PT and PSDB.

Moreover, Brazil has an electoral system that tends to push party indiscipline to extremes. The existence of a large number of parties is a typical effect of proportional representation, particularly in a large heterogeneous federation like Brazil. The weakness of the link between elected representatives and their parties is characteristic of the open-list proportional representation system adopted in Brazil, where a candidate's position on a party list depends on the number of votes he or she receives individually.

Adopted in the 1940s when Brazilian society was still predominantly rural with strongly oligarchic features, this system has long shown signs of fatigue. In a democratic mass society with whole states for electoral districts, in which hundreds of candidates contest seats in the lower house, individually competing for tens of thousands of votes, the open-list system has become a game of roulette in which the “banker”—economic power and influential corporations embedded in the state apparatus, in the private sector, or worse still in the interface between the two—always wins in the end. The rate of reelection to the Chamber of Deputies remains low at 50 percent or less, but the high turnover does not mean renewal in any measurable sense, let alone improvements in quality. Election campaigns are growing more and more expensive. Congress members' chances of reelection depend less and less on whether they perform their duties well as a lawmaker and scrutinizer of the government's actions, and more and more on how well they cater to local or sectoral clienteles. This makes the typical congressman a representative in search of people to represent, that is, of new clienteles for whom they strive to cater via amendments to the budget, government favors, or legal advantages. Thus Brazil has a representative system in which “representation,” if any, is postelectoral.

In practice this form of relationship between congressmen, parties, and the electorate, as well as the executive, makes it difficult to characterize our system of government with precision. How can one properly speak of “coalition presidentialism” when the fragmentation of interests and power foci overflows party channels? The notion is useful but needs to be contextualized. It would be greatly preferable to be able to organize stable party alliances and coalitions. The “imperial” aspect of Brazilian presidentialism derives less from the will of the president than from the effective conditions under which politics functions. Given the relative weakness of the parties and the strength of Congress, regardless of what the president wants, if he lacks strength, then clientelism and patronage (or *fisiologismo*, to use the popular term for the system whereby congressmen

lobby for material and political public resources) predominate over the government's capacity to define and implement a change agenda for the nation.

Executive-legislative relations become much more volatile in the context of this type of representation. This is why attempts at building an "institutional" relationship between president and parties produce precarious results. For the same reason political negotiations, however legitimate, are seen by the public as "horse trading" and "logrolling": they are conducted almost individually or, in the case of "parliamentary fronts," by caucuses comprising members of an array of different parties, ranging for example from the PT to the PPB, who join forces to pursue a specific goal, such as farm debt relief, opposition to the easing of restrictions on abortion, or advocacy of parliamentarism.

Nevertheless, with all its delays, peculiarities, and convolutions, Congress represents the interests and visions existing in society. It is up to the government (and especially the president) to understand the rules of the democratic game. The president must be balanced enough to realize that the obstructions, amendments, and feints of the legislature often create the opportunity for understandings that produce better results. Not always, of course, and in such cases it is the president's responsibility to put his foot down, insofar as the rules of the game allow. If even so the results are not forthcoming, then he must go back to public opinion and persistently defend his views. This is why in a democracy the battles are incessant and the improvements incremental.

Tension is inevitable between the president's roles as representative of the majority of the nation and organizer of a parliamentary majority. Without alliances the president cannot govern. Neither, however, can he govern, in the sense of carrying out his agenda, if he "surrenders" to Congress.

Alliances to what end? Just to stay in power or to achieve broader goals? This question must be faced right at the start of his term, when the parties (the president's, those of his allies, or, when even so a majority cannot be assured, those of his former adversaries) sit down with a voracious appetite to discuss what shares they will each have in the spoils of power. This is the time to appoint a cabinet and leaders in Congress (to control and manage the lower and upper houses as well as lead the coalition caucus). The broader goals set limits on the concessions the president may make to allies and his own party. If he is not capable of identifying and safeguarding those parts of the executive that are essential to the accomplishment of his projects, he may end up appointing the wrong people to key positions. In our case the economic area, including ministries and federal financial institutions, and the most important portfolios in the social area, starting with health and education, were not included in any power-sharing deals. Privatization of many large state-owned enterprises (SOEs) took out of the equation dozens of top executive positions that had traditionally been part of these negotiations. The introduction of formal procedures to choose regional and middle managers in social security, land reform, and

environmental protection, among others, had the same effect. Otherwise, even in positions open to nomination by allied parties, it proved possible to match political criteria, technical competence, and alignment with the government's goals.

Members of the opposition and other critics of the government accused us of subjecting Congress to a "steamroller," lubricated by handouts of jobs and budget allocations. In actual fact the scope for political appointments was made narrower for the reasons given above, as was the scope for so-called parochial amendments after the scandal involving members of the budget committee in 1993. If the clientelistic use of jobs and funds were the key to ensuring a pro-government majority in Congress, it would be impossible to explain how we enjoyed broader support for a longer time to pass a much larger and more complex reform agenda and with far fewer resources with which to bargain than previous governments.

In our view the key to the majority was none of the above, but the project itself: the "mission" legitimated by the ballot box and public opinion, and in whose name the government made alliances and sought backing in Congress. Common sense suggests that the more the government asks of Congress in terms of lawmaking, the higher the price it must be prepared to pay in "retail" negotiations with the parliamentarians who support it. Our experience suggests the contrary: the consistency of the government's legislative agenda, with its overarching commitment to "holding on tight to the real," did not hinder but rather facilitated the task (in itself always arduous) of keeping the extent to which specific demands from parties and allies were met within reasonable limits.

Support from the street is no substitute for support from the parties. Without stable party alliances it would have been hard for the government to overcome the 1999 foreign-exchange crisis, when the commitment to saving the real seemed momentarily endangered and the president's ratings took a plunge. A combination of tactical flexibility to negotiate and renegotiate a parliamentary majority, and strategic obstinacy to pursue the key points of the reform agenda, made it possible to traverse the inevitable ups and downs in presidential popularity while maintaining both the majority and the direction of the government (Graeff 2000).

Turning the Page on National-Statism

The "mission" that legitimates the president's actions is almost always couched by the people in generic terms, although not necessarily vague ones: controlling inflation, eradicating poverty, creating more jobs, combating crime. The leader must translate these diffuse expectations into a *project*, a sequence of actions that consistently lead toward the desired common good. This depends on the scope of his *vision*—his understanding of the country's past and outlook on its future—and his ability to assemble a team to formulate and implement concrete measures in accordance with this vision.

Our efforts to translate the mission of controlling inflation into a more ambitious reform project would have to surmount one major obstacle: the

national-statist vision with which Brazilian culture and political institutions are imbued, as well as a constellation of interests linked to that vision.

Mentioned above was the relative backwardness of this discussion among Brazilian politicians. They were not alone in this respect. In Brazil, as elsewhere, a significant number of intellectuals remained attached to a basically statist vision—self-labeled left-wing, socialist, nationalist, or progressive—even after the collapse of the Soviet Union and the acceleration of capitalist globalization had resoundingly discredited statism. Surprising alliances were seen between these fellow travelers. In discussions on fiscal adjustment, the traditional budgetary populism of those who advocate “spending now and the money will turn up later” often resorted to the pseudo-Keynesian arguments of economists venerated by the left.

The influence sustained by national-statism in Brazil is proportional to the advances that it claimed in the last century. Brazil’s economy grew more than any other country’s between 1930 and 1980. Industrialization by import substitution bequeathed an industrial base unrivaled in Latin America, vast, diversified, and, as became clear after economic opening, reasonably competitive. Expansion of the protected domestic market sustained levels of employment at a time of explosive demographic and urban growth. The Vargas state extended to the masses who had only recently flooded into the towns a precarious web of social protection but one that was unprecedented and far better than the insecurity to which they were exposed in the countryside.

Economic decline in the 1980s sapped the strength of the military regime, but confidence in the old form of the state and its economic model remained unscathed. Most delegates to the Constituent Assembly (1987–88) assumed that democracy would be enough to put the national locomotive back on the rails of development, merely adding safeguards for individual and social rights to the pillars of the autarkic statist economy. (The same credo, by the way, was expressed by Alfonsín in his vibrant inauguration address as president of Argentina in 1983: “Con la democracia se come, se educa y se cura.” In a loose translation: “Democracy will grant us food, education, and health care.”)

Besides attachment to the past, alongside special interests best accommodated under the mantle of state protection, what fueled the resistance to change was a lack of clear alternatives—an ideological fog that now shrouded, now merged with the institutional obstacles to decision making. The alternatives were not self-evident in fact. Unlike Mexico, Brazil did not have the largest capitalist economy in the world on its doorstep offering purportedly unlimited possibilities for trade and industrial integration and an exit for surplus labor. Over 10 times the size of Chile, it could not afford to confine itself to modernizing and diversifying exports of primary goods to secure jobs and incomes for its population. Exports of manufactures, in which the military regime invested with some success, took time to be recognized not as a mutually exclusive alternative but as a complement to expansion of the domestic market.

In any event, a critique of the national-statist vision matured in the five years between promulgation of the constitution and the Real Plan, driven by shock waves from the fall of the Berlin Wall and the realization that advancing information technology and the formation of regional economic blocs had opened a new stage of global capitalism. Initially waged outside the political system, the debate among specialists (mainly economists) in a few universities, centers of excellence belonging to the federal administration, and research institutions linked to trade associations gradually distilled a new vision of Brazil and its place in the world, alongside proposals for a development strategy to match the new reality. Collor embraced some of these proposals in the name of a vague “modernity.” His meteoric passage shook the political world and created more room for discussion of the reforms in the media. By taking presidential intervention in politics and the economy to the ultimate level, he may actually have helped to convince public opinion of the need for a leader who, without retreating into a vision of the past, would be capable of restoring confidence in a less traumatic reform agenda.

When the gathering inflation crisis after Collor’s impeachment crossed the threshold of society’s tolerance and lowered resistance to change in Congress, a sufficiently mature agenda was ready to be offered to the nation.

Our thoughts on this subject had advanced during the Constituent Assembly. The manifesto of the PSDB, founded in July 1988 by a group of dissidents who had split from the PMDB, incorporated many of the new ideas we would try to put into practice after the Real Plan was launched: less protectionism and more technological development, less corporatism and more permeability of the state to grassroots demands and participation. We criticized both the dyed-in-the-wool advocates of state monopoly and those who saw any state intervention as a threat to the market economy. Nationalization versus privatization, we warned, was a false problem when it was reduced to a matter of principle without taking into account the limits and possibilities of state and private action in each sector.

It was too late to try to dissuade the Constituent Assembly from bowing to the pressure of corporatist and national-statist opinions. Later, however, when the Real Plan opened a window of opportunity, the conversation with reformist sectors of society gave us both the intellectual critical mass and the support of public opinion to move forward.

The presence of a hybrid of intellectual and politician at the head of the Finance Ministry, and later as president, helped build and sustain a bridge between the government, the parties, and Congress, on the one hand, and reformist groups in the universities, the technobureaucracy, and the business community, on the other.

Once an alternative direction had been defined and the ideological fog had been dispersed, resistance to change came to the fore, led by a battle-hardened minority parliamentary opposition with the PT at its core and an important segment of the labor movement, whose main constituency was among public-sector workers in the state apparatus and SOEs.

The debate about the reforms never reached the point of causing a split in society. When it became apparent that this could happen, the government preferred to limit its goals rather than fueling polarizations that might undermine democracy itself. On several occasions, however, just before difficult votes in Congress, the president appealed publicly to the sectors favorable to the government's proposals—not to force Congress's hand but to counterbalance adverse pressures and legitimate the aye votes that the majority were disposed to cast, albeit without much enthusiasm, as in the case of pension reform.

The interplay of presidential leadership, Congress, and organized sectors of society would have left out the vast majority of the population and would therefore have produced limited results if it had not been for the intervention of another fundamental political factor in today's world: public opinion mediated and engendered by the mass media.

Brazil is a country with proportionally fewer readers than in most other countries but with vast numbers of people who watch television and listen to the radio—practically the entire population. The supply of information from both sources, radio and television, is reasonably pluralistic and independent. The political strength of the masses informed by the electronic media made itself felt for the first time in the 1984 campaign for direct presidential elections (*diretas-já*), which heralded the end of the military regime. All important political developments since 1984 have evidenced the same phenomenon, from the indirect election of Tancredo Neves to the presidency to the impeachment of Collor, from the Cruzado Plan to the Real Plan, and including all the elections in between.

The presence of this diffuse actor profoundly changes the ways in which power is democratically wielded. It is not enough to be voted into office, even with tens of millions of votes, or to be vested with legal authority. Legitimation of decisions requires an unremitting effort to explain the reasons for them and convince public opinion. We made intensive use of the media to explain every step of the Real Plan and the reforms and to sustain the support of public opinion.

Objective missteps—the abrupt floating of the exchange rate in January 1999, above all, whose inflationary impact was absorbed but which impaired society's confidence in the government—and subjective difficulties to sustain our political agenda in the public debate cost us the 2002 presidential election. Alternation in power, not desired by the outgoing group, obviously, but planned and conducted with serenity by the incumbent and by the president-elect, proved an acid test not only for the consolidation of democracy but also for the reform agenda itself.

Lula surprised foreign investors, the nation, and most of his own party by exchanging the rhetoric of radical opposition to the “neoliberal model” for an explicit commitment, maintained until today, to the premises of stability and economic openness. He also maintained the fundamental premise of political stability by opting—also against the PT's hegemonistic impulses—for a broad coalition including parties in the center and on the right to ensure a majority in Congress.

This is not the place to emphasize the differences that persist between the poles symbolized by the PT and PSDB. The fact is that the political process has somehow reduced the intensity of those differences. No longer does anyone advocate demolishing one form of state and laying the foundations of another. In practice this issue has been decided, although it still echoes in the public debate. The dispute between “monetarists” and “developmentalists,” which was a heated one inside our administration and has recently come to the fore, does not call into question concepts such as privatization, trade liberalization, or fiscal responsibility. The political cost of specific changes in these areas will tend to diminish in coming years. At least in theory this makes room on the agenda for other topics on which little progress has been made, such as the tax system, judicial, and electoral reforms.

Opportunity, Passion, and Perspective

In complex societies change sometimes comes about through a “short circuit.” A gesture, a strike, an emotional shock, or a galvanizing proposal can trigger a chain reaction that leads to far deeper transformations than imagined or desired at the outset. This also depends, of course, on the history of the demands, class conflicts, and ideological strife and frustrations, for example, that existed beforehand.

This is what happened with the Real Plan. Tired of inflation and its negative effects, Brazilian society saw the Real Plan as a solution and backed it against the opinions of many people and many vested interests—and at certain times, against a majority of *bien-pensants* and leaders who claimed to “own” the masses.

“Responsible pragmatism,” however, does not explain the change. Without leaders who can present a perspective accepted as valid by the majority, significant transformations do not happen in a democratic society. That acceptance is not blindly given. There has to be a democratic pedagogy, persuasion, an effort to “win together”; otherwise the traditional order prevails over the forces of modernization and change.

The inflationary crisis opened the ears of society, including both influential organized sectors and the unorganized mass of voters, to proposals for change that in other circumstances would have been ignored or rejected. That a leadership was there with the ability to take advantage of this window of opportunity was ultimately a fortunate accident. Pressing ahead with the changes required much obstinacy and some art.

Implementing policy is a collective process. The word *process* is one that must be stressed. The press, public opinion, Congress, and members of the government itself often expect and even beg for an act, for a heroic gesture, that can rapidly resolve the problems faced by the citizenry or cater to the interests of a group. The latter may perhaps be won over through a heroic gesture, but not the interests of an entire nation. That depends on continuous action to change practices, mind-sets, and structures.

It is no accident that reform is so difficult or that anyone who genuinely desires change sometimes feels lonely. Structures resist change. Vested interests oppose them. Having a dream is part and parcel of the art of politics, in the ancient form of crystallized ideology or, in modern times, inspired to a greater extent by visions than by certainties. In any event, it is always necessary to have goals and to strive to achieve them, even if they are limited to holding on to power for its own sake. There is as well a permanent interplay between national and international structures (parties, churches, labor unions, companies, multilateral organizations, civil and military bureaucracies, and the media), on the one hand, and movements, proposals, and leaders, on the other, alongside a continuous search for ways of persuading more people and building up more strength to achieve one's goals.

If you overlook one side, whether it be the established order, albeit antiquated or apparently fragile, or the forces that can lead to change, with their proposals and working toward the new, albeit based on the old, you make no progress. How many times in our eagerness to pursue change are we obliged to make concessions to the other side? When the journey begins there are no certainties about who will win the wager. Political will and firmness in pursuing the goal do not ensure victory. The outcome will always depend on the actions of many and the repercussions of the actions and desires of those in command.

How can a head of government, for example, promise to create this or that number of jobs if neither he nor his government controls the variables of economic life? Changes in technology, capital flows, corporate strategies, and a huge number of factors directly influence the level of employment, often dramatically reducing the number of jobs in this or that sector. The leader can, and evidently should, be committed to implementing ideas, adopting programs, and taking measures designed to improve the economic situation and increase employment, but he will be wrong to promise hard numbers.

Pragmatism with clearly defined goals involves a calculation and a wager. The calculation relates to the support required to implement the government's overall policy, even when it is detrimental to specific targets. The wager has to do with the leader's belief that he is capable of inducing (or, if necessary, forcing) his allies, including the last-minute ones, to accept the goals he has set.

The risk of losing control of the process or of the government betraying its commitments is permanent. It is a dangerous adventure, because even with the best of intentions a mistaken wager can be made. Success depends on objective conditions as well as dispositions that are neither defined nor limited by the broader circle of power alone. People will be indifferent to the will and motivation of the principals, and in certain circumstances even to their successes, if the latter are not sufficiently broad and consistent to convince the majority.

In any event, politics is not just a continuation of war by other means, nor is it the substitution of force by submission. It is not a method for

counting and separating the good from the bad. It is the art of persuading the “bad” to become “good,” or at least to act as if they were, even if they do so for fear of the consequences. It is the art of transforming enemies into adversaries, and adversaries possibly into allies. When co-optation occurs instead of persuasion (by different means), politics is replaced by bartering between petty interests. The drama is that the borderline between greatness and perdition is very thin indeed.

To practice this difficult art it is not indispensable to have an academic background or even to spend many hours reading. Several noteworthy leaders have had or done neither. Yet a certain comprehension of history is a great help. At a time when everything is “of the world,” everything is global, it is necessary to have a reasonable vision of the totality and to be capable of understanding the social conditions of one’s day and age, to be able to exercise effective leadership, not to make *tabula rasa* of what others have done but to give a better direction to what has come from the past and lay the foundations for what one wants for the future.

It also helps to have a “persuadable” temperament, to borrow a term from Jane Austen. Democracy today is a process in which the citizenry wants to participate not just by voting or even approving (in a referendum, for example), but also by deliberating. Albert Hirschman, contradicting the tradition that values vigorous and rigid political opinions, has stressed the importance of opinions being formed not before but during the process of discussion and deliberation. Open minds, spirits psychologically more inclined to convergence and compromise, who favor dialogue, among both leaders and led, would therefore be better suited to playing the democratic game on a long-term basis (Hirschman 1995).

This shake-up in today’s world has made Cicero highly relevant again, in his praise of rhetoric as a foundation for the education of the Prince. For him the noblest way of life is devotion to virtuous public service. Friendship among men, good will, enables good government to be grounded in the free cooperation of citizens. For these values to sustain the republic, there must be laws, and people must be persuaded of their validity, which in turn requires that the statesman be capable of using reason and emotion. The interplay of these two qualities develops through what was called “rhetoric,” the basis for persuasion. Obedience is obtained not through fear and coercion, but through reason and love built on a kind of Socratic dialogue and embodying the apex of leadership.¹⁷

The word is the “message” in our time, and the means for its diffusion is no longer the pulpit or tribune but the electronic media. The impact of radio, and later television, could already be seen in the “mass politics” that characterized fascist and authoritarian mobilizations in general and that served as cement for Third World populism. Now it is democratic politics itself that appeals to these media and the Internet. Everything happens in real time regardless of physical distance, but with a difference: the Internet

¹⁷ To understand the topicality of Cicero, see chapter 6 of the excellent book by Wegemer (1996).

is essentially interactive, and little by little radio, TV, and even newspapers and magazines are creating democratic spaces for “the other side,” for people’s reactions.

Everything is made easier when there are symbols that help people visualize change. Politics deals with symbolic content, and leaders seek to exercise the modern form of what Gramsci called cultural hegemony, albeit with a different connotation. This requires an “actor’s” qualities, although these cannot be dissociated from the individual’s prior experience.

In the interplay between symbolism and practical achievements, leaders must be capable, through intuition or knowledge, of elaborating and transmitting a “vision” of the problems they face, a vision of society and the nation. In the case of politicians with a national following, given the framework of globalization, they must have some feeling of world affairs. Statesmanship is projecting the nation’s future, seeing it in the world context, and being capable of leading it in that direction.

In a world of intercommunicating messages and increasing participation, democratic leaders, albeit conscious of class conflicts and differences, must propose values that can be shared by a majority of society. Otherwise they lose strength. Because their relationship with those they lead is not static, leaders will attempt to persuade them all the time, running the risk of losing some of the time but winning at other times. On those occasions when they win, they must strive to attract more and more people, groups, movements, and institutions to their side. When they lose, they must try to find out why, to identify the mistakes they made, and based on their convictions humbly to rebuild the widening circle of persuasion that can lead to victory.

At bottom, the capacity to symbolize and transmit messages is identical to the virtue of discerning and proposing to society a way forward that is acceptable to the led, albeit temporarily. In an interactive society this “project” cannot be conceived as an act of reason or will, but as a collective construction in which certain people—the leaders—express more completely and symbolize for a specific moment the movement of society, which is necessarily conditioned by values, by cultural models, with which and on which they act. Leaders either point the way and blaze a trail or lose power.

In any event, the personal attribute that is critical to the exercise of leadership, in the new politics as in the old, is still courage, because there comes a time when it is unavoidable to make decisions that upset a lot of people. It will even be necessary to make decisions almost alone, however “persuadable” one may be. A leader is someone who, once persuaded that an important decision is the right one to make, accepts only one attitude of him- or herself: making the decision. However hard it may be, the leader takes a road and resolves to move forward on it, even if it means being against everyone else, and persists until success is won, because what can be seen farther ahead shows that this and not something else is what needs to be done.

Max Weber despised politicians who shrug off the consequences of their actions, blaming the pettiness of others or the world, cozily reliant

on their own clear conscience and clean hands. Weber reserved his respect for the mature person (young or old) who in particular circumstances decides, “I must do this and nothing else,” and takes responsibility for doing so. “That is something genuinely human and moving,” he says. “In so far as this is true, an ethic of ultimate ends and an ethic of responsibility are not absolute contrasts but rather supplements, which only in unison constitute a genuine man—a man who can have the ‘calling for politics’” (Weber 1958: 127).

The possibility proposed by Weber of reconciling pragmatism with ethical values and limits that transcend immediate circumstances is encouraging for a political leader in government who wonders, as we so often wondered, whether he will be capable of implementing the necessary changes with the necessary speed by the meandering highways and byways of democracy.

Let us stay with Weber for our conclusion:

Politics is a strong and slow boring of hard boards. It takes both passion and perspective. Certainly all historical experience confirms the truth—that man would not have attained the possible unless time and again he had reached out for the impossible. But to do that a man must be a leader, and not only a leader but a hero as well, in a very sober sense of the word. And even those who are neither leaders nor heroes must arm themselves with that steadfastness of heart which can brave even the crumbling of all hopes.

The experience of Brazil, like that of other important countries in Latin America, gives us reasons to keep alive our hopes of democratic reformism and renewing its political agenda.

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