

Toward a New Political Pact

I started this book with an analysis of the historical interpretations of Brazil and economic development strategies. I suggested that the most adequate interpretation for Brazil today should be called the crisis of the state approach and that the corresponding growth strategy should be social-democratic and pragmatic. Yet, as I suggested in Chapter 11, this interpretation and this strategy will gain historical relevance only if they are supported by a development-oriented political pact based on a new class coalition that can dominate the political center. A major question, which I discuss in this chapter, is whether such a political pact is already emerging.

Between the 1930s and the 1960s there was no contradiction between being modern and supporting a sizable degree of state intervention. Yet since the 1970s, as the state-led development strategy became increasingly distorted by economic populism and narrow-minded nationalism, and came to a crisis, the country's modernization has become increasingly identified with market-oriented reforms and fiscal discipline. Brazil, as with all of Latin America, resisted this intellectual and political transition. In the early 1980s the dominant views in the country, expressed in the political pact that led the transition to democracy, remained populist and nationalist. It was only after the Cruzado Plan failed that politicians, businesspeople, and labor leaders began to make the intellectual transition to the new ideas. And only in 1994, with the election of President Fernando Henrique Cardoso, did a modern political pact based on a broad political coalition of both the moderate left and the moderate right seem to emerge. In this concluding chapter I analyze this process, which is essential to the consolidation of democracy and the resumption of growth in Brazil.

If modernization is the transition from archaic to modern values and practices, it is this process that has been facing difficulties and setbacks in Brazil. In the 1960s the right, supported by the military, took power and was assumed to be modern, but it eventually proved to be merely a new breed of the old national developmentalism—a bureaucratic and authoritarian developmentalism—whereas the left remained tied to economic populism. Since the 1980s a transition to modernity has been taking place in Brazil in a dramatic and contradictory way. An effective democratization process, market-oriented reforms, sizable improvements in the labor organi-

zation of workers, substantial technological progress, and a generalized increase in productivity exist side by side with inefficient economic policies imported from abroad, the resurgence of populism, and the rise of neoliberalism.

The democratic transition that took place in Brazil in 1985 was a transition from an archaic and authoritarian right to a no less archaic populist coalition of businesspeople, middle-class bureaucrats, and workers. I called this political coalition, which was formed around 1977 and existed until 1987, the 1977 populist democratic pact. As should be expected, this political coalition, which assumed power with President Sarney in 1985, failed to resume the process of modernization and development.

João Paulo dos Reis Velloso (1990:24), who, through the prestigious Fórum Nacional he created, became a leading figure in seeking a new development-oriented political pact in Brazil, said that the first basic idea for the modernization of the Brazilian society

is the option for a democracy that would be buttressed by a new political and social coalition, with a broader basis than the former one. Be the government from the center, the center-left or the left, it will have to incorporate some popular forces of the political coalition behind it, given the accumulated social demands that must be satisfied. Only in this way will we have large political majorities able to support stable governments.

Velloso was conveying a very general belief that modernization in Brazil requires a political pact that can in some way incorporate the masses.

Yet since the failure of the Cruzado Plan in 1987, Brazil has been experiencing a political vacuum. Industrialized countries do not usually require a clear political coalition for their governance. The existence of a broad social contract that defines the power civil society "delegates" to the state, or, more precisely, to the government that runs the state, is sufficient.¹ This institution, which is so powerful in the developed countries, is too weak in the developing societies. Political coalitions able to formulate a national project are required to guarantee political stability and a sense of direction for society. In Brazil such a political coalition has not existed since 1987. Only in 1994, with the election of Fernando Henrique Cardoso, did a new political coalition made up of both the center-left and the center-right become a real possibility.

Brazilian political history can be told by defining the major political coalitions or class alliances.² As we saw in Chapter 1, until 1930 an oligarchic political pact prevailed, based on the primary-export development model. From 1930 to 1964 the national-developmental or populist pact prevailed, in which the industrial bourgeoisie, the bureaucratic middle class, labor, and sectors of the old oligarchy united around import substitution industrialization. The 1964 authoritarian regime corresponded to the bureaucratic-capitalist pact, which brought together the bourgeoisie, the military,

and the civil service and excluded most of the workers and the democratic sectors of the middle class.

In the mid-1970s the authoritarian party's defeat in the December 1974 Senate elections and, two years later, the April Package—President Geisel's coup within a coup, suspending the *distensão* that had begun when he took office in early 1974—were the two political facts that triggered the crisis of the authoritarian coalition.³ A new political coalition—the 1977 populist democratic pact—began to form. This class coalition was formed when the bourgeoisie lost its fear of the communist threat, saw that the military was no better than civilians at running the economy, and decided—although through a long and uncertain process—to break its ties with the military regime and ally itself with the democratic middle class and the workers. Thus the transition to democracy in Brazil was not the outcome of an internal conflict within the military that divided the soft-liners and the hard-liners nor a gift of a military that had gradually converted to democracy, as the conventional and dominant literature on the subject in the United States suggests,⁴ but rather was the consequence of the business class's decision to fracture its alliance with the military bureaucracy and to establish a new alliance with the democratic sectors of Brazilian civil society.

If one wants to be precise, the new political pact emerged in April 1977, following the April Package—a military coup within the already authoritarian regime, which caused an indignant reaction within civil society.⁵ The pact fell apart in early 1987, when the failure of the Cruzado Plan proved it represented an unsatisfactory response to the crisis. This pact had been successful in its major and specific objective—to reestablish democracy in Brazil—but it failed in promoting the required economic reforms, stabilizing the currency, resuming growth, and fostering a more equitable income distribution. It failed not only because the crisis left by the authoritarian regime was extreme but also because this democratic political coalition was populist; it still believed import substitution, deficit expending, a widespread system of state subsidies, and naive wage policies could be effective in promoting growth and distributing income.

The New Republic was set up in Brazil in 1985 with high hopes and aspirations, but it fell prey to this populist attitude. It said no to recession and denied or ignored the facts that wage increases would provoke inflation, the public deficit was a serious problem, the state had grown too large, the protectionist development strategies were exhausted, and the state had become immersed in a deep fiscal crisis.

From the failure of the Cruzado Plan in 1987 until the 1994 presidential elections, Brazil gasped in a political vacuum. The great class coalition that characterized the populist democratic pact had died, and nothing had taken its place. The collapse of the 1977 populist democratic pact opened space for President Fernando Collor's reforms, but he was unable to lead a new political coalition.

Collor was elected in 1989, during this vacuum, without the support of any major political power; his victory rested exclusively on his rapport with the masses. This fact was viewed by many as "normal" in an undeveloped Brazil. This is a mistake. The election of a president without political roots was only possible because the breakdown of the populist democratic pact had left a political vacuum. Collor's election was not the product of a class coalition, and it did not represent the victory of any party or even of a political tendency. It was simply the consequence of his ability to reach the people with a morally indignant stand at a time when the political parties and the social classes were disorganized.

Collor was elected under the banner of modernity, which he correctly defined as expressing the superiority of the market over the state in resource allocation and in the commitment to fighting poverty and inequality. In his direct, personal relationship with each elector there was a clearly populist element, but this fact did not lead him to adopt populist practices when in office. His stabilization policy failed, but this was not because he adopted populist practices, feared to take unpopular measures, or denied his support to the policies of his economic team. It was not because fiscal adjustment was not undertaken. The policy failed because the inertial character of Brazilian inflation was incorrectly appraised. Collor's impeachment in 1992 was not an outcome of resistance to the economic policies he adopted nor a result of their failure to stabilize. It was rather the consequence of proven corruption charges, which revealed a divided and unstable personality. On some occasions he was totally unable to distinguish the public sphere from his private interests; on others he demonstrated a bold and basically correct vision of how to modernize Brazil.

The Collor administration formally ended in September 1992, when he was replaced by Vice President Itamar Franco. Yet he suffered a first significant blow in 1990 with the failure of Zélia's stabilization attempts. Marcílio Marques Moreira's nonstabilization plan ("nonstabilization" because it was completely unable to control Brazil's high and inertial inflation), in addition to reflecting conventional monetarist views, revealed the anomaly of the Brazilian elites who, surviving in a political vacuum, had no national project and had accommodated high inflation.

The Itamar Franco administration faced the same problems. Initially the new president lacked the leadership qualities that were required to stabilize the economy and fill the political vacuum with a new development project. Only when Fernando Henrique Cardoso was invited to be finance minister in 1993 did the picture begin to change. In 1994 Cardoso was able to stabilize prices and a few months later was elected president. The political vacuum began to be filled. It is early, however, to say that the political crisis has been overcome. Cardoso's election demonstrates that a new and broader political coalition is being formed in Brazil. The recurrent failure to stabilize could be explained by the inefficiency of the stabilization programs. It

could also be attributed to the fact that some sectors of society had not yet become totally aware of the gravity of the crisis or believed the costs of adjusting could still be avoided, postponed, or paid by others. This was true, but it was rapidly ceasing to be so. Only a few sectors of society profited from inflation, and social awareness of the crisis was much higher than it had been, for instance, in 1987.

Cardoso's election demonstrated that Brazilian society had changed, that modernization had taken place, and that populist and national-developmental rhetoric no longer made sense. Yet it remains clear that without a political coalition that encompasses a portion of the masses, the political elites will lack the political power to promote fiscal adjustment, permanently stabilize prices, and define a new strategy of development. They lack legitimacy.

Political elites in Brazil have lived in disarray and perplexity. The basic cause for this must be found in the political vacuum, in the fact that a modern democratic popular pact has not replaced, or is only recently replacing, the 1977 populist democratic coalition. This is why the crisis has been confronted so poorly. The political elites have no project for Brazil. They cannot assume the role of saviors, as they did in 1964. In spite of all of the difficulties, democratic culture has advanced in Brazil. As José Álvaro Moisés (1993:32) observed, "Empirical evidence confirms the existence in Brazil of a preliminary 'reservoir' of democratic legitimacy. Despite a growing and intense malaise among citizens about day-to-day workings of politics, adhesion to the normative principles of democracy persists among different segments of public opinion."

Society has been trying to reestablish a broad political pact. Agreements between the business community and labor are taking place on various levels. On the business side, FIESP and the PNBE, a group of young businesspeople, are more open to dialogue. On the labor side, trade unionism was renewed with Força Sindical, and the CUT became less radical, showing an openness to negotiations. On the bureaucratic and intellectual side, there are attempts to organize around parties near the center, such as the PSDB, or to lead the PT to positions closer to social democracy. Populism, statism, and nationalism, which the PSDB has criticized since its creation, are now being questioned by the above-mentioned sectors of society. Collor, coming from the right, tried to define a common ground between the liberal center-right and the social-democratic center-left with his proposal for "social liberalism." He failed. Cardoso, coming from the left, is proving that such a political project is viable, provided it is implemented with a clear notion of the national interest and with the conviction that the masses need a larger share of income and political power than they have today.

Yet the obstacles to the definition and consolidation of a new political pact remain formidable. First, national-developmental and populist sentiments in Brazil are still strong, although they are clearly in retreat. Sizable

sectors of the working class and of the bureaucratic middle class are attached to an archaic view of development and either refuse to embark or have difficulty embarking on a modernization pact. As Lourdes Sola (1993:158) observed, “as important as the social and political impacts of economic reforms are, *intellectual adjustments* are required from the governmental, economic, and political elites, when the task of rebuilding the state on a new basis becomes necessary.” Intellectual personalities such as Celso Furtado, who was the leading Brazilian intellectual—after Prebisch—in defining the national-developmental interpretation of Latin American development, have expressed this difficulty in a compelling way. In a recent book Furtado (1992:35) observed that the developed countries, through high indebtedness and high interest rates, are transferring income to themselves and promoting the disorganization of the national state in the developing countries. Additionally, and according with a basic tenet of the new dependency interpretation, “the predominance of the logic of the multinational enterprises in organizing economic activity will necessarily lead to the increase of inter-regional tensions, to the exacerbation of corporative rivalries, and to the formation of poverty enclaves that will make the country not viable as a national project.”

Second, the state bureaucracy, whose role in any new political pact is crucial, lost influence and has been put on the defensive over the past fifteen years; it has been accused of authoritarianism by the democrats and of statism by the neoliberals. Luciano Martins (1993:12) observed, “The state, through the circles of its higher bureaucracy or through the intelligentsia in some way participant of the state, was the institution that, under authoritarian or democratic regime, always ‘thought’ the country’s development. Today, this element, which was present in previous developmentalist strategies, is faltering.”

Third, the gap between the elites and the people in Brazil is too large, as we saw in Chapter 11. The radical heterogeneity of Brazilian society turns the poor into half-citizens—into political subjects who are formally citizens but who have little notion of their rights and of how to protect them. Thus we have a citizenship contradiction: the masses, who have the right to vote, are easy victims of demagogical politicians coming from the right or the left.

In the long run, the only solutions to these problems are related to economic development, income distribution, and education. In the short run, however, the most obvious solution to the legitimacy crisis that is behind the citizenship contradiction is a political pact. This pact would embrace the political elites that represent the three basic social classes currently present in Brazil: the capitalist class; the working class; and, in the middle, the bureaucratic or technobureaucratic class. Sérgio Abranches (1993) described three possible political-strategic scenarios to face the present crisis: buffered stress; muddling through; and sustainable mobility. The

response to hyperinflation would be the buffered stress strategy, through which the acute effects of the crisis would be controlled. If and when control mechanisms failed, a new rupture would follow. Muddling through is the usual response to a crisis. Stability always remains precarious. The effective solution will be the third scenario—sustainable mobility—which corresponds to the development-oriented political pact I am discussing in this chapter. In Abranches's (1993:21) words, "Consensus on rules and macro-objectives sets up the socio-political conditions required for the implementation of policies aiming at welfare and common goals, while business and individual strategies remain individual-oriented."

I am not speaking of a social agreement that would bring together business and union leaders, with the intermediation of government. A social agreement may help to stabilize the economy, but it is a more specific and short-term type of accord than a political pact. By a political pact I mean a much looser, more informal agreement—a class coalition in which the political representatives have a crucial role. In Brazil's recent history political pacts have included the populist pact between 1930 and 1960, the authoritarian capitalist-bureaucratic pact between 1964 and 1977, and the populist democratic pact between 1977 and 1987.

The new political pact that is finally emerging with the stabilization of the currency and the election of Cardoso is a social-democratic and pragmatic political pact. It is a modernization pact consequent on a broad class coalition. If it outgrows the election of a president and becomes consolidated in the next few years, it will be consistent with the interpretation of Latin America I have presented in this book. It will be a mixture of a European social-democratic and an East Asian pragmatic approach to social and economic development in which a financially recovered state will play a major role in complementing the market, coordinating the economy, and promoting welfare.

Yet this pact is not all-encompassing. Some social groups will lose because of it, particularly the bureaucrats in state-owned enterprises and the lower bureaucracy that was able to receive some privileges of the state. Acuña and Smith (1994:22) observed that "the transformations implied by this 'return to the market' are not neutral with regard to [the] prevailing structure." This is true. The economic groups that have difficulty participating in the market struggle will tend to lose income share. Yet I am not so sure that the adoption of market-oriented reforms "clearly reinforces the structural international capitalist interests and the leading sectors of the domestic entrepreneurial classes" (Acuña and Smith 1994:22). This happened, for instance, in Mexico and Argentina, where economic reforms were confidence-building-oriented. In Brazil they were more pragmatic and consistently more Brazil-oriented.

It is a serious mistake to assume—as most do—that in the good old days of national developmentalism, income distribution was more favorable to

the poor or to the workers. This is simply false. The import substitution strategy was accompanied by income concentration throughout Latin America. Now with Cardoso, the social aspects of development are expected to receive special emphasis. Of course, we now know, based on the Asian experience, that export-led growth strategies are more consistent with equitable income distribution as long as the industries that are more able to export are labor-intensive. The import substitution strategy, with its capital-intensive projects, tends naturally to concentrate income, whereas a more market-oriented, internationally competitive economy will have the opposite outcome.

There are obvious obstacles to this pact, which I have discussed in this chapter. Further, we know that a development-oriented political pact only fully defines itself when economic development is already taking place. This constitutes a classic chicken-and-egg problem. The solution for this type of problem is always practical and unpredictable. In 1993 and 1994 Brazil finally experienced growth, and this growth will probably continue. There are signs that the new paradigmatic moment of interpretation of Latin America is beginning to be defined—the crisis of the state or social-democratic approach. This is probably occurring because the crisis of the 1980s is receding, and economic development is being tentatively resumed.

The positive factors that favor a new political pact are present. The Brazilian social structure underwent deep transformations during the past thirty years. As Wanderley Guilherme dos Santos (1985) noted, the four major social actors in Brazil—entrepreneurs, workers, rural workers, and the complex middle class—are very different today from what they were prior to 1964. Entrepreneurs today are represented by myriad associations parallel to the official representative system. The same has happened with workers. Rural workers underwent an enormous unionization process. The middle class—which I would rather call the bureaucratic or salaried middle class (the capitalist or traditional middle class corresponds to the lower stratum of the capitalist class)—increased in size, was proletarianized, and became increasingly unionized. In a recent study, dos Santos (1993) examined the impressive increase in the number of special interest associations in Brazil. This extreme fragmentation is a basic reason for the disorder because it makes political representation difficult and complex, but it also demonstrates the vitality of civil society.

The capitalist class, as the dominant class, is ready to participate in a new political pact. It is not afraid of communism or subversion. And recent experience—since the transition to democracy was achieved in 1985—has demonstrated that it has no chance of politically running the country alone. It will either participate in a class coalition, where it will necessarily have a leading but limited role, or it will not lead. In a political vacuum only special interest groups, particularisms, and corporatisms of all sorts will prevail, as is the case today.

The working class today is much better prepared to participate in a political pact than it was before. It now boasts a political party, the PT, with three central unions—the CUT, Força Sindical, and the CGT—and an enormous number of civil associations. It has become more realistic and less demanding than it was immediately after the transition to democracy. In the first years after the new democratic regime was empowered, the representatives of the working class felt they were the creditors of an enormous social debt because of actual and presumed “salary losses.” They believed the only way to get what they demanded was through a political organization. They no longer believe that. They rightfully continue to protest against low wages and poverty, but they know the economic crisis is more serious than they thought and that wage increases and income distribution will be possible only if stabilization is consolidated and growth resumed. Through the central unions they did increase their technical capacity to discuss national problems. Before the 1980s they could discuss and demand only wage increases. They had little or no capacity to discuss inflation, stabilization, fiscal adjustment, and development strategies. This situation has changed in a positive direction. They are much more inclined to participate in social and political agreements than was the case in 1985–1986, when they rarely did so. The appearance of the “unionism of outcomes” within the Força Sindical is only one indication of this fact. The changes that have occurred in the CUT and in the PT are also very clear.

The problem of the bureaucracy or salaried middle class is more complex. First, people, including intellectuals and politicians, usually insist on ignoring this class. I will not repeat my arguments on this subject.⁶ The bureaucratic middle class is a large and complex social class. As the bourgeoisie or capitalist class is defined by private property or means of production—that is, by capital—the bureaucratic middle class is defined by collective property or control of bureaucratic organizations, whether private, public, or state organizations. Whereas capitalists make profits, the bureaucratic or “new” middle class receives salaries, and the workers receive wages. This class has been increasing worldwide over the last hundred years, basically as an associate of the capitalist class. At one point in the Soviet Union and the other communist countries it tried to fight and replace the bourgeoisie, but it eventually failed. In Brazil it has been on the defensive since the 1970s, not only because of its compromise with the authoritarian regime but also because the crisis of the state and the neoconservative wave were powerful factors in weakening it.

Second, the problem is complex because this emergent class usually disguises or negates itself, particularly since the mid-1970s when the upper state bureaucracy came under attack by the democratic political forces fighting the authoritarian regime. Third, to the bureaucracy the crisis of the state has meant increased instability and disorganization and decreased salaries

and prestige. Thus, besieged politically and dismantled by the crisis of the state apparatus, the state bureaucracy today has difficulty participating in a new political coalition.

This last fact implies a neoliberal contradiction comparable to the classical populist contradiction. To promote growth, populists called for active state intervention but weakened the state, supporting chronic budget deficits; neoliberals, to achieve market-oriented economic reforms and efficient resource allocation, fight the state bureaucracy because it is the agent of state intervention. Only a strong state bureaucracy, however, can achieve fiscal adjustment and promote the required market-oriented reforms, which are essentially reforms of the state.⁷ The state bureaucracy is not necessarily committed to state interventionism or to neoliberalism. Its commitment is to a kind of rationality, a sort of bureaucratic efficiency that case by case may have different applications.

Yet we know that in contemporary, market-oriented but bureaucratic capitalism it is impossible to have an effective class coalition without the participation of the bureaucratic middle class, particularly the state upper bureaucracy, which in Brazil had a key role in economic development between 1930 and 1980.⁸ The state bureaucracy, the public nonstate, and the private bureaucracy are supposed to participate in the emergent political pact: the upper state bureaucracy directly participating in government decisions and the implementation of policies; the public nonstate bureaucracy participating in decisions through the universities and all nonprofit organizations; and the upper private bureaucracy participating through large business and consulting organizations.

What will be the content of such a political pact? It will be a social-democratic and pragmatic pact. It will dominate the political center. It will probably adopt the crisis of the state approach to explain the Brazilian and Latin American crisis. It will agree that the basic cause of the crisis is the crisis of the state, which paralyzed the state. Thus the first job is to rebuild or reform the state, restore state finances, valorize state personnel, and reform and make more flexible the state apparatus, which the 1988 Constitution left extremely rigid.

The second task will be to define a development strategy. This strategy will probably be a mixture of European social democracy, which is welfare-oriented, and East Asian pragmatism, which is industrially and technologically oriented. It will refuse narrow nationalism but adopt a consistent international policy based on the national interest—an interest that has to be defined case by case.

If the state technobureaucracy recovers part of its prestige and is able to participate in a new political pact, a problem will immediately arise: will this bureaucracy be able to pragmatically adopt a mixture of a social-democratic and East Asian approach to economic problems? Theoretically, the answer is yes. It is true that the Latin American high technobureaucracy is

composed mostly of economists—many with doctorates from U.S. universities who were strongly influenced by the neoconservative ideas that dominate those universities. Thus as James Malloy (1991:27) observed, “We may be witnessing a new kind of ideological division within neo-liberal coalitions: one that sets off abstract theoretical constructions of market capitalism fashioned by macro economic technocrats from understandings of capitalism forged in the concrete experience of firms and economic sectors. . . . The central contradiction emerges from the fact that technocrats attached to governments design programs around concerns with aggregate outcomes (GNP, etc.) of a market based economic logic and not the fate of any given firm or group.” This danger no doubt exists.

Yet if the state bureaucracy is strongly affected by foreign influences, its national orientation remains dominant. This has been the case in the past and remains so today. In many circumstances the state bureaucracy has been an effective guardian of the national interest in Brazil. In addition to adopting the rationality principle, which is its *raison d’être*, it is also strongly influenced by the dominant views of the local bourgeoisie. Given the ideological hegemony of this class, if it turns to neoliberalism bureaucrats will tend to do the same. Because a reaction against neoliberalism is already evident in the world, including in Brazil, it is reasonable to expect that the upper state bureaucracy—which is essentially flexible in ideological terms—will be a strategic partner in the social-democratic and pragmatic political pact that is emerging.