

# Brazil: the politics of the '*Plano Real*'

PETER FLYNN

For almost two years Brazil has been trying to carry through an ambitious, much needed, plan for stabilisation and economic reconstruction. This involves far-reaching constitutional reforms and a programme to tackle poverty, inequality and related social issues, which include violence, rising crime and an ever more powerful drugs trade. The general title of the programme is the *Plano Real*, largely inspired by Fernando Henrique Cardoso, first as Minister of Finance, then, since January 1995, as President of Brazil. No-one ever thought that such a programme would be easy to put into effect; certainly not Cardoso. It was greeted with scepticism and still has its critics. It is, even now, far from complete and its ultimate success cannot be guaranteed. At the same time, it has already been hailed as the most successful programme of its kind ever seen in the country, offering the possibility of a genuine break-through and a fresh start in terms of national development.

One simple measure of the plan's success is that monthly inflation, in June 1994, was almost 50%: by July it was 5.5%. By September 1995 it was 0.66% and in February 1996, 0.74%. Annual inflation for 1995 was below 15%, the lowest since 1957. This was roughly the equivalent of the rate of inflation for two weeks before the introduction of the *Plano Real*. One usually cautious commentator could now speak of a 'new plateau of price stability difficult to imagine two years ago'.<sup>1</sup>

Other indicators, too, are good, though not uniformly so. The country's Gross Domestic Product is now US\$570 billion. The GDP growth rate for 1994 was 5.8%, for 1995, 4.0%, with a projected rate for 1996 of 3.8%. By late 1995, total official reserves were US\$51.8 billion, providing a more than healthy cushion for the exchange rate anchor which has so far been central to the plan's success.<sup>2</sup> At the same time, there are persistent causes of concern over the lasting success of the '*Plano Real*'. One of the central issues has always been the question of political support for Cardoso and his programmes, especially in Congress, but also among other powerful political actors, including state governors. This, in turn, raises questions about the nature of the electoral and party systems and of the always delicate relationship between the president and his Congressional base.

This, again, stirs anxieties over timing, especially with municipal elections being held in October 1996, with an estimated 20% of current Congressmen likely to be candidates. This could mean further disruption and dangerous delays

*Peter Flynn is the Director of the Institute of Latin American Studies, University of Glasgow, G12 8QH UK*

in carrying through reforms which are the guarantee of what has already been done and of what remains to be done. There are, in short, important questions to be asked concerning the politics of the *Plano Real*, which should now be considered.

### **The *Plano Real***

On 1 July 1994, Fernando Henrique Cardoso, Brazil's Minister of Finance, introduced the third phase of a comprehensive stabilisation and reform programme, which he and his advisors had been carefully constructing since Cardoso took office in May 1993. Most Brazilians, by now, were understandably weary and sceptical of stabilisation plans. This new *Plano Real* was, after all, the seventh such intervention since President Sarney had delivered the *Cruzado Plan* in February 1986.<sup>3</sup> It also involved the fifth change of currency in the same period, as the *real* now took over from the *cruzeiro real*.<sup>4</sup>

Yet this Plan was different, both in conception and in its mode of introduction. It was being proposed as only part of a much wider, more coherent programme to restructure Brazil's political economy, involving radical constitutional reforms, seeking to combine low inflation with sustained growth, while already envisaging much needed social reforms within the context of a leaner, but reinvigorated, state.

From the start, the programme had Cardoso's own mark upon it, especially in its social dimensions, as might be expected of one of Brazil's and Latin America's most distinguished sociologists: but it also reflected the contribution of a deeply experienced team of economists whom Cardoso had invited to help him in his task, including Edmar Bacha, Persio Arida, André Lara Rezende, Winston Fritch and Gustavo Franco. These would later be joined by an equally impressive group of *tecnicos* and politicians, when Cardoso, as President, formed his Cabinet.

The appointment of Cardoso to the Ministry of Finance in May 1993 was probably the most important decision of President Itamar Franco after he had taken over from the discredited President Collor de Mello in September 1992. Already, there had been three failed attempts to fill the job, so that Cardoso was widely seen as offering almost the last chance to tackle the urgent problems of the country's public finances. His predecessor, Eliseu Resende, had already announced an economic plan, on 24 April, which emphasised the need to balance the budget, but relaxed the anti-inflationary policies of Marcílio Marques Moreira, Finance Minister under Collor from May 1991 to September 1992. Resende's aim was to reduce the social costs of anti-inflationary policies, seeking to achieve a balanced budget by an accelerated privatisation programme and by using a foreign exchange or monetary anchor to change inflationary expectations. Parallels were drawn with the fixing of the Argentine *austral* to the dollar, but there were evident differences and, it was argued, greater difficulties, in the Brazilian case.<sup>5</sup>

Cardoso took a different line and, on 4 June 1993, announced a Programme of Immediate Action to stabilise the economy. This involved a series of emergency measures, including cutting back the 1993 budget by \$US6 billion, attacking tax evasion, quickening the privatisation programme, recovering

\$US40 billion owed to the federal government by state governments and bringing state banks under tighter control to prevent them printing money. Both Cardoso and President Franco appealed to Congress and the 27 state governments for their cooperation, but without too much hope.

There were good political reasons for such doubts. Relations with Congress, just as Cardoso was shaping his programme, were a particular source of worry for the government, troubled by corruption scandals involving a wide band of politicians across the whole spectrum, including the two largest parties in Congress, the Partido do Movimento Democrático Brasileiro (PMDB), the Party of the Brazilian Democratic Movement, and the Partido de Frente Liberal (PFL), the Party of the Liberal Front. These were the parties whose support the government most needed, especially to carry through important constitutional reforms scheduled to begin in October 1993.

In September, the PMDB threatened to abandon the government, but the crisis was overcome. Congress eventually agreed, early in October, to start the constitutional review, which was already perceived as a necessary condition for stabilisation and the reconstruction of the economy. To push through these necessary changes as quickly as possible, Congress decided to concentrate on seven issues. These were: fiscal reform, to reduce the number of taxes; a change in the distribution of income and expenditure between the federal government, states and *municípios*; reform of the social security system; the question of state monopolies; reform of the electoral and party systems; and, finally, civil servants and their job stability.<sup>6</sup> All seven were subsequently to become key elements in the *Plano Real*, with most of them still to be resolved well into 1996.

### Corruption

It was at just this point, in early October 1993, that there came charges of widespread corruption, involving state governors, ministers, senators and deputies, including some of those most prominent in attacking ex-President Collor on grounds of corruption. This turned on the fact that large construction companies had organised a cartel to divide public construction work between them, while paying commission of up to 30% to politicians, especially to members of the Congress Budget Committee. The scandal rocked the government and threatened to derail the whole constitutional reform programme and the plans now being prepared by Cardoso and his team.

The corruption charges and the work of the Parliamentary Committee of Enquiry (CPI), dominated the headlines until January 1994, as the CPI analysed bank accounts of 219 people and 133 companies, finally deciding that 18 politicians were guilty, including seven from the PMDB. The whole incident underlined the fragility of the government's position and how a suddenly erupting scandal could disrupt its political programme. That pattern was to be repeated later in the life of the *Plano Real*, bedevilling relations with Congress.

### Stabilisation

Fortunately, the government survived the crisis and, in late November and early

December 1993, Cardoso was able to announce the broad outlines of his stabilisation plan which was to be put to Congress. This was to be a phased programme, to be introduced in three stages.

The first was to win Congress's support for fiscal measures, to eliminate the budget deficit in 1994 and to achieve a balanced budget as a condition for success of the anti-inflationary measures. This was mainly to be done through the creation of a *Fundo Social de Emergencia* (FSE), the Emergency Social Fund. The second stage, envisaged for March 1994, would be the introduction of a new index, *Unidade Real de Valor* (URV), while the third would be the introduction of a new currency.

The main aim of the FSE was to overcome an imbalance created by the constitution of October 1988 in terms of a determined proportionate link between federal government revenues and compulsory expenditures, such as transfers to the states and *municípios* and expenditure on education and social security. Breaking this link freed 20% of revenues which otherwise would have been earmarked. Eventually, the resulting flexibility and economic growth stemming from the FSE brought an operational surplus in 1994.<sup>7</sup> But first Cardoso had to get his fiscal adjustment plan through Congress, which would not be easy. On 6 December 1993, he told the country, via national television, that the only alternative to his proposal was hyperinflation and recession. On 4 February 1994, when Congress still seemed obstructive, he met a group of leading businessmen, who offered support for the FSE. On 6 February Cardoso again appealed on television for Congress not to continue obstructing his plan by failing to provide a quorum. He also exercised other pressures, including the threat of resignation. Congress then passed the FSE, in a first vote on 6 February and, in a second, on 23 February, by 402 votes to 95. Cardoso had won the first round.

He won the second on 1 March 1994, with the introduction of a new single daily escalator and unit of account, the URV, equivalent to \$US1. This aimed to restore the credibility of the *cruzeiro real* and, for the next four months, the Central Bank determined a daily parity between the *cruzeiro real* and the URV, based on the current rate of inflation. This meant that, effectively, most contracts and prices were in US dollars. At this stage, many people were sceptical of the plan's success, partly because of technical difficulties associated with the URV;<sup>8</sup> but the Cardoso plan forged ahead, even though Cardoso himself resigned as Minister of Finance in March, in order to run for the presidency of the Republic on 3 October.

The URV proved to be an efficient tool for de-indexing the economy and the rate of inflation remained stable in the three months of March to May, at about 43% a month. It then rose steeply in June, because of fears of a price freeze, then, on 1 July, the government, through *Medida Provisória* 542, announced the third phase of the plan. This produced the new currency, the real, converting contracts denominated in URVs into reais, at a rate of one to one. This put an end to the *cruzeiro real*, now converted at 2750 cruzeiros reais per real. The *Plano Real* was now in place.

### From minister to president

By this time, the presidential campaign was in full swing and Cardoso was not

doing well. The leader in the polls was Lula, Luís Inácio da Silva, candidate of the Partido dos Trabalhadores (PT), the Workers' Party. By May, Lula had an estimated 40% support, while Cardoso had only 15%, nearly five percentage points down over the previous month. Even by mid-June, a Data Folha poll showed Lula with 41% and Cardoso with only 19%. One reason for this poor showing was his choice of a relatively unknown senator, Guilherme Palmeira, as his presidential running-mate, and a generally lack-lustre campaign. Another more serious reason was his electoral alliance with the PFL and the political right, which cost him much credibility on the left-of-centre; another, simply, was the widespread popularity and affection for Lula and his party. Lula had come a very creditable second to Collor in 1989, with 31 076 364 votes (37.86%) and was still a formidable opponent in 1994.

Cardoso's alliance with the right, with traditional political bosses such as Antônio Carlos Magalhães, former governor of Bahia, was particularly damaging. While speaking the language of change and reform, Cardoso seemed, in this electoral pact, to be associating himself with some of the worst traditions of Brazil's political system, tying himself and, if successful, his presidency to a tradition of *coronelismo*, local boss politics, patronage and corruption. One reason later offered for this alliance was that, at the time it was made, Cardoso himself was still not sure of the continuing success of his stabilisation programme and whether it could carry him to victory.

If that were so, he was proved wrong, by an electorate swept away by the tumbling rates of inflation from July onwards,<sup>9</sup> abandoning Lula and all other candidates, to give Cardoso victory in the first round on 3 October with an astonishing vote of 54.28%. This was the most sweeping victory of any presidential candidate since Dutra in 1945, with 56%, but then with a far smaller electorate and a very different political system, in a far less-contested election.<sup>10</sup>

By comparison with 1989, when, in the second round of voting, when only two candidates were left, Collor won 35 089 998 votes (42.75%), as against Lula's 37.86%, Cardoso now polled 34 377 055 votes in the first round, when there were eight candidates. These included not only Lula, but other political heavyweights such as Orestes Quêrcia of the PMDB, the former governor of São Paulo, and Leonel Brizola of the Partido Democrático Trabalhista (PDT), the Democratic Labour Party, a charismatic leader of the left who was once the most voted federal deputy in Brazil, former governor of Rio Grande do Sul and, in recent years twice, governor of Rio de Janeiro.

Cardoso swept the board, with twice the number of votes now received by Lula—17 126 232 (27.04%)—and with over 5.4 million more than all the other seven candidates combined. He pushed Quêrcia into fourth place, with only 2 773 784 (4.38%) and Brizola into a humiliating fifth, with 2 016 335 (3.18%).<sup>11</sup>

### Congress and governors

One irony was that it was the continuing success of the *Plano Real* which had won Cardoso such a victory, rather than his electoral alliance with the PFL, the

Partido Trabalhista Brasileiro (PTB), the Brazilian Labour Party, and the Partido Liberal (PL), the Liberal Party: but he now had to contend with these right-wing allies in the Congress newly elected on 3 October, in order to push through his programme of reforms, as well as with the 27 governors, elected either on 3 October or, in the second round, on 15 November.

Cardoso had already shown his skill in handling Congress, not just as Minister of Finance under Itamar Franco, but throughout his time as Senator under Sarney and Collor. Even before the return to civilian government in 1985, he had worked closely with some of Brazil's shrewdest politicians—such as Tancredo Neves de Almeida and Ulysses Guimarães—to steer Brazil back to democracy. He deepened that experience after March 1985 and the death of Tancredo, during the return to civilian government, keeping together the fragile coalition nominally headed by Sarney, until the strains in the PMDB became too great. He then helped to found the break-away left-of-centre party, the Partido da Social Democracia Brasileira (PSDB) the Party of Brazilian Social Democracy, popularly known as the *Tucanos*, the 'Toucans' in 1988.<sup>12</sup>

Fernando Henrique Cardoso, by background, intellectual formation and political experience was, in fact, the ideal consensus candidate long sought by Brazil. He was the son and grandson of army generals, moving easily within the São Paulo social, business and political elite, many of whom he had taught in the University of São Paulo. At the same time, through his sociological writing and his political stance under the military régime, he had well merited credibility on the left of politics. He had a rich network of international connections in Latin America, Europe and the USA where he was highly respected and, no less important, liked and trusted. He came to office, in many important respects, as the best prepared, intellectually and politically, of all Brazil's presidents.

By October 1994 he had an overwhelming popular mandate, coming from every section of the population, giving the unprecedented support of the nation to the plan which he had already launched and to the programme which he further elaborated during his election campaign. It would take, it seemed, a foolhardy Congress or group of state governors to try to obstruct that programme.

The election results for Congress and governors seemed further to reinforce Cardoso's position. October 3 1994 was a major electoral conjuncture, with an electorate of nearly 95 million voters choosing not just a President, but, out of about 12 000 candidates, two thirds of the Senate (54 out of 81), all 513 of the Chamber of Deputies, 1059 state deputies and all 27 state governors.

The key issue was whether Cardoso and his coalition would be able to command the support of three-fifths of the new Congress, especially 308 of the 513 members of the lower house. This percentage was, according to the constitution of 1988, what was needed for constitutional reforms, so Cardoso's whole programme hung, and still hangs, on his ability to introduce some basic reforms of the constitution.

At first sight, as the election results emerged, it seemed that this should be possible. Cardoso's electoral alliance provided 34 Senators and 175 Deputies, a total in Congress of 209. This, in terms of simple arithmetic, should have

been enough, granted the backing of the PMBD, with 125 seats, and some extra support—which could reasonably be expected—to guarantee the votes needed for constitutional change.

The gubernatorial results seemed similarly reassuring. Of the 27 states, 18 needed to go on to the second round of voting for governor, on 15 November. Candidates of Cardoso's party, the PSDB, added to the first round victory in Ceará of Tasso Jereissati, by now winning São Paulo (Mário Covas), Minas Gerais (Eduardo Azeredo), Rio de Janeiro (Marcelo Alencar), Pará (Almir Gabriel) and Sergipe (Albano Franco). Just three of those states, São Paulo, Minas Gerais and Rio de Janeiro, account for 43% of all the country's voters and over 60% of national GDP. The PMDB still had more governors, having won three in the first round and five in the second, but some of these were supporters of Cardoso, notably Antônio Britto in Rio Grande do Sul.

Of the other parties in the Cardoso alliance, the PFL, which was still the second largest party in Congress, did badly in elections for governor, winning only in Bahia, where Paulo Souto swept in with the support of the political boss, Antônio Carlos Magalhães, while, in Maranhão, Roseana Sarney, daughter of the former president, supported by the family political machine, became Brazil's first woman governor. Finally, in Roraima, the PTB, one of the other parties in the Cardoso alliance, won with Neudo Ramos.<sup>13</sup>

### Actual support

The potential support from governors for Cardoso's programme was vitally important. After 1982, when, once again, after 17 years, they were directly elected, their weight in national politics steadily increased. The 1988 constitution gave them more resources and patronage, including leverage over members of Congress, and they had shown by 1994 that they could come together in regional blocs to press their common interests, regardless of party labels. When taking office on 1 January 1995, Cardoso knew he would have to bargain on a case-by-case basis, but that he and the governors would share some common ground, for instance, over cutting the cost of public administration and reform of the pension system, and that he would deal, *prima facie* with political allies. Congress was another matter. The men, and one woman, elected as governors were mostly known, seasoned politicians, allowing a degree of political calculus. By contrast, in Congress, about half its membership was elected for the first time in October 1994. In a system in which party loyalty and discipline determined support or otherwise for proposals to Congress, this should not be a problem; but this is not the case in Brazil, meaning that Cardoso's apparent congressional support could be much less than it seems. This needs to be understood when analysing the politics of his *Plano Real* and its chances of success.

One evident problem for a president from São Paulo, heavily supported by other states in the centre-south, and offering a programme of reform and modernisation, is that the current system allows disproportionate representation in Congress to states of smaller population and economic weight, where personal patronage and a local spoils system often determine elections.<sup>14</sup>

Another, more serious, issue stems from the electoral system. Brazil's present

'open list' system means that electors within a whole state, not an electoral district, vote for an individual candidate rather than for a party, so that it is the number of votes which an individual receives which determines his or her order in the party list. This means that electoral competition is commonly between candidates of the same rather than contending parties.<sup>15</sup> This, in turn, makes party cohesion and discipline largely irrelevant, so that party labels mean little, allowing easy, often frequent, movement from one party to another.

This means that the party system is both unstable and fragmented, a situation made worse by the well intentioned desire of those who framed the 1988 constitution, reacting against the previous military-backed regime, to allow the virtually unlimited registration of political parties. This has been the subject of intensive debate, with suggestions, for example, that a party should have a minimum of 5% of electoral support, as in Germany. If that requirement had been in force in 1990, instead of 20 parties elected to the federal chamber, there would have been only eight, with the 62 seats of small personal parties redistributed among those eight.<sup>16</sup> It would also have helped to prevent the dictatorship of minority parties, able to swing a balance in Congress, so that under Collor, for example, only in the PT did more than half its members vote together on over 50% of occasions.

Fernando Henrique Cardoso knew better than anyone what he would face as he came to office. Ten years before, already a Senator, he had been at pains to emphasise, as sociologist and politician of the centre-left, that Brazil was a very conservative society, that change would inevitably be slow, and that it would be constrained by the political system.<sup>17</sup> Nine years before he took office, he had posed the rhetorical question: how can you have democracy without political parties?<sup>18</sup> In January 1995 Brazil was still a conservative society, the political and party systems still imposed constraints, and President Cardoso knew it.<sup>19</sup>

### **Programme of government**

Cardoso's proposals for government appeared only in the first week of September 1994, less than a month before the election, in the form of a book of three hundred pages: *Mãos A Obra Brasil* (Hands to Work, Brazil). It involved a spending programme of R\$100 billion (US\$115 billion), concentrating on infrastructure and social issues. The money was to be raised from the federal budget (R\$15 billion), privatisation proceeds (R\$15 billion), foreign reserves (R\$20 billion), Eurodollar borrowing (R\$15 billion) and loans from the World Bank and the Inter-American Development Bank (R\$15 billion).<sup>20</sup>

The programme envisaged greatly improved rail and waterway links with other countries of South America, to Venezuela, for example, and the Caribbean, as well as transmission lines from northern Brazil to Venezuela and similar links to Brazil's southern neighbours. It also proposed extending the BR-174 highway in Roraima to Venezuela and the Caribbean, and the BR317, to connect Rio Branco, in Acre, to the Peruvian port of Ilo, to give access to the Pacific, something persistently sought by business and international investors. There was detailed discussion of changes in the oil industry and telecommunications. The aim would be to introduce competition, to increase daily oil production from



720 000 barrels a day to 1 100 000 in 1997–1998, and to invest R\$16 billion in four years in telecommunications, laying two million new telephone lines, while also spending R\$700 million on a national fibre-optic cable network by the year 2000.

Other central aims included freeing basic foodstuffs from sales tax, which would need a constitutional amendment, and giving special priority to investment in education. This was in response to such dismal figures as only 44% of children completing primary school and only 17% of children of secondary school age being educated, compared, in the latter case, to 55% in Mexico, 91% in Taiwan and 96% in Japan. More responsibility in this area would be devolved to the states and *municípios*.

There was to be a massive attack on unemployment, according to official statistics up by 70% in 13 years, from two million in the early 1980s to 3.4 million by 1994, with an estimated 17 million, or 27% of the active labour force, earning less than the minimum monthly wage of R\$70. The programme promised a major effort to promote job creation.

It also proposed a new concept of health care, acknowledging that 55% of deaths of people under 65 were linked to malnutrition, lack of decent sanitation or lack of health care. The aim was, again, to devolve responsibility to states and *municípios*, changing the present system in which 75% of health care spending fell on an overburdened federal government.

Further recommendations related to public order and policing, to increase, for example, the strength of the federal police, from its current 6000 to nearer the 25 000 recommended by specialists in the field, to introduce reforms in the prison system and to provide special legislation to combat crime related to drugs.

Another section of the programme dealt with privatisation. This included 'flexibilisation' of the oil and telecommunications monopolies and a series of other measures which might help to balance the federal budget. These, too, would need constitutional amendments voted by Congress, which at once implied delicate political negotiation. Still more so did proposals for changes affecting three key sensitive areas, public administration, the tax system and social security.

The public administration system had long been a source of contention. Getúlio Vargas, in his strengthening of the central state had created the Administrative Department of the Public Service (DASP) in 1937 to produce a civil service based on merit and tested in examination, following the Brazilian equivalent of the Northcote Trevelyan Report.<sup>21</sup> This was altogether less than successful and patronage continued to be the main path to advancement.

President João Figueiredo, the last of the presidents of the military-backed regime, created a Ministry of De-bureaucratisation, a curiously bureaucratic response to deal with too much bureaucracy, ended DASP and replaced it with the Federal Secretariat of Administration (SAF). President Collor de Mello sought to cut back radically the number of public employees, as part of rolling back the state. He reduced the number of Ministries from 24 to 12, closed down 25 federal agencies and sacked about 80 000 civil servants, of whom about 25 000 were re-employed by President Itamar Franco, on the grounds that the constitution guaranteed their job stability.

Even so, the number of federal employees fell from about 713 000 in 1989 to 570 000 in 1995, but steadily increasing salaries pushed up their proportion of federal expenditure from 27.3% in 1991/93 to 32.1% in 1995. Public sector employees, as a whole, numbered about 7.5 million, or roughly 10% of the economically active population, compared to 6% in Japan or 20% in the USA; but more worrying, by late 1994, were the huge salaries of a substantial number of civil servants, whose perks produced at least 7000 public employees with salaries greater than that of the President of the Republic (R\$8500.00 a month) and the increased numbers taking early retirement through fear of pending reforms, producing ratios of active/retired of 1.5:1. Such problems were even worse at the level of state governments, where the salary burden commonly came close to, or even exceeded, state revenues. In Piauí, for example, one of Brazil's poorest states, in the northeast, revenues totalled R\$40 million in September 1995, but the salaries of state workers came to R\$42 million. Of these, 500 were earning salaries of R\$10 000 to R\$20 000 a month, accounting for 20% of the total salary bill.<sup>22</sup>

The 1988 constitution placed a ceiling on federal salaries, but this did not include accumulated perks and other negotiated deals, which were jealously guarded.<sup>23</sup> Equally so, was the right to job stability, guaranteed by the 1988 constitution to any public servant with five years of continuous service, making him or her virtually impossible to sack. Since these rulings affected many members of Congress and their political appointees and clients, the task of reform would be hard.<sup>24</sup>

The problem of fiscal reform was no less controversial. The FSE had been, as its name implied, a temporary measure to balance the budget by redistributing revenue in favour of the federal government. Cardoso's reform proposals wanted to go much further. They included reorganising the federal tax system, reducing the number of taxes and tightening the system of tax collection and evasion, where it was estimated that, of 50 million workers, only seven million paid income tax, with most of the burden coming as indirect sales, and value-added tax, which was regressive, falling disproportionately on the poor. It was also calculated that 20% of companies paid 70% of taxes, because thousands of small and medium-sized companies paid none.<sup>25</sup>

Social security was an even bigger time-bomb to defuse. Getúlio Vargas, mainly through his first Minister of Labour, Commerce and Industry, Lindolfo Collor, the maternal grandfather of President Collor de Mello, had laid the foundations of an essentially corporatist system of labour relations and social welfare benefits. The legacy of that system, in a country where the population had risen to 189 million and average life expectancy to 66 years, with wide regional variations, meant that, by 1994, there were only two workers per beneficiary and the system was falling apart. There were about 34 million contributors to the federally financed retirement system, but the number of retirees was rapidly outstripping that of contributors, with the population of 65 years old growing by 3.7% a year. In 1970 those receiving pensions numbered 2.2% of the population; by 1994 there were 14.9 million or 9.5%. From 1984 to 1988, average social security costs were the equivalent of R\$7.8 billion; by 1994 the cost had risen to about R\$24 billion.

The situation was made worse by the fact that the law allowed men to retire after 35 years work and women after 30, irrespective of age. This meant that 70% of retired men and women stopped work before the age of 55 and were then able to take up other jobs without losing their federal pension. By 1994, employers' taxes to cover social security costs had risen to 100% of basic pay, compared to 63% in the late 1980s, resulting in massive tax evasion and hidden payrolls. The system was broke, but the political resistance to reforming it was strong, including, as it did, that stemming from congressmen, judges and civil servants, all with large pensions.

The Cardoso programme proposed extending the minimum years of service, setting a minimum age requirement for retirement, putting a ceiling on retirement benefits, removing rural-urban, male-female and public sector-private sector differentials and permitting supplementary private pension plans.<sup>26</sup> There would be a limit on state retirement pensions of between five and ten times the minimum wage, to about US\$820 a month, with further provision coming from private pensions schemes.<sup>27</sup>

The problem with all these proposals was not just the degree of opposition and resistance which they would face, but the deliberately tortuous process for amendment devised by those who framed the long, detailed constitution of 1988. Amendments had to be passed twice by three-fifths majorities in both houses of Congress, starting in the Chamber of Deputies, then in the Senate. First, a Constitution and Justice Committee (CCT), consisting of 51 members, had to consider the constitutional admissibility of the proposed amendment. This then had to be submitted to a special committee, set up specifically for each amendment and made up of 40 members appointed proportionately by floor party leaders. This committee's report must then be voted on by the full membership of each house, in two sessions, to be separated by an interval of five sessions. Such a process could theoretically take about three months, but contained the possibility of much longer delays and dragging of feet.

In his first national television interview after his election, on 6 October 1994, Cardoso showed himself undeterred by possible opposition or obstructive responses to his proposed reforms. He was determined, he said, 'to tackle the great national issues', which meant fighting inflation: 'inflation is what impoverishes Brazil and the Brazilian people ... causes an unfair distribution of income, prevents domestic and foreign investments.'<sup>28</sup> He acknowledged the need to sort out state banks, affirmed that Petrobras would not be privatised, but that state companies would be open to foreign investment. The privatisation programme would go ahead, but:

this does not mean that state-owned companies should be privatised for just any price. Mexico did not privatise its oil company, Chile did not privatise the copper mines ... the British privatisation model has faced a few problems in the area of energy. In short, there are several privatisation models ...

He believed, he said, that fiscal reform was necessary and that he would 'have Congress discuss the issue right away'.

In other speeches, Cardoso emphasised that 'the biggest issue is to overcome our social injustice', to make Brazil 'a nation of citizens, not of outcasts' and he

underlined, in certain 'strategic areas', the centrally important role of the state: 'The market cannot solve problems of poverty'. It was through this conviction that Cardoso vehemently rejected the label of 'neoliberal', preferring that of 'neo-social', in the belief that one of the most important tasks for Brazil was to re-think the role of the state.<sup>29</sup>

### Government

Cardoso's cabinet contained people of extraordinary talent and experience, fully committed to the programme of reforms, as soon they showed.<sup>30</sup> José Serra, a co-founder of the PSDB, formerly Secretary of Finance for São Paulo, specialist on fiscal reform and now a Senator, made clear, within days as Minister of Planning that there could be no spending on large projects requested by governors and no increase in Congressional salaries, until the budget had been rewritten.

Luiz Carlos Bresser Pereira, Minister for Public Administration, a former Minister of Finance, also a *paulista* and founder of the PSDB, refused, again in his first few days, to endorse a 22.07% salary rise for federal workers, promised by Itamar Franco, and declared that job stability would have to be 'flexibilised' and that the government must be able to sack workers who were not performing satisfactorily.<sup>31</sup>

Reinhold Stephanes, PFL, in charge of social security reform, provided a still further shock, saying that all the government's pension systems must be unified, that there must be a ceiling on pensions paid and that further cover must come through private pensions schemes. Pêrsio Arida, now President of the Central Bank, advocated deregulation of the banking system and the privatisation of state banks. Finally, Cardoso, himself, vetoed a rise in the minimum wage, from R\$70 to R\$100, approved by Congress on 18 January, on the grounds that its impact on the social security system, linked to that wage, would push up inflation and threaten to derail the Plano Real. This was obviously a government that meant business.

The Mexican financial crisis of December 1994 brought sudden, unexpected pressure on Brazil, which had to dip into its foreign reserves of US\$40 billion to support the *real*. It was a warning against relying too heavily on an exchange rate policy.<sup>32</sup>

Cardoso's strategy for carrying through his reforms was to put forward a series of distinct bills, starting with the least controversial, which improved the government's negotiating position. After Congress started work, in February 1995, the President sent it five bills for reforms in the chapter in the constitution on 'economic order', leaving until later the more politically sensitive measures over social security, administrative reform, tax reform, federal relationships and judicial and political reforms.

These first proposed reforms were intended to pave the way for privatisation and further liberalisation of the economy, removing some of the more narrowly nationalist features of the 1988 constitution. The concept of 'national enterprise' was to be changed, to include any company, regardless of the origin of its capital. This meant that foreign-owned companies could exploit natural re-

sources, including hydroelectricity production. There was to be 'flexibilisation', a new term, of the state monopoly in petroleum, telecommunications and pipeline distribution of gas and a change in the law governing coastal shipping and inland waterways. Of these reforms, perhaps the most innovative were those affecting the oil industry, in research and exploration, production, refining, imports, exports and transportation.

Congress's reply throughout the whole of February and March 1995, was coldly negative and obstructive. The reason was that Cardoso was initially unwilling, or at least reluctant, to indulge in the traditional Brazilian patronage 'spoils system' in which a president has at his disposal over 60 000 appointments, with very few needing to be submitted for Senate approval.<sup>33</sup> In late April, after returning from a visit to Washington, Cardoso suddenly took a new line, conforming to the traditional pattern of favours and advancement. He also confronted striking oil workers, cleverly out-manoeuvring them, bringing in troops to protect oil installations, importing oil derivatives and threatening dismissals.<sup>34</sup>

Public opinion rallied even more strongly behind Cardoso and his programme, putting more pressure on Congress, already mollified by posts and patronage. The nation's legislators did a complete about-turn and, by the end of the first legislative session, 30 June 1995, the Chamber of Deputies had passed all the constitutional amendments of the 'economic order'. This was seen as a major victory for Cardoso and his government.

### The March crisis

By mid-1995, and before it sent its next batch of reforms for voting in the second semester of Congress, the government had been forced to make some adjustments to economic policy, which caused renewed alarm concerning the survival of the *Plano Real*. The economy was in danger of overheating, having grown by 9% in the nine months after the launch of the real<sup>35</sup>, with growth in the first quarter of 1995 estimated to be 10.5% compared with the same period in 1994.<sup>36</sup> Annual growth was estimated at about 5.6% for 1994 and the investment rate at over 17%.<sup>37</sup>

The fall in inflation gave an estimated lift in purchasing power of about US\$ 18 billion to the poorer half of the population, producing an explosion in consumer demand, while the middle classes rushed to buy imported motor cars and consumer goods, made easier by a currency overvalued by an estimated 30% and by import tariffs brought down from, on average, 51% in the 1980s and over 30% in 1991, to 14% by late 1994. By March 1995, consumer durables led total sales with a rate of growth of 55% compared to March 1994.<sup>38</sup>

To try to control imports, the government decided on 6 March to devalue the *real* by about 7% against the dollar, but this was clumsily done, so that the Central bank had to intervene 32 times in one day to defend the real, being forced to sell dollars and draw heavily on its foreign exchange reserves, which dropped from US\$38 billion at the end of February to US\$33.7 billion in March. It then fixed a new exchange band, followed by government announcements of

raised import tariffs on 109 items, higher interest rates and a series of measures to squeeze credit.

Most commentators judged this March crisis to be unnecessary and of the government's own making: it again underlined the need for more far-reaching fiscal reforms. Despite some pessimistic predictions, the end of 1995 saw the *Plano Real* still intact, but, by now there was even greater consensus that the key to the consolidation of its success lay in fiscal reform in 1996 to support the stabilisation effort, providing the opportunity for interest rate cuts and helping private investment.<sup>39</sup>

That is not to say that there were no causes for concern. There was growing anxiety, for example, over the growing fiscal deficit and internal debt. The operational deficit of the public sector was 4.5% of GDP for 1995,<sup>40</sup> the worst public accounts deficit for six years, amounting to R\$32.2 billion. This compared with a surplus of 1.2% in 1994, blamed mainly on internal debt servicing and high state-sector wage costs. Meanwhile, it was estimated that the new domestically held debt of federal, state and municipal governments and state-owned companies amounted to R\$207.5 billion by late 1995, or the equivalent of 31.6% of GDP.<sup>41</sup>

Some of the public sector costs resulted from salary increases granted by Itamar Franco; other reasons were commonly cited, but some critics laid the blame squarely on President Cardoso, saying that, despite the promises of José Serra, fiscal policy had been lax, compared, for example, with that of President Collor de Mello.<sup>42</sup>

One sober analyst says that 'the Federal Government went on a spending spree',<sup>43</sup> unmatched by the sizeable increase in tax collection (up 53% in real terms). He argues that very high real interest rates provoked recession and inflows of foreign capital, and that, to avoid an expansion of the monetary base, the government started to buy most of the dollars that entered the economy, by selling bonds to the public, so that 'the increase in international reserves was matched almost one to one by an increase in the domestic debt'. He also notes how 'atrocious levels of real interest are paid to depositors and by unlucky borrowers, the biggest one being the Federal Government'.<sup>44</sup>

### **Banco Econômico, 'the Pink File', Sivam**

The Cardoso government must have been prepared for such criticism. Its spokesmen and spokeswoman<sup>45</sup> have made their replies and have acknowledged the issues of deficit and domestic debt as needing to be tackled. What they did not foresee as easily was a series of other problems and potential scandals which arose throughout 1995 and continued into 1996 and both shook the government and pushed back its timetable of reforms.

#### *Banco Econômico*

The first, in August 1995, embroiled President Cardoso in a bruising public row with his most powerful ally on the right, Senator Antônio Carlos Magalhães, the political boss from Bahia who, rightly, claimed to have delivered many votes to Cardoso and to have supported him with only 10% standing in the polls. His

continuing support and that of the PFL in Congress was central to the Cardoso alliance. The problem arose when Banco Econômico, a private bank based in Bahia, suddenly collapsed in August 1995, only weeks after releasing apparently healthy results. The government, through the Central Bank, immediately intervened, but refused to bail out the bank with large sums of public money. There were charges of mismanagement and of possible wrong-doing on the part of the chief stockholder, Angelo de Sá:<sup>46</sup> but this was only one case within a much broader and deeper crisis in Brazil's banking system, which had been hard hit by the sharp drop in inflation and the loss of a major source of profits, on the margins between deposit rates and incentive overnight interest rates offered by the government, typically accounting for between one-quarter and one-third of total bank revenues.

Already, in January 1995, the government had intervened to take over Banerj, the state bank of Rio de Janeiro, and Banespa, the Banco do Estado de São Paulo, the third largest financial institution in Brazil, with a net value, in mid-1994, of US\$ 1.4 billion, but with a book deficit by January 1995 of US\$1.8 billion.<sup>47</sup> Other state banks, too, were in trouble, again provoking federal intervention, with some already earmarked to be sold off. The main problem was that most state banks has long been used as easy sources of political funding by high-spending state governors, but now, after the *Plano Real*, they were hit by the fall in inflation and the need to conform to monetary policy. By early 1995, the total debts of state banks to the Central bank amounted to about US\$20 billion. The issue of state banks was one which the incoming Cardoso government had foreseen. It dealt with it in different ways in the following months, returning Banespa, for example, after a year, among much controversy, to the control of São Paulo state, following a complex restructuring programme.<sup>48</sup> This was seen in some quarters as Cardoso indulging in political trimming, in order to win *paulista* support for his reforms in Congress, but the issue was less simple than that.

The Banco Econômico affair produced a much more public political tussle, involving state interests, pride and prestige in Bahia and the need for the President to show who was in charge of his government.<sup>49</sup> The future of Banco Econômico is still not fully resolved.<sup>50</sup> Eventually, a political compromise was reached, but the quarrel showed the political fragility of the coalition underpinning reforms. The main problem was that it distracted the attention of Congress and the public from the urgent task of pushing through the constitutional reforms to underpin the *Plano Real*.

### *The Pink File*

Hardly had the dust settled, than two other issues arose to raise it again. The first was the so-called 'Pink File' ('pasta rosa') anonymously leaked to the press and containing a list of illegal campaign contributions made through the Banco Econômico to support candidates in the electoral campaign of 1990. These included Antônio Carlos Magalhães, who was then elected governor of Bahia, said to have received US\$1 155 000, his son, Luís Eduardo, who was now President of the Chamber of Deputies, and other prominent politicians. The revelations were seen as closely linked to the tussle over Banco Econômico, but

their main political impact was further to delay the government's reform programme.<sup>51</sup>

#### *SIVAM*

Finally, still before the end of the year, came another such distraction. This concerned the *Sistema de Vigilância de Amazônia* (SIVAM), The Amazon Vigilance System, a US\$1.4 billion project to provide a sophisticated radar and telecommunications system, the contract for which was given to a US company, Raytheon, after pressure from Ron Brown, US Secretary of Commerce, in 1994, and a personal letter from President Clinton to President Itamar Franco. The contract was awarded without public tender, for alleged security reasons, and became the centre of fierce debate and allegations of corruption in late 1995. It was said to involve the CIA and to be a sell-out to the USA, with little advantage to Brazil. Phone-tapped leaks led to the resignation of the Minister of the Airforce as well as one of Cardoso's closest advisors—together with the energetic head of the National Institute of Colonization and Agrarian Reform (INCRA). The row took up time and energy, ensuring that the package of constitutional reforms could not go through Congress before the end of 1995. This was a major disappointment for the government and a further source of uncertainty with regard to its wider programme.<sup>52</sup>

### **The reforms**

By the end of 1995, despite the various political crises and the hesitations and resistance of Congress, some slow progress had been made, both in privatisation and constitutional reforms.

#### *Privatisation*

The first privatisation measures, introduced in the steel industry in 1991 were met with demonstrations and threats to prospective buyers. Steel was one of the key industries controlled by the state since it was first developed under Vargas and, like the oil industry, was a touchstone of nationalist identity, both on the left and right. There was a long tradition of state control, often with a general at the top, as in the case of General, later President, Ernesto Geisel (1974–1979), formerly President of Petrobras. Under President Collor, the government published a list of 22 eligible companies in August 1990, hoping to raise US\$7 billion. By this, it aimed to reduce the public sector deficit from 7% of GDP to 1%. The programme was launched in January 1991, still hoping for US\$7 billion that year, but for US\$18 billion the next.<sup>53</sup> It aimed to raise most funds through debt–equity swaps, with the programme director talking of as much as US\$100 billion being available in total. Such early hopes were disappointed and, by the time Collor resigned, proceeds amounted to only US\$3.5 billion, from the sale of five companies, with over 90% coming from what Brazilians called 'rotten money', namely, debt swapped at par.

Itamar Franco, coming from a Vargista tradition, was suspicious of the



international fashion for privatisation and anxious about its social cost. In September 1994 he suspended private auctions for petrochemical companies, pending a new method of calculating reserve prices, and ordered an investigation into the sale of *Escelsa*, the power plant in Espírito Santo.<sup>54</sup> In September 1994 General Rubens Bayma Denys, Minister of Transport, was discussing the privatisation of roads to allow private companies to charge tolls in return for maintaining them,<sup>55</sup> but Itamar's presidency ended with proceeds of only US\$5.1 billion, from the sale of seven principal companies—four in steel, one in fertilisers, one in petrochemicals and EMBRAER, the aircraft manufacturer.<sup>56</sup>

More was expected of Cardoso, despite his cautious remarks after his election. His proposals for changes to Article 177 of the constitution, on the state monopoly of oil and gas production and transport, were widely seen as the thin end of the wedge.<sup>57</sup> The sale in July 1995 of the *Escelsa* power utility, which Itamar Franco had queried, seemed to mark the real start of his programme, with a privatisation schedule which contained mainly companies in petrochemicals and electricity power, but which also included the electricity distributor, Light, valued at US\$5.5 million and, above all, *Companhia Vale do Rio Doce* (CVRD), the huge mining complex, which, among other things, is the world's largest iron-ore producer, variously valued at between \$8 and \$12 billion.<sup>58</sup>

In the end, privatisation made relatively little progress in 1995, involving only eight companies, producing a total of R\$1 billion (US\$1.1 billion), of which R\$527 million came from the sale of seven petrochemical companies.<sup>59</sup> The sale of Light was postponed, initially to April 1996; however, sales were also planned of the railway system, more petrochemicals and, above all, CVRD. The consortia appointed to evaluate that company were expected to report by June or July 1996.

The central government still controls about 100 enterprises. Of these, 29 are in telecommunications, five in electricity, 13 in oil, 14 part of the CVRD and there are about 39 smaller transport companies, hospitals and data processing enterprises. Those in favour of the privatisation programme claim that it is popular, directed by the President and the National Bank of Development and that the process and rules are transparent, with the auctions conducted in Brazil's stock exchange. Using privatisation to reduce public debt, they argue, will reduce debt service and help to narrow the gap between domestic and foreign interest rates, so that the programme should now be accelerated.<sup>60</sup>

### *Constitutional reforms*

Throughout the second half of 1995, after the reforms in the 'economic order' were passed, the government was at pains to stress that it was doing everything possible to push through the other reforms, but that progress, inevitably, would be slow. It gave the impression of settling down for a long haul, with a programme which might even need more than one presidential term. This impression was reinforced in September with the announcement of a *Plano Plurianual* (PPA), a plan for several years, ostensibly from 1996 to 1999, in effect covering for the four years remaining to Cardoso, carrying Brazil to the threshold of the millennium.

The Plan was reminiscent of the Plan of Goals (*Programa de Metas*) of President Juscelino Kubitschek, Brazil's most respected civilian president of the modern period (1956–1961), who had promised, with some success, 50 years' progress in five. In three volumes, rich in diagrams and statistics, the PPA set out five main goals, employment, health, education, agriculture and public order, just as Kubitschek had defined five main goals. It was a plan for infrastructural and social development, all carefully costed, with a total budget of almost R\$500 billion, or about R\$100 billion a year. Of this total, about R\$100 billion would come from the federal government, with the rest from other sources, including states and *municípios*, the Inter-American Development Bank and the World Bank. The Plan, the work of José Serra and his team, paid special attention to social reforms and sought to show that the government had a clearly thought out, long-term strategy.<sup>61</sup>

The sense of settling down to a steady stroke was reinforced by the efforts of some of Cardoso's colleagues, especially Sérgio Motta, Minister of Communications, to press for a constitutional change to allow the immediate re-election of a president—as had recently been introduced in Peru and Argentina—and by a certain slackening of urgency in efforts to push through reforms, with ministers apparently willing to accept, in the short term, the possible rather than the ideal.

There were good reasons for this. The amendment reforming the social security system was sent to Congress in early March 1995, with the government soon showing willingness to negotiate and compromise, so that 'reform' became 'adjustment'. These early negotiations were mainly with the leaders of the trade unions, rather than with their representatives in Congress. Long-drawn out discussions threatened to split the Unified Labour Central (CUT) from the PT, with which it always had been closely associated.<sup>62</sup> There were also serious disagreements in the Special Committee in Congress,<sup>63</sup> so that the bill took almost a year to reach the floor of the Chamber for voting. On 6 March 1996 the government suffered a major set-back when the Chamber of Deputies refused to give sufficient support to the social security bill. Cardoso had then to enter into a series of political trade-offs, resulting in a victory on 21 March, with 351 of the 513 votes in the lower house.<sup>64</sup> The measures agreed upon were a watered down version of the original proposals,<sup>65</sup> the main achievement being that pension benefits were now to be tied to the length of time contributions had been paid. Cardoso was faced with the charge that the results, after so much effort, were 'inconsequential', to which he replied, wearily, but realistically: 'Perhaps, but at the outer limit of what the Brazilian people will accept'.

The government was still, and still is not, out of the wood. In April 1996 a Supreme Court judge granted an injunction against the amendment to the social security provisions. On 8 May the full court ruled by 10 to 1 that Congress might resume voting on the social security measures.<sup>66</sup> These still have to go through both Chamber and Senate before Congress finishes its session and before many of its members are involved in municipal elections in October.

The latest developments are far from reassuring. Late on Wednesday 22 May 1996, the government failed to defeat three amendments to its social security reforms in the Chamber of Deputies. These would maintain privileges for public sector employees, so that public sector pensioners would continue to receive all

pay and productivity rises given to those still in work. Special groups, such as university teachers, would still be able to retire early. It was even suggested that the government should withdraw its social security reform proposals, since they were now so much diluted.<sup>67</sup>

The government defeat stemmed from the abstention or defection of deputies in all four of Cardoso's coalition parties, even though he had appealed for the deadlines on both social security and civil service reforms to be 31 July in the Chamber and 30 September in the Senate. This now seems to be an unlikely timetable, since, even if changes are made in the Senate, where Cardoso is stronger, they will have to be returned to the lower house.

One important, though again qualified, success for Cardoso was the vote on 1 November 1995, in the Chamber, for an extension of the FSE for 18 months. It, too, had been the subject of intense bargaining, especially with state governors, concerned about their budgets; but now it was passed, with a change of name to *Fundo de Estabilização Fiscal* (FEF), the Fiscal Stabilisation Fund. Cardoso had wanted an extension for four years, arguing that, even if his fiscal reform programme were to be approved, it would take three to four years for results to come through. He will now have to negotiate another extension in 1997. The refusal of a longer period was partly the result of pressure from ex-President Sarney, now President of the Senate, who is preparing to run again for the presidency in 1998 and who was afraid that a four-year extension would too greatly strengthen Cardoso as a possible rival candidate.

The fierce in-fighting over the social security reform rather overshadowed the proposals for administrative and tax reform.<sup>68</sup> The plans for administrative reform had been drawn up by the Ministry of Administration and Reform of the State, headed by the distinguished social scientist, Luiz Carlos Bresser Pereira. Its main aims were to allow 'autonomous' operations for certain areas such as universities, hospitals, research centres or museums, to 'flexibilise' job stability, put a ceiling on the maximum salary payable to public servants, reduce presidential patronage appointments and make a distinction, in terms of job security, between different categories of public servants.

The proposals were sent to Congress in the form of two constitutional amendments in August 1995. They were extremely detailed and elaborate and already less far-reaching than originally envisaged.<sup>69</sup> They produced stormy debates and even threats of physical violence from irate public servants. The government had hoped to push the whole package through the committee deciding on constitutionality, the CCT, then negotiate individual items, as it had on reforms of the 'economic order'. By October it was clear that this was not feasible and the government was forced to make heavy concessions. Public servants could, for example, only be sacked if the payroll exceeded 60% of revenues. Dismissals could occur over a three-year period, up to 31 December 1998, but with qualifications.<sup>70</sup> The proposals and their reception in Congress showed all too clearly the strength of vested interest against reform of the public administration system, though state governors were generally favourable because of the pressure on their payroll and budgets, and some even introduced their own reforms at state level to deal with the problem.<sup>71</sup>

From January 1996 the reforms moved slowly through the 40 sessions

required in the special 40-member committee of the Chamber of Deputies, with intense discussion of such sensitive issues as job stability and the salary ceiling, which Bresser Pereira had to raise. The issue was also ideally suited for use by politicians who already had an eye on the elections of October 1996 and wanted to be seen as defending the interests of public servants. That is still the situation, with the government being forced to make more concessions and more use of the spoils system, but increasingly under pressure of time and vested interests.

The same is true of the tax reforms—which were also sent to Congress in August—especially those to reorganise the federal tax system, transferring more resources from states and *municípios* to the federal government. The government also aims to reduce the number of taxes and to tighten controls and penalties for tax evasion, which is thought to cost the government about US\$6 billion a year, and to reconsider tax on financial transactions and capital gains.<sup>72</sup> These proposals, too, now await congressional approval, under the same pressures as those for social security and administrative reform.

### *Banco Nacional: Banco do Brasil*

In the midst of these debates, yet more banking scandals and crises threatened the whole reform programme. In November 1995 the Central Bank took over a private bank, Banco Nacional, founded in 1944 by a leading Minas Gerais politician, José Magalhães Pinto, former state governor, foreign minister and backer of the 1964 coup. The bank had serious cash flow problems. In February 1996, *Veja* revealed that the Nacional's accounts had been fraudulently manipulated since 1986, hiding its bad debts by creating fictitious loans to hundreds of customers. A shortfall of about US\$600 million equivalent in 1986 had risen to an estimated R\$5 billion by 1995. In November 1995, the Central Bank absorbed the Nacional's bad debts, selling the sound remainder to a rival bank, Unibanco.<sup>73</sup> It was calculated that the cost to the federal government could be of the order of R\$12 billion.

One embarrassment for the government was that Cardoso's son was married to Magalhães Pinto's daughter, although she apparently had no idea of what was going on. More seriously, there were allegations that the Central bank had known about the Nacional R\$5 billion fraud as early as July 1995, but had done nothing about it, and that Cardoso might have known about it in October. There were also searching, widely debated questions as to how the federal government could find some R\$5.8 billion to bail out a private bank, when it could not find money for health care and social programmes.<sup>74</sup>

The government's difficulties were not over. In March 1996, the Banco do Brasil, Latin America's biggest bank with 91 000 employees, which is 51% owned by the Brazilian government, announced the biggest loss in its history—R\$4.25 billion in 1995—and requested a capital injection of R\$8 billion. This was partly because successive governments had used the bank to provide credit to bad-risk public sector companies and subsidised credit to farmers.<sup>75</sup>

### *Social priorities*

Criticism that there was money available for the Banco Nacional, but not for the social programmes, touched a raw nerve, echoing demands that the fiscal *Plano Real* should be accompanied by a social plan and accusations that Cardoso had not lived up to his electoral promises in this area. Such criticism has come especially from NGO's and programmes such as *Ação da Cidadania contra a Miséria e pela Vida* (Citizenship Action against Misery and for Life). There have also been charges of inadequate attention being paid to indigenous questions, agrarian reform and such pressing social issues as rural and urban violence and abuse of human rights. This is a big subject, which requires separate treatment, other than in discussion of the *Plano Real*.<sup>76</sup>

Cardoso himself has shown that he is duly sensitive to these issues. He has done so, for example, in his pre-election programme, in his first speeches after election,<sup>77</sup> in the Plano Plurianual, in a long interview to *Veja* in January 1996, in programmes which he has already introduced and in actions which he is currently trying to take to end human rights abuses, both of street children and of rural workers in Amazônia.

Immediately after he took office, Cardoso started the programme *Comunidade Solidária*, focusing on community solidarity, a series of social projects to combat hunger and poverty. This operates in communities shown to have the highest indices of poverty and deprivation.<sup>78</sup>

He can already claim that his attack on inflation has brought tangible benefits to the poorer sectors of Brazil's population, with increased access to basic foods. Early in his presidency he also inaugurated a new programme for basic education 'Wake Up Brazil', which was remarkably successful in targeting new resources and equipment to schools before the start of classes in 1996.<sup>79</sup>

At the same time, Cardoso would be the first to admit that there is still a long way to go, which is why he sees his current reform proposals as only the first, necessary phase in a much more comprehensive programme, which may take a number of years to attain its aims, and probably more than one term in office.

### **The way ahead?**

It is now just two years since the *Plano Real* was introduced, yet, in many respects, it has confounded the sceptics, not only in terms of inflation, but also in promising a new framework for restructuring the economy and in providing long-needed changes to the political system. These, in turn, should allow the introduction of new social priorities to tackle the persistent problems of poverty, inequality, violence and insecurity which, for so long, under successive governments, have plagued the majority of the people of Brazil. President Cardoso and his government have promised a fresh start in the programmes which they have drawn up and in what they have achieved so far, but they are working against heavy odds, especially in a Congress elected within a system which itself needs reform, whose members are too often guided by personal or regional interest, rather than by party programme or an ideal of what is best for society as a whole.

The most recent response to the proposed social welfare reforms and the deliberate delaying tactics over fiscal and administrative reforms reflect some of the gravest weakness of Brazil's present political system after its long, slow return to democracy. Such weaknesses present a real threat to sustained balanced development. Already, for example, there are signs of growing impatience among the country's business leaders over:

The slow speed at which these reforms are being handled in Congress, and the successive concessions regarding their depth and reach.<sup>80</sup>

Though formally addressed to Cardoso, such criticism is directed at the wrong target, as the President has noted, and as the country at large is increasingly aware.

Brazil urgently needs these proposed reforms, as most of the nation recognises, but it is now evident that, especially with municipal elections looming in October 1996, they are most unlikely to be passed in this session. It is becoming equally clear that the programme set out by the present government cannot be implemented quickly, but that it needs reasonable time to succeed.

This at once raises the question of the presidential election of 1998, manoeuvring for which is already under way, raising the possibility of the re-election of Cardoso or the return to power of candidates with markedly different priorities, such as ex-president Sarney. Such a result, bringing back men of the past with blinkered vision and already a record of failure, could overturn all that Cardoso and his government have done so far and could put an end to the wider programme of social, economic and political reforms. In this respect, it is too simple to see the current struggle as merely being between the 'two Brazils', one seeking to modernise and move forward, the other happy to cling to the values and practices of the past: but there is more than an element of truth in such an interpretation.

As recently as the presidency of Itamar Franco, groups of businessmen and military leaders seriously advocated for Brazil a solution similar to that adopted in Peru by President Fujimori. That is not a solution which would find favour with President Cardoso and his colleagues, who were among those who most vigorously struggled for a return to democratic government; but there are signs of increasing impatience, both inside and outside government, with the self-seeking delaying tactics of many members of Congress. The most likely immediate response from the government will be an attempt to achieve some of its reforms by means of ordinary legislation not requiring the three fifths of the vote needed for constitutional amendment, together with continued tactical use of presidential decrees, *medidas provisórias*. These 'provisional measures' are sent to Congress and are valid for 30 days, until approved by Congress, but they can be renewed indefinitely. Such a tactic could provide some measure of change and reform, but cannot, in the longer term, be a substitute for the government's proposed constitutional amendments.

The responsibility now lies squarely with Congress. As so often in modern Brazilian history, from Getúlio Vargas, in the 1950s onwards, it is seeking to obstruct positive, far-reaching change and reforms proposed by a popularly elected President and, in this case, a president who has been given an unre-

cedented mandate for change. The Brazilian people voted massively for Fernando Henrique Cardoso and his reform programme in 1994. They now deserve to see them succeed.

## Notes

- <sup>1</sup> *Brazil Watch* 18 March–5 April 1996, p 2. It is interesting to see how scepticism has given way to cautious optimism over the last 22 months. This was particularly evident in a conference in London on 23 April 1996. Despite its perhaps less than felicitous title, 'Brazil: The Re-Awakening Giant', the conference brought together many people of long experience of working on and in Brazil and other countries, including investors, bankers and businessmen. One senior businessman said that he had never seen a country turned round so quickly and speculated on what might be achieved if that momentum could be sustained.
- <sup>2</sup> An excellent paper at the London conference mentioned above was that by Dr Eliana Cardoso, Secretary for International Affairs and Senior Economic Advisor to Brazil's Ministry of Finance: 'Brazil: an assessment of recent macroeconomic developments'. Her message was made clear from its opening sentence: 'Hyperinflation is over. The Real Plan has surpassed expectations and allowed Brazil during the last 20 months to enjoy its best combination of growth and low inflation in decades.' Her subsequent argument largely justified this bullish start, but also found some devil's advocates.
- <sup>3</sup> The Cruzado Plan was the first sharp, unorthodox shock, which largely came to grief as a result of Sarney's electoral timetable. See P Flynn, 'Brazil: the politics of the Cruzado Plan', *Third World Quarterly*, 8 (4), 1986, pp 1151–1194. For discussion of later programmes, including the Summer Plan of 15 January 1989, and its accompanying 'New Cruzado', see by the same author, 'Brazil and inflation: a threat to democracy', *Third World Quarterly*, 11 (3), 1989, pp 50–77. On the politics of the 'New Brazil' or 'Collor Plan', see Flynn, 'Brazil' in P Calvert (ed), *Political and Economic Encyclopaedia of South America and the Caribbean*, London, 1991, pp 49–100; and 'Collor, corruption and crisis: time for reflection', *Journal of Latin American Studies*, 25 (2), 1993, pp 351–371.
- <sup>4</sup> On January 1989 the *cruzado*, introduced in February 1986, was replaced by the *new cruzado* (Ncz) at the rate of 1 = 1000. On 6 March 1990 the currency became the *cruzeiro* (Cr). On 2 August 1993 this was replaced by the *cruzeiro real* (Cr) at the rate of CR1 = Cr 1000. More recently, on 1 July 1994, the *real* replaced the *cruzeiro real* at the rate of R1 = CR275 000. One can well understand the bewilderment of most Brazilians.
- <sup>5</sup> There is a useful discussion of Resende's plans in Economist Intelligence Unit (EIU) Country Report, Brazil, 2nd Quarter 1993, June 1993, pp. 9–14. This publication assessment will now be cited as EIV. (Cardoso).
- <sup>6</sup> EIU, *Country Report, Brazil*, 4th Quarter 1993, December 1993, p 7.
- <sup>7</sup> Cardoso, 'Brazil: an assessment of recent macroeconomic developments', p 2.
- <sup>8</sup> 'The sheer technical difficulty of the introduction of the URV is ... a major obstacle to success ... The EIU expects the stabilisation plan to unravel by mid-year, leaving the government to fight hyperinflation through the application of high interest rates. Economic growth is likely to be close to zero ... Inflation will be very high indeed, at over 4000%'. EIU, *Country Report, Brazil*, 1st Quarter 1994, 1 March 1994, p 5.
- <sup>9</sup> By late July, by which time inflation had dropped from 44.6% in June to 5.5%, Lula's lead had been cut to only three percentage points—32% for Lula to 29% for Cardoso. After that, it was Cardoso all the way.
- <sup>10</sup> Dutra won with 3 251 507 votes (56%) against Eduardo Gomes, with 2 039 341 (34.7%), a reminder of how the electorate had grown in 50 years. By 1994 the electorate numbered 94.7 million, with 63 331 845 valid votes cast on 3 October, far more than the whole national population in 1945. For discussion of the nature and composition of the electorate by the time of the 1989 election see, Flynn, 'Collor, corruption and crisis', pp 354–357.
- <sup>11</sup> One feature of the election, suggesting a large measure of general dissatisfaction and disillusion among voters, was the extraordinary vote for Eneás Ferreira Carneiro, the independent, nationalist and right-wing candidate with no political record. He came third, with 4 671 991 votes (7.38%), only marginally less than those cast for Quercia and Brizola together (4 790 119). In this context one has to remember that, in a much earlier election in the 1950s, a derisory vote gave substantial support to a hippopotamus in São Paulo zoo. But in 1994 a further reflection of disillusion, possibly reflecting the Collor debacle, was an abstention rate of 17.7%, in a system in which voting is legally obligatory, and blank and spoiled ballots of 18.8%.
- <sup>12</sup> See P Flynn, 'Party of Brazilian Social Democracy', in P Calvert (ed), *Political and Economic Encyclopaedia*, pp 277–278, and for fuller background, pp 70–88.
- <sup>13</sup> See *Latin America Regional Reports—Brazil*, 1 December 1994, p 3. Also *Latin American Monitor, Brazil*, December 1994, p 2. The PT won two states, the Federal District, with Cristóvão Buarque, and Espírito Santo (Vitor Buaiz). In Congress the party was substantially strengthened with five Senators and 50 Deputies, all set to oppose Cardoso and his government or, at least, to make sure that he lived up to his electoral promises concerning social reforms.
- <sup>14</sup> São Paulo, for example, has 23% of the national population and is represented by 60 deputies, or 12% of the Chamber. Eleven states with less than 1.6% of the population keep a minimum representation of eight

- deputies. A paulista deputy represents 534 850 people, while one from Roraima represents only 14 500. For all this discussion, see Flynn, 'Collor, corruption and crisis', especially for the path-breaking work by Brazilian colleagues cited in the footnotes.
- <sup>15</sup> This was a central point made to the author by the then Senator José Sarney, in an interview in Brasília, September 1984. Sarney had just broken with the regime's party, the PDS, which, previously, he had led, and was negotiating his position in the *Democratic Alliance*, which subsequently led to his being Tancredo Neves' running mate and, eventually, in March 1985, President. He clearly understood the strengths and weaknesses of the electoral system and its implications for Congress, which he continues to exploit in 1996.
- <sup>16</sup> Flynn, 'Collor, corruption and crisis', p 352, drawing on an excellent paper by David Fleischer: *A Reforma Política no Brasil*, mimeo, Brasília, November 1992. Fleischer continues to make a seminally important contribution to this and other debates on Brazil's political system.
- <sup>17</sup> In an interview in Brasília, September 1984, immediately after the interview with Sarney, already quoted. Both these interviews, and others, qualified the euphoria and heightened expectations surrounding the return to formal political democracy.
- <sup>18</sup> Interview in Rome, January 1986, shortly before Sarney announced the Cruzado Plan. Cardoso had just lost the election for mayor in São Paulo, by a very narrow margin, to Paulo Maluf. He and others who later formed the PSDB were already disillusioned with Sarney and moving to form a new party. This was made politically inopportune by the Cruzado Plan on 28 February 1986, but came about in 1988, with Cardoso and others seeking to build a different kind of party.
- <sup>19</sup> It was largely the old adage of knowing what could be changed, what could not, and having the wisdom to know the difference, a point which some of Cardoso's recent too vocal critics appear to have forgotten.
- <sup>20</sup> The document was largely the work of Paulo Renato de Souza, former rector of the University of Campinas. There is detailed discussion of it in *Brazil Watch*, 11 (20), 3–17 October 1994, pp 1–9.
- <sup>21</sup> See Francis Lambert: 'Trends in administrative reforms in Brazil', *Journal of Latin American Studies*, 1967, pp 167–188.
- <sup>22</sup> David Fleischer, 'Continuity and change in presidential performance: F H Cardoso and the reform of the state', paper presented at the conference on 'The Economic Social and Political Consequences of the Stabilisation Plan in Brazil', London, 22–23 February 1996, p 13.
- <sup>23</sup> *Ibid.* p 14, gives examples of a military police officer from Espírito Santo who retired on a basic salary of R\$730 but whose 'special legal perks elevated this to R\$79 511.00 per month' and 'the widow of a fiscal auditor in Minas Gerais receives a pension of R\$50 200, although her husband's basic retirement salary was R\$524'.
- <sup>24</sup> Fleischer quotes the example of Franco Montoro, former governor of São Paulo and one of the founder members of Cardoso's party, the PSDB, who, in addition to his current salary as deputy, accumulates six other sources of public sector income—retirement pensions as ex-federal deputy, ex-senator, ex-governor, ex-prosecutor, ex-professor at the University of São Paulo and ex-professor at the University of Brasília'.
- <sup>25</sup> *Brazil Watch*, 3–17 October 1994, p 8.
- <sup>26</sup> Fleischer, 'Continuity and change in presidential performance', p 7.
- <sup>27</sup> *Latin American Regional Reports: Brazil*, 16 February 1995, p 3.
- <sup>28</sup> Interview with national and foreign journalists in Brasília's National Theatre, 6 October 1994. The speech is discussed in more detail in P Flynn 'Latin America, 1994: the political risk', paper given to the 'Global Fixed Income Investment Forum', Paris, 17–18 October 1994, seeking to set Cardoso's election in comparative context.
- <sup>29</sup> This point is very well made in the new book by Cardoso's Minister for Public Administration, Luiz Carlos Bresser Pereira: *Economic Crisis and State Reform in Brazil: Toward a New Interpretation of Latin America*, Lynne Rienner London, 1996. Fiscal adjustment and structural reforms, he argues 'should not be seen as attempts to minimise state intervention, but instead as reforms of the state, with the ultimate goal of rebuilding it'. By comparison with other countries of Latin America 'in Brazil economic reforms were undertaken more slowly because they were consistently not only market-oriented but also Brazil-oriented. They were particularly concerned not with building confidence in Washington and New York but with protecting the national interest and the macroeconomic fundamentals, and they has as their basic objective reforming the state'. (p 1).
- <sup>30</sup> Most ministers came from São Paulo or Minas Gerais, with a due number from the PFL, Cardoso's electoral ally. The former president of the PTB, José Andrade Vieira, became Minister of Agriculture. There is a good analysis of the new government team in EIU, *Country Report: Brazil*, 1st Quarter 1995, March 1995, pp 7–8. This includes discussion of the new Political Council and Government Council, now created by Cardoso, to bring together leaders of the main pro-government parties and to coordinate the work of different ministries. Vice President Marco Maciel, PFL from Pernambuco, was to coordinate the work of the Political Council.
- <sup>31</sup> *Brazil Watch*, 23 January–6 February 1995.
- <sup>32</sup> This was the message persistently coming from José Serra as Minister of Planning, causing some tension between him and the Minister of Finance, Pedro Malan; but there was growing conviction on this point. See, for example, EIU, *Country Report, Brazil*, 1st Quarter 1995, March 1995, p 5: 'An increasingly overvalued exchange rate is not an adequate weapon with which to combat inflation'.



- <sup>33</sup> See Fleischer, 'Continuity and change', p 19. He notes that, by comparison, a US president has 'some 3000 political confidence appointments to make outside of the civil service, and some 300 of these must be approved by the US Senate'.
- <sup>34</sup> The strike was largely political in motivation and the public had little sympathy with relatively well paid Petrobras workers, preventing, for example, the supply of bottled gas for cooking to homes in *favelas* and other poor areas.
- <sup>35</sup> *Financial Times*, 17 May 1995.
- <sup>36</sup> EIU, *Country Report, Brazil*, 2nd Quarter 1995, p 12. The EIU had always been cautious to the point of pessimism about the *Plano Real*. In November 1994 it reflected on the fact that high interest rates and the strong exchange rate had attracted speculative capital inflows: 'But the short-term speculative flows ... are certain to drop away once it is sensed that the Real will fail ... The Real Plan as currently constituted, that is with a *real* that cannot trade for more than \$1, will not last long into 1995 and may even be over ... before Mr Cardoso takes office' In March 1995 it warned that the stabilisation plan was 'delicately poised ... [it] relies too much on the exchange rate'.
- <sup>37</sup> 'The large capital inflows contributed to an increase in foreign reserves that amounted to fourteen months of imports by the end of 1994'. Cardoso, 'Brazil', p 5.
- <sup>38</sup> EIU *Brazil*, 2nd Quarter, 1995, p 13.
- <sup>39</sup> EIU *Brazil*, 1st Quarter, 1996, February 1996, p 6 ... 'Moreover, if the reform process has gone well, a veritable tide of foreign investment is likely to flow into the country.'
- <sup>40</sup> 'This is the main obstacle to the stabilisation programme's success. Without a vigorous fiscal adjustment ...' *Ibid*, p 10. See the discussion in Cardoso, 'Brazil', pp 3-4.
- <sup>41</sup> *Latin American Regional Reports: Brazil Report*, 21 March 1996, p 1.
- <sup>42</sup> See the severe strictures in *Brazil Watch*, 4-18 March, 1996, pp 1-4, quoting the March issue of *Conjuntura Económica*.
- <sup>43</sup> Alvaor Antônio Zini Junior, 'Brazil: a look on the recent past and a look ahead', paper presented at the London conference, p 9.
- <sup>44</sup> *Ibid*, p 12. The paper has a very useful appendix of tables and figures.
- <sup>45</sup> See Cardoso, 'Brazil'.
- <sup>46</sup> The Central Bank eventually reported to the Public Prosecutor's department 125 fraudulent operations by the Banco Econômico, involving US\$740 million. A major cause of its problems was bad loans to companies controlled by the bank. These included Angelo de Sá's petrochemical interests, allowed to accumulate debts of US\$419 million. Latin American Regional Reports *LARR: Brazil*, 21 March 1996, p 3. The bank had been kept afloat for political reasons since 1985 and 'some US\$3 billion had been siphoned off through off-shore fiscal havens'. Fleischer, 'Continuity and change', p 8.
- <sup>47</sup> Banerji's deficit was US\$716 million. See *LARR: Brazil*, 16 February 1995, p 2.
- <sup>48</sup> See the two articles by Angus Foster, *Financial Times*, 12 and 15 January 1996, and the stricture in *The Economist*, 20 January 1996, p 17: 'Brazil's missed opportunity'. The controversy still rumbles, as shown by a Senate committee's enquiry as to why the federal government should refinance the state of São Paulo's US\$15 billion debt to Banespa. *Brazil Watch*, 1-15 April, 1996, p 2.
- <sup>49</sup> It included Magalhães leading a march of Bahian politicians to the Planalto palace in Brasília to try to impose a deal on Cardoso, declaring that, in a choice between the federal government and Bahia, 'I am Bahia' *Correio Braziliense*, 19 August 1995.
- <sup>50</sup> For months there have been negotiations to sell it to Banco Excel and a Swiss partner, Union Banquaire Privé. See *Brazil Watch*, 1-15 April, 1996, p 2.
- <sup>51</sup> The details are in *Veja*, 13 December 1995, pp 32-35 and 20 December 1995, pp 32-37.
- <sup>52</sup> See *LARR, Brazil Report*, 7 December and 14 December 1995 and 11 January 1996. See also *The Guardian*, 29 December 1995. There is a report in *Veja*, 27 December 1995, pp 20-23 and, in the same issue, a trenchant interview with a leading Brazilian scientist, pp 7-9.
- <sup>53</sup> See Flynn, 'Collor, corruption and crisis', 356-366.
- <sup>54</sup> *Latin American Monitor: Brazil*, 11 (10), October 1994, p 7.
- <sup>55</sup> *LARR, Brazil*, 27 October 1994, p 5.
- <sup>56</sup> *Financial Times*, 17 May 1995. See also, EIU, *Country Report: Brazil*, 4th Quarter 1994, p 19, for details of the use of the presidential veto by Itamar Franco.
- <sup>57</sup> See John Kolodziejcki, 'Slaying of mammoth monopoly', *Petroleum Economist*, April 1995, pp 9-10.
- <sup>58</sup> *LARR, Brazil*, 17 August 1995.
- <sup>59</sup> EIU, *Country Report: Brazil*, 1st Quarter 1996, February 1996, pp 23-24.
- <sup>60</sup> Cardoso, 'Brazil', p 10.
- <sup>61</sup> See the clear discussion in *Istóe*, 6 September 1995, pp 20-23. See also *Veja*, 13 September 1995, pp 30-34.
- <sup>62</sup> Fleischer, 'Continuity and change', pp 11-12.
- <sup>63</sup> It took 40 days of discussion to decide, for example, that it was unconstitutional to allow authorities access to the bank accounts of debtors of the social security system without proper judicial process. Other issues were equally tangled. See EIU, *Brazil*, 2nd Quarter, June 1995, p 8.

- <sup>64</sup> For details of these trade-offs, see *Brazil Watch*, 1–15 April 1996.
- <sup>65</sup> The details of the agreement between the government and the main trade unions, CUT and *Força Sindical* are given in EIU *Brazil*, 1st Quarter, 1996, pp 7–8.
- <sup>66</sup> *Financial Times*, 10 May 1996.
- <sup>67</sup> *Financial Times*, 24 May 1996.
- <sup>68</sup> EIU, *Brazil*, 1st Quarter 1996, p 8.
- <sup>69</sup> For the fine details see Fleischer 'Continuity and change', p 7 and, especially, pp 14–17. See also EIU, *Brazil*, 4th Quarter, November 1995, p 8.
- <sup>70</sup> *Ibid*, pp 17–18.
- <sup>71</sup> *Ibid*, p 20. Also *LARR: Brazil*, 2 November 1995 and *O Globo*, 8 August 1995.
- <sup>72</sup> See *LARR: Country Report, Brazil*, 7 September and 21 September 1995, pp 2–3, which gives a clear summary of the tax reforms.
- <sup>73</sup> *Financial Times*, 7 March 1996; and *LARR: Brazil*, 21 March 1996, p 3.
- <sup>74</sup> There is a particularly hard-hitting article in *Brazil Watch*, 18 March–5 April 1996, which points out that the sum involved is five times what was lost by the Baring's employee and roughly the amount spent by the Japanese treasury in dealing with its current bank crisis.
- <sup>75</sup> *Financial Times*, 21 March 1996; *Brazil Watch* 1–15 April 1996, p 2. See also Robert Taylor, 'Brazil: feet on fire', *The Banker*, April 1996, and the article by Angus Foster, *Financial Times*, 19 April 1996, 'The pain after the profits'.
- <sup>76</sup> See, for example, P. Flynn: 'Amazonia: conflict and violence. A threat to sustainable development', paper prepared for a conference in Brasília, November 1995. It especially considers the killing of rural workers and the urgent need for land reform.
- <sup>77</sup> See *LARR: Brazil*, 27 October 1994, where Cardoso emphasises that Brazil is not underdeveloped, but unjust.
- <sup>78</sup> *Comunidade Solidaria: Proposta Avanços e Novas Iniciativas*, Brasília, 24 June 1995. See also Beatriz Azeredo, 'Brazilian social policy within the stabilisation process framework, paper presented at the London conference, February 1996.
- <sup>79</sup> Fleischer, 'Continuity and change', pp 9–10.
- <sup>80</sup> Document delivered to President Cardoso, from a meeting of over 2000 business leaders in Brasília, 22 May 1996. *Financial Times*, 23 May 1996.

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