

Brazil

Status Index (Democracy: 3.6 / Market Economy: 3.4)		7.0	Management Index		6.6
System of government	Presidential democracy		Population	174 mill.	
Voter turnout	79.5 % ^b		GDP p. c. (\$, PPP)	7,360	
Women in Parliament	7.0 % (2000)		Unemployment rate	7.1 % (2000) ^c	
Population growth	1.8 %		HDI	0.777	
Largest ethnic minority	22.0 %		UN Education Index	0.90	
			Gini Index	60.7 (1998)	
Data for 2001 – if not indicated otherwise. ^{a)} Annual growth between 1975 and 2001. ^{b)} Presidential Elections 2002, second round. ^{c)} referring to six metropolitan areas. Source: UN Human Development Report 2003.					

1. Introduction

Brazil is one of the world's largest and most populous countries. It is a complex, diverse and contradictory land marked by stark regional disparities between the relatively well-developed southern and southeastern region, where conditions somewhat resemble those found in industrialized countries, and the backward, often oligarchically-ruled north and northeastern region. President Fernando Henrique Cardoso's (1995–1998, 1999–2002) second term of office ended in January 2003, when he was succeeded by Luiz Inácio "Lula" da Silva. The period assessed in this report covers the last year of President Cardoso's first term of office and the entirety of his second term.

This report on the status of the country's transformation to democracy and a market economy over the last five years concludes that slight progress has been made toward fulfillment of these objectives. This should be regarded as a management success, given the difficult international environment (crises in "emerging markets," the Argentine crisis) and the acute crisis of confidence in the Brazilian economy when the period of observation began. Erosion of achieved standards was prevented in all assessment areas. Efforts to deepen the transformation were successful in terms of some criteria.

The Cardoso government has left behind unresolved, pivotal problems involving the rule of law, stabilization of democratic attitude and representational patterns among citizens, reform of the existing market and competitive order, and a means to ensure the sustainability of economic development. How these problems are dealt with will shape the transformational process in the medium term.

2. History and characteristics of transformation

Democratic transformation in Brazil spanned a period of 16 years. The first steps toward liberalizing the authoritarian regime (1964–1985) were taken after General Geisel assumed power in March 1974 and were continued under President Figueiredo (1979–1985). Brazil experienced the most massive political mobilization in its history in connection with a campaign in early 1984 to institute direct election of a democratic president (“*diretas já*”). The armed forces, however, insisted on indirect election of the first civil government since 1964.

Tancredo Neves was elected president by an electoral assembly in January 1985. Due to his personal integrity and popularity, he found acceptance even among those opposed to the government, but he died before he could take office. The office was assumed by the elected vice-president, José Sarney, a patronage-oriented politician with good connections to the military. His government (1985–1990) evinced little enthusiasm for reform, but its sovereignty was also limited by the armed forces, which were represented in the cabinet by six ministers. During the Constitutional Convention (1987–1988), the military prevented a far-reaching limitation of its institutional autonomy. The new constitution took effect in October 1988.

The transition to democracy came to a close on March 1990, when the first directly elected democratic president, Fernando Collor de Mello, assumed office. Implicated in a corruption scandal, the populist Collor was removed from office by Congress in September 1992. Vice-president Itamar Franco served out the remainder of his term. The internationally renowned sociologist Fernando Henrique Cardoso won the presidential elections in October 1994. As finance minister under President Franco, Cardoso was responsible for the Plan Real, which brought about a stabilization of the Brazilian economy after several failed attempts. In 1998, after the constitution had been amended to allow his reelection, Cardoso became the first president in Brazilian history to be elected to a second term of office (1999–2002). Democracy as a form of state and government became more firmly established under Cardoso.

When the former union leader and Workers Party (PT) chairman Luis Inácio Lula da Silva, known as Lula, was elected president on October 27, 2002, it was the first time in Brazil’s history that the presidency had been filled by a representative of those classes that, until then, had been largely excluded from positions of political or economic power. Thus Lula’s inauguration in January 2003 not only symbolized a socio-political change, it was also linked to the hopes of millions of Brazilians for the reforms needed to fight poverty and inequality more systematically than in the past.

Brazil's *market-economy transformation* into a newly industrializing country began in the 1930s with a largely insulated home market, and was guided from the end of World War II by the concept of import substitution industrialization (ISI). This policy helped Brazil achieve high economic growth rates over several decades; at the same time it created a series of economic distortions. It did not succeed in producing sufficient competitive pressure to maximize domestic economic efficiency, nor did it succeed in organizing a fully functional banking system or in reducing the risk of balance-of-payments crises. Industrialization was not self-sustaining. Existing economic, social and regional disparities increased further.

The economic situation in the 1980s was characterized by growing unemployment, rapidly rising inflation rates, widely fluctuating gross domestic product growth rates, growing problems resulting from the large foreign debt and rising deficits in the national budget. After various heterodox economic plans had failed, comprehensive measures were taken, beginning in the 1990s and with more intensity from the mid-1990s on, to stabilize economic development. As finance minister (1993–1994) under President Franco and as president from 1995, Fernando Henrique Cardoso became the architect of a stability and reform policy that brought the country low inflation rates, a leaner, better managed and more economically budgeted government, and more consistent macroeconomic conditions; but it also brought a growing government debt, extremely high nominal interest rates and only modest growth rates.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

3.1.1 Political regime

(1) *Stateness*: The state's monopoly on the use of force has in principle been enforced nationwide, but it does not function without limitations. In connection with land disputes, people involved in land rights issues are occasionally murdered by hired killers, who, in some regions, are able to operate with the connivance of the police and local authorities. In several large cities the state is not completely able to guarantee private and public security. Private guard services and residential districts secured behind massive barriers are booming, while the less affluent feel abandoned by the state's security organs. All citizens formally possess equal civic rights, and the majority of them accept the constitution in principle. Church and state are thoroughly separate, and religious dogma has no appreciable influence on politics or the law.

The state has a presence over large portions of the national territory with basic, though in part only inadequately functional, infrastructure. The state apparatus operates efficiently and professionally in some domains. Others are still characterized by clientelism and patronage and demonstrate considerable need for reform. Further problems are caused by widespread corruption and the use of violence by organized crime. The climate of lawlessness in certain remote parts of the country and the slums of some large cities is aggravated by a weak justice system and an often violent police apparatus.

(2) *Political participation*: Free and fair elections take place without restriction. The power to govern is vested in the elected representatives. After the end of the military dictatorship, the armed forces continued to enjoy numerous political privileges, but their opportunities for political influence are now limited to internal military issues and defense policy. These areas are also subject to budgetary control by the civilian rulers. The constitution guarantees unlimited freedom of association and assembly. Freedom of speech and freedom of the press are guaranteed.

(3) *Rule of law*: In principle there is institutional differentiation, meaning a function-specific division of labor, and checks and balances between the executive and legislative branches. Problems of governability result from the electoral system, the fragmented character of the party system and the peculiar nature of Brazilian federalism. The president has the right to issue decrees. In 2002, this prerogative was legally restricted: while in the past the executive could reenact decrees endlessly, now Congress has a short interval to appreciate and vote the presidential decree (30 days).

The judicial system is professionally well differentiated and generally operates free of unconstitutional interference from other institutions. However, it is extremely overburdened, and from time to time it is rocked by corruption scandals. Extreme inequality of available information and resources among citizens result in large inequalities regarding access to legal counsel and the administration of justice. The highest courts suffer under an excessive workload and the consequent overburdening of judges. Despite new anti-corruption measures, criminal prosecution of corrupt officeholders is still frustrated by legal and procedural loopholes. The immunity of elected representatives to prosecution for ordinary crimes (corruption) was reduced at the end of 2001 but not entirely abolished.

Loose campaign finance regulations offer leeway for campaigns financed with millions in funds stemming from corruption. The federal system grants governors and mayors considerable autonomy and prerogatives that make it difficult to fight corruption effectively. Civil liberties are formally guaranteed but are limited by extreme poverty and social inequality.

3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: The democratic institutions operate essentially according to their functional purposes, but the specific interactions among the most important institutions create problems of governability and impede the implementation of reforms. The constitution of 1988 is characterized by a tendency to over-regulation. As a consequence, nearly all major reforms require a constitutional amendment and are therefore difficult to achieve. The electoral system produces a clear overrepresentation of the sparsely populated, and often backward, northern and northeastern federal states in the Chamber of Deputies and the Federal Senate, and it enables the traditional local and regional elites to insulate themselves from modernization trends more easily. All relevant political and social actors accept the legitimacy of the democratic institutions.

(2) *Political and social integration*: The political party system is distinguished by a high level of fragmentation, moderate polarization, little social anchoring for most parties (an exception is the Workers Party, or PT) and high voter volatility. The reasons for this are partly historical, but they are also connected with the electoral system: The Chamber of Deputies has a system of proportional representation with open lists without an exclusion clause. The parties present regional lists of candidates, but voters may vote directly for individual candidates, as approximately 90 % of voters in fact do. This system makes it more difficult for national party leaderships to discipline elected representatives, and it fosters the traditional focus on personalities rather than institutions, particularly because political campaigns are planned and financed less by political parties than by the candidates themselves.

Television has partially replaced the party organizations, and professional image consultants play an ever greater role. At the national level most parties are organizationally weak. There is little party discipline or loyalty among congressional representatives. Party switches within Congress occur with extreme frequency following elections, the switch being usually from opposition to governing parties and often across ideological boundaries. These switches are motivated by the prospect of access to government resources and committee positions. The costs of a party switch are small, and there are neither legal nor political possibilities for sanctions.

The loose structure and weakness of the political parties make it difficult to calculate the outcome of congressional decision-making processes. Even numerical majorities of the governing parties cannot guarantee that the executive branch will be able to implement its reform plans. Governments nevertheless succeed with astonishing frequency in realizing their reform plans because the executive can invoke Congress's procedural rules as a disciplinary means.

Brazil has a well-differentiated landscape of interest groups in which labor and capital associations dominate. The trade unions, despite divergences among competing umbrella organizations, are a strong political actor. Following democratization, there was a gradual turning away from the traditional corporatist state models. Mobilization capabilities diminished during the 1990s, and the level of trade union organization is in decline. Entrepreneurs have a national umbrella organization, and the National Confederacy of Industries in São Paulo State wields the greatest influence.

The proportion of committed democrats among the Brazilian population is, at 37 % (2002), the lowest among all Latin American countries, and the level of satisfaction with democracy, at 21 %, is lower than the already low Latin American average (32 %). 62 % of the population would not mind if a non-democratic government were to assume power, provided that it would solve the economic problems and create jobs. One should, however, interpret these data specifically in light of the Brazilian experience under an authoritarian regime, which from the middle of the 1970s was less repressive than those in many other Latin American countries. Political parties, elections and legislatures had a certain significance even under autocratic rule, and the economic balance under the rule of the armed forces was not entirely negative.

Despite the low approval levels for democracy, political protests normally do not tend to call the constitutional order into question. Interpersonal trust is, at 3 % (2002), very low. There is, nevertheless, a robust network of autonomous, self-organized groups and civic organizations. Among these is a growing number of non-governmental organizations. Traditional social movements are also active, most notably a movement of the landless founded in the mid-1980s that mounts high-profile protests against the neo-liberal economic policies and social injustice and organizes land occupation.

3.2 Market economy

3.2.1 Level of socioeconomic development

The exclusion of a considerable portion of Brazilian society through poverty or lack of education is the country's most serious problem. Social exclusion is quantitatively and qualitatively very distinct and structurally reinforced. Although Brazil exhibits a medium level of development according to key indicators, national mean values mask extreme disparities between a relatively developed southern and southeastern region, where conditions to some extent resemble those in industrialized countries, and a backward northern and northeastern region.

The existing developmental imbalances between these regions have not lessened in recent years. Evidence shows that the high inequality levels one finds between

regions are equivalent to the ones existing inside regions, or even inside large metropolitan centers in all regions. This points to the fact that social inequality is pervasive and not something simply derived from the regional cleavages. With a Gini index value of 60.7, Brazil is by global standards one of the countries with the most inequitable distribution of income.

3.2.2 Market structures and competition

Free-market competition is institutionally regulated, but a shadow economy generates 45 % of GDP. The convertibility of the national currency, the real, is guaranteed, and there has been a free-floating exchange rate since January 1999. Pricing is largely unrestricted. Since the Competition Act went into effect in mid-1994, anti-monopoly and anti-cartel policy has greatly improved, though its implementation suffers from the fact that the penalties imposed by the cartel authority can be suspended by the courts. Foreign trade has in principle been liberalized, although there are special exemptions and somewhat complicated registration formalities. Customs duties for imported goods change frequently; they stood most recently (for imports from outside the Mercosur) at an average of 13.5 %.

Exports are unnecessarily constrained by numerous tariff and non-tariff hurdles. The comprehensive reorganization of the financial sector was one of the most remarkable developments in the Brazilian economy of the 1990s. Progressive macroeconomic stabilization had revealed inefficiencies in the banking system that had accumulated in an inflationary environment lasting for decades, and numerous banks had to be liquidated in the mid-1990s. Today the banking system and capital markets are well differentiated, internationally competitive and aligned to international standards. Banking supervision functions. At only 28 % of GDP, however, lending to the private sector is underdeveloped. There is also a prevailing lack of financing elements for small and medium-sized businesses and of further mid-level policies with which to systematically promote the international competitiveness of Brazilian industries.

3.2.3 Stability of currency and prices

The introduction of the *Plano Real* in 1994 facilitated a drastic reduction of inflation, and the control of inflation was one of the Cardoso government's priorities. The government has been issuing medium-term inflation targets since 1999 ("inflation targeting"), and the central bank takes responsibility for observing them. The central bank was given greater independence in the 1990s, but it is not entirely autonomous. Until the end of 1998, the national currency, the real, was pegged to the US dollar within a managed exchange rate regime ("crawling band system"). In reaction to financial turbulence in the wake of the

Asian and Russian crises, the real's exchange rate was set free in January 1999. Since then the exchange rate has repeatedly experienced massive devaluation pressure.

With the Fiscal Responsibility Act (*Lei de responsabilidade fiscal*, LRF), passed in May 2000, the Cardoso government sent a clear signal for the preservation of macroeconomic stability. The act subjects all levels of public administration to criteria of transparency and discipline and makes them responsible for their fiscal performance. It sets guidelines for primary surplus generation and debt limit maintenance, and it limits salary increases for civil servants.

3.2.4 Private property

Property rights and the regulation of property acquisition have been adequately defined. Under President Cardoso, Brazil went through a radical transformation in forms of corporate ownership. For decades, state-owned corporations had dominated nearly all economic sectors, in which no private capital was available. Privatization had its beginnings under President Collor (1990–1992), but it was not continued by his successor, President Franco (1992–1994). President Cardoso, on the other hand, introduced and carried out, on the basis of several constitutional amendments, a comprehensive process of privatization since the mid-1990s. The state monopolies in key sectors of the Brazilian economy (energy, telecommunications, etc.) were abolished, and other sectors were radically liberalized.

In many areas privatization is well advanced. These include the basic materials industries, the transport and energy sectors and telecommunications. Regulation of liberalized economic sectors was arranged through framework legislation and in many cases assigned to newly established authorities that enjoy technical, financial and administrative autonomy. The privatization process has led to some improvements in quality and efficiency, but also to the loss of many jobs. Visible dissatisfaction with regards to the service quality in areas such as telecommunication, energy, and transportation still exists. The establishment of the regulatory authorities can result in a change in the culture of public administration, but the new regulatory agencies still have to pass crucial institutionalization tests.

3.2.5 Welfare regime

Social welfare networks to compensate for old age, illness, unemployment and disability are well developed in some areas, but they do not cover all risks for all social strata. The public health system is in a precarious condition in many respects. For reasons of cost, the poorer classes as a rule cannot avail themselves

of the well-developed private health system. The risk of poverty remains for significant portions of the population. Brazilian society is markedly heterogeneous, but institutions to compensate for extreme social differences exist in only rudimentary form. Women formally possess equal rights, but face a reality marked by inequality in both the domestic sphere and professional life. In education, the gaps between men and women have narrowed greatly, and women on average possess higher educational qualifications as a result of more disciplined study. The presence of women in public life, the media and politics is growing, not least of all thanks to the activities of numerous women's organizations.

3.2.6 Strength of the economy

Growth of GDP is low and continues to fall short of the Brazilian economy's growth potential. GDP per capita is stagnating. Thanks to clever crisis management and an extraordinarily comprehensive financial aid package through bilateral and multilateral creditors, an acute crisis of confidence in the Brazilian economy in the wake of the Asian and Russian crises was quickly overcome in 1999. Foreign capital returned, and direct foreign investment remains at a consistently high level, covering the entire current account deficit. Massive depreciation occurred repeatedly after the real's exchange rate was floated in January 1999. Though price stability was one of the Cardoso government's highest priorities, inflation in 2002, in contrast to the preceding years, stood at over 10 %.

Interest rates, which in 1998 were raised to more than 40 %, fell to approximately 20 %, but this is still unacceptably high. Thanks to a strict austerity policy, the federal government has been able to achieve a primary budget surplus of 3 % to 4 % per annum since 1999. Because of debt service obligations, with the negative effects compounded by depreciation pressure on the real, the public sector continued to show a nominal deficit. The public debt has increased in recent years. Domestic creditors account for 80 % of it, and approximately 90 % of the domestic debt is index-linked. Average maturity was raised from 9 months (1999) to 25 months (2002).

The states' debts to the central government were successfully restructured during the period. Nonetheless, a debt that is greater than 50 % of the GDP remains one of the country's most pressing macroeconomic problems. The export sector and tourism have been especially hard hit since 2001 by the consequences of the Argentine crisis. Nonetheless, the trade balance, which was negative between 1995 and 1998, recovered and has maintained a positive balance since 1999.

3.2.7 Sustainability

Consideration is given in parts of the economic arena to ecologically sustainable growth. A broad coalition of national and international actors had over many years brought pressure to bear on various Brazilian governments to halt the destruction of the tropical rainforest in Amazonas State. The threat to the rainforest and other serious environmental problems has not been eliminated, but in recent years Brazilian legislation has taken a positive direction in many areas (e.g., water management, forest protection, biodiversity). Government and private educational and training facilities exist, and the quality of the public schools is improving.

The public system of basic education is still poor, despite a successful program of reform. Those who can afford it send their children to private schools. The state universities, on the other hand, generally have a better reputation than private colleges. Vocational training plays only a subordinate role within the educational system. Awareness of the importance of investment in research and development (R&D) has increased markedly, and there has been a vigorous increase in the necessary funds since the end of the 1990s. The results in R&D and technology transfer have received a relatively positive rating, ranking tenth in the Global Competitiveness Report 2001–2002. Private investors account for only 30 % of R&D spending, however, while the state accounts for the other 70 %.

4. Trend

(1) *Democracy*: State identity, political participation and the rule of law have essentially maintained their existing level of quality, and the degree of democratic consolidation remained fundamentally unchanged between 1998 and 2003. By the beginning of the period, nationality, civil liberties, a minimum of secularization, political participation and the acceptance of democratic institutions by all relevant actors had already been assured. Tendencies toward stagnation are observable with respect to the state's monopoly on the use of force, and a further increase in organized crime could lead to regressive developments in this area.

Through a constitutional amendment approved in 1998 and further legislation, the reform of public administration begun in 1995 was rigorously continued. The most important architect of this administrative reform, which was guided by the basic outlines of "New Public Management," was the finance minister at the time, Luiz Carlos Bresser-Pereira. Good progress was made implementing the reform during President Cardoso's second term. Key improvements include setting of upper limits on personnel expenditures as a share of expenditures by the federal government and the individual states, cutbacks in personnel in public administration, and new hiring and promotion guidelines. Further improvements include cost controls, transparency in spending, public-private partnerships in

certain areas, decentralization measures in the educational system and elsewhere, and additional growth in “participatory management” with the inclusion of civic actors at the local level. There have also been small but explicit efforts made, for the first time, towards the social inclusion of the black population.

While in the past the official discourse subsumed color into class, during Cardoso’s second term the Brazilian government began to affirm the need for compensatory policies for the black population. Despite these progressive tendencies, traditional patronage and clientelism pose serious problems in parts of the administration.

Partial progress was also made in the fight against corruption. The efficiency of democratic institutions has not substantially improved, and the reforms of the electoral and party systems necessary to strengthen political integration and governability were not realized. The party system remains severely fragmented, and the parties have little social anchoring (an exception is the PT) and are organizationally weak, largely undisciplined and personality-based. The public’s approval of democracy as a form of government was already low at the beginning of the period (48 % in 1998) and has fallen further (27 % in 2002).

The level of satisfaction with democracy also decreased from 27 % (1998) to 21 % (2002). Civic organizations were able to maintain their strength, and progress was made with respect to communication between civil society and the state. The degree of interpersonal trust, which at 5 % was already very low in 1998, has fallen further (3 % in 2002); at the local level, however, some regions have experienced positive trends in the development of social capital.

(2) *Market Economy*: The level of socioeconomic development (“middle income country,” “medium human development”) has not changed significantly during the period; during the last five-year period for which figures are available (1995–2000), the country’s HDI value improved slightly (from 0.737 to 0.757). In the fight against poverty, social inequality and regional disparities, the Cardoso government achieved some improvement during its eight years in power. Despite the fact that many government programs are targeted against poverty, the relevant indices have not significantly changed since 1998.

The basic institutional conditions for market-based activity have generally improved. This is especially true for the stability of the banking and financial systems, exchange rate policy, inflation control and spending discipline in the public sector. There has been scant success with regard to a reform of the unfathomable tax system, the great debt burden or high domestic interest rates. Access to credit has not improved for small and medium-sized companies. The infrastructure in some areas (e.g., harbors) exhibits serious deficiencies.

Despite the Cardoso government's skillful fiscal management on the whole, Brazil remains vulnerable to global market fluctuations and a loss of confidence by the international financial world in the event of crises in "emerging markets." Overall economic development improved slightly in quantitative and qualitative terms. Especially worthy of note is the skillful crisis management in 1998–1999 that succeeded in quickly regaining the confidence of the international financial world and restoring economic growth. Positive trends were also observed with respect to sustainability.

The Education Act passed in 1996 was implemented bit by bit. Educational expenditures as a share of GDP grew from 4.2 % (1995) to 5.6 % (2000), and the municipalities' share of educational expenditures rose during the same period from 27 % to 38 %. Since 1998, funds for local and regional institutions of basic education have been allocated on the basis of pupil counts, a fact that has created a strong incentive to encourage school attendance. Between 1996 and 2001 the enrollment rate for primary schools increased from 89 % to 96 %. The municipalities have been given more responsibility for education, but there continue to be large differences in performance with respect to the quality of academic education.

Table: Development of socioeconomic and indicators of modernization

	HDI	HPI-1	GDI	GDP index	Gini index	UN Education Index	Political representation of women^a	GDP per capita (\$, PPP)
1998	0.747	15.6	0.736	0.70	60.7	0.84	6.3	6,625
2000	0.757	12.2	0.751	0.72	n/a	0.83	6.7	7,625

^a Proportion of female representatives in the Chamber of Deputies, as a percentage, following the congressional elections in 1996 and 2000. Sources: UNDP, Human Development Report, 2000, 2002.

Table: Development of macroeconomic fundamentals (1998–2002)

	1998	1999	2000	2001	2002
Growth of GDP in %	-0.1	1.0	4.0	1.5	1.5*
Growth of GDP per capita in %	-1.2	-0.3	2.6	0.2	0.2*
Growth in exports in %	-3.5	-6.2	14.7	5.7	3.7
Growth in imports in %	-3.4	-14.7	13.3	-0.5	-15.0
Inflation in % (CPI)	1.7	8.9	6.0	7.7	12.5
Unemployment in % (based on six greater metropolitan areas)	7.6	7.6	7.1	6.2	7.3*
Budget deficit in % of GDP	-7.4	-3.4	-1.2	-1.4	-2.1*
Current account balance in % of GDP	-4.3	-4.8	-4.1	-4.6	n/a

* preliminary estimate. Sources: Instituto Brasileiro de Geografia e Estatística <www.ibge.gov.br> [accessed 12/03/2003]; CEPAL: *Balance preliminar de las economías de América Latina y el Caribe*, Santiago 2002.

5. Transformation management

5.1 Level of difficulty

Brazil exhibits a medium level of development (“middle income country;” GNP per capita at PPP: \$7,625 [2000]) and medium educational attainment (UN Education Index 0.83). It is an ethnically heterogeneous (53 % white, 22 % mulatto, 12 % mestizo, 11 % black and approximately 2 % indigenous peoples) and highly secular society that exhibits no irreconcilable ethnic or religious conflicts, although there are extreme social differences. The country has strong civic traditions. The rule of law and institutional stability exhibit a medium level of quality.

5.2 Reliable pursuit of goals

The Cardoso government distinguished itself by its great expertise and its ability to set strategic priorities. It developed master plans for various policy fields that, with regard to key developmental and transformational problems, demonstrated the right orientation. Not all strategic priorities could be translated into concrete measures. Reform policy was consistent and coherent, and its individual elements were targeted towards realizing democracy and a market economy. Available capacities were overestimated to some extent, and some reforms (e.g., tax reform, continuation of pension reform) were not realized within the time horizon foreseen. Throughout its time in office, the government pursued a reliable and

predictable policy that made possible a reliability of expectations for social and economic actors.

5.3 Effective use of resources

The Cardoso government has used its available personnel, financial and organizational resources in a largely efficient manner. As a result of administrative reforms begun in 1995 and continued from 1998 to 2003, the ratio between personnel expenditures and the supply of government services has improved in some areas, the number of politically motivated dismissals and new appointments of civil servants has declined, and appropriate regulations have shielded recruiting procedures to an ever greater degree from political influence.

The national budget, given the high level of debt and the current account deficit, maintains a precarious equilibrium that is highly vulnerable to the volatility of the world market and a loss of confidence by international investors. The national budget was planned and implemented in a transparent manner. The “Fiscal Responsibility Act” (*Lei de responsabilidade fiscal, LRF*), passed in May 2000, subjected all levels of public administration to transparency and discipline criteria and made them responsible for their fiscal performance. This provided the legal prerequisites for managing public administration according to professional efficiency criteria. The administrative reality does, of course, clearly depart from these specifications in some respects.

The efficiency of the educational system was improved through decentralization measures. Parents, municipalities and non-profit organizations were more actively involved in educational planning at the local level. It is difficult to make general statements about the quality of administration in the country’s 5,560 municipalities, given the sometimes momentous differences. So far, some 140 communities have introduced a participatory budgeting procedure that allows civic organizations substantial opportunities for input in budgetary preparation and control; this has aroused keen interest abroad. Other municipalities prefer less process-oriented and more results-oriented measures of administrative modernization. But client relationship patterns between administration and citizens prevail in a considerable proportion of the communities.

The Cardoso government was able to realize only a part of its reform proposals. The planned reform of pension insurance was as unsuccessful as comprehensive tax reform. Government-provided public services facilitate developmental and transformational progress, but deficiencies remain, particularly in such areas as education, poverty reduction and health. The safeguarding of property rights is adequately ensured, and market efficiency has improved, as has the efficiency of the educational system. Progress has been less recognizable in the health system.

The introduction of free medical care for AIDS patients has had positive effects in this area.

Independent media coverage of corruption has been ensured and has increased sharply since the late 1980s. Numerous congressional committees have been organized in recent years to investigate allegations of corruption against government and administration. Since the early 1990s, both houses have taken measures to investigate allegations of corruption in their own ranks. There has been progress in monitoring state spending policies, but the very loose financing regulations for political campaigns and parties afford many opportunities for corruption. Criminal prosecution of corruption is ineffective, largely because the justice system is in need of radical reform. There is a lack of external control, and changes in the penal code and procedural law would also be necessary to give investigators a means to effectively stem “impunity.”

The government has attempted to establish missing mechanisms to ensure integrity, though not with great success. Brazil is characterized by the largely peaceful manner in which a multiplicity of ethnic groups live together, and the country cultivates its image as a society free from racism. Even if this does not always conform to reality, the country’s cultural and ethnic diversity and its peaceful integration into a national society is an enormous social accomplishment. It spares the country and its political system a type of conflict that often consumes substantial energies in other Latin American countries.

5.4 Governance capability

The leading political actors in the Cardoso government have demonstrated their adaptability and replaced failed policies with innovative measures. An outstanding example of this was the release, albeit a belated one, of the national currency’s exchange rate from its peg to the dollar under the turbulent conditions of 1998–99. Cardoso’s years of experience as an internationally highly respected social scientist helped him adapt to the office of president. His approach to governing, which owed little to the personal style of Brazilian tradition, and the executive branch’s avoidance of intervention in the other powers’ authority strengthened the country’s political institutions. In December 2002 the president’s accomplishments were honored by the UNDP with the “Award for Leadership in Human Development.”

Cardoso filled many cabinet posts with distinguished scholars. Nevertheless, faced with formidable institutional barriers to reform and a fragmented system of political parties, the government did not always command sufficient political authority to effect its reforms. The federal government’s organizational capabilities also met their limits in the provisions of Brazilian federalism, which grant considerable autonomy to the individual states and municipalities. In view

of the enormous regional disparities, it is scarcely possible to make general statements about the individual states and their reform policies.

The allocative efficiency of the markets for capital, goods and labor improved under the Cardoso government's policies. The reformers in principle acted with great political wisdom in choosing individual steps, instruments and strategies of reform, though they had to pay a heavy political price for the constitutional reform that allowed Cardoso's re-election in 1998.

5.5 Consensus-building

All of the significant political forces are in agreement about building a market-based democracy, though opinions differ on how priorities should be set as this goal is pursued. While the Cardoso government's policies were strongly focused on preserving macroeconomic stability, elements in the opposition demanded more distributive justice and a major push in the struggle against poverty and social disparities. Anti-democratic forces had been successfully and permanently absorbed even before the period began.

The Cardoso government knew how to forge reform coalitions to achieve many of its policy objectives. Particularly in the first years of its eight-year term, it staked its success partly on alliances with the old political bosses of the country and awarded sinecures in exchange for support for its policies. The participation of civic organizations in the political decision-making process and the monitoring of government activity by social forces have increased at all levels of the polity. There is scope for such participation in decentralized areas of the educational system, for example, or in relation to the new regulatory authorities set up in the mid-1990s.

The government was able to prevent an escalation of conflicts within Brazilian society based primarily on extreme social differences and regional disparities. It has, however, had only rudimentary success in lessening the existing contrasts. The government has endeavored to promote solidarity, but with little success. In authorizing indemnification payments for victims of the last military dictatorship, the government has made a contribution toward reconciliation for historical injustices.

5.6 International cooperation

The political forces have applied international assistance directly to the requirements of their transformation and have demonstrated their adaptability. In many areas the Cardoso government's reform policies are consistent in principle with the programs of such international organizations as the IMF, the World

Bank, UNDP and the Inter-American Development Bank. In many areas of reform (education, poverty reduction, the financial system, labor legislation, etc.) it has worked closely with these organizations. The last “Progress Report” of the World Bank (2002) attested to Brazil’s “satisfactory progress on fiscal and social reforms.” The government was similarly classified by the international community as reliable and predictable.

Although the “risk ratings” issued by international agencies developed very unfavorably for Brazil during the presidential and congressional campaigns of 2002, and in response to the prospect of an electoral victory for PT candidate Lula da Silva, they returned to normal once da Silva’s victory was certain. The Cardoso government’s reliability proved itself once more during the interval between Lula’s victory and his assumption of office. The departing government’s constructive collaboration with the president-elect and his team was exemplary, and it facilitated the transfer of governmental responsibility with a lack of friction that was anything but normal by Latin American standards.

The Cardoso government made active and successful efforts to establish and deepen as many cooperative international relationships as possible. Relations with neighboring states have been constructive, and inherited threat perceptions had been permanently allayed even before the period of observation (e.g., with respect to Argentina). Under President Cardoso, Brazil has been able to strengthen its role as a regional power in South America through a more attractive foreign policy.

6. Overall evaluation

In view of the originating conditions, current status and evolution achieved, as well as the political achievements (management) from 1998 to 2003, this assessment reaches the following conclusions:

(1) Starting conditions: Compared with the situation in the first years after the armed forces withdrew to their barracks, the democratic transformation had already made clear progress by the beginning of the period of observation. Against the background of the conservative patrimonialism of President Sarney, the populism of Fernando Collor and President Franco’s hesitant willingness to reform, President Cardoso made a distinctly positive impression. His government respected the democratic institutions, avoided an excessive personal style and committed itself single-mindedly to the cause of reform.

Even before 1998 there were no fundamental problems of state identity, there was a democratic constitution, freedom of assembly and association and free and fair elections were guaranteed, the basic separation of powers was functioning, and anti-democratic forces played no roles. Opposed to these were negative factors that included such inherited traditions as clientelism, personalism and corruption; a weak judicial system; an often violent police apparatus; a fragmented party

system; a scarcely representative electoral system; federalism in need of reform; a small share of committed democrats; a low level of satisfaction with democracy; and a great lack, despite strong civic traditions, of interpersonal trust.

Fundamental reforms had been initiated before 1998 in connection with the market economy transformation to overcome the crisis symptoms in the Brazilian economy—a stagnating real economy, a financial system in precarious condition and a directionless and erratic economic policy—which had become acute in the 1980s and early 1990s. Foreign trade had been liberalized, the macroeconomic situation was stable, inflation was low, privatization of state-owned companies had begun, the banking and financial systems were on their way to stability after the turbulent events of the mid-1990s, and a fundamental reform of public administration and the educational system had been set in motion.

Yet despite the reforms that had been initiated, serious deficiencies continued to exist in administration, education and the health system. Despite a decline in absolute poverty, the country has been shaped by the social exclusion of a large portion of society, extreme inequality and regional disparities. Also on the negative side were a rigid currency exchange rate, the tariff and non-tariff barriers to exports, high government debt, undisciplined spending in the individual states and deficiencies in administration, education and the health system that persisted in spite of the reforms that had been initiated.

(2) *Current status and evolution:* The democratic transformation was characterized during the period from 1998 to 2003 by a continuous adherence to the course that had been followed since 1994. Regression from the level of consolidation already achieved was successfully avoided. There was modest progress in the judicial sector. A larger step toward consolidation would require reforms in the electoral and party systems in particular. In this respect there were no successes to be noted. The level of satisfaction with democracy, democratic convictions, and interpersonal trust within Brazilian society also reflect very low values, though one cannot infer from these a threat to democratic stability.

With respect to the market economy transformation, during the first year of the observation period Brazil had to struggle with a progressive loss of confidence by international investors that ultimately led, in 1999, to the floating of the exchange rate. Thanks to wise crisis management, there was a rapid return to stability and positive, if modest, growth rates. The Cardoso government adhered in principle to its chosen course of reform in the economic sphere as well. The basic conditions for a market-based economic regime have further improved, although an economic transformation to an efficient social market economy is far from complete.

The most distinct progress was achieved in the reform of public administration (transparency, spending discipline) and in education; efforts to reform the tax and

pension systems, on the other hand, had little success. Reforms at the intermediate level continued to be neglected. The Brazilian economy remains unchanged in its vulnerability to fluctuations in the international environment, and the heavy debt has put clear limits on the government's leeway for action.

(3) *Management*: On balance, the management achievements have turned out positively. The Cardoso government deserves good marks for reliability in achieving goals, effective use of resources and international collaboration. It was less successful in designing and achieving domestic policy reforms. In view of the basic institutional conditions that make reform difficult to achieve (formidable constitutional hurdles, a not very representative electoral system, a fragmented system of political parties, the congress's far-reaching authority, the power vested in individual states), it is a management success that the government was able to win majorities for even some of its planned reforms.

7. Outlook

Luiz Inácio Lula da Silva's assumption of the presidency on January 1, 2003, was an act of great symbolic importance for the Brazilian people. Lula entered office as the first president in Brazil's history to represent those social strata that until then had been largely shut off from political and economic power. During the 1990s, Lula's Workers Party (PT) had fought many of the reforms the Cardoso government had sought and put into effect. It had attacked Cardoso as a neo-liberal and insisted on an economic model with a stronger social component, one that answered more to the needs of people than to those of the banks and corporations.

But as time went on during the Cardoso administration, even the PT had to admit that many of the Cardoso government's policies had produced results that were better than the opposition had expected. When, after three vain attempts in 1990, 1994 and 1998, Lula was finally elected to the presidency by a clear majority in 2002, it was not least because he had promised fundamental continuity with the course already chosen and had presented himself as substantially more moderate than before.

Lula promised to fulfill Brazil's obligations to international financial institutions and to maintain the stability policies of his predecessor. He demonstrated a strong sense for the insecurities and doubts that he, and especially his party, had aroused in Brazilian society and in the international world of finance. At the same time, he made the struggle against hunger and for more social justice central issues of his campaign. The Lula government finds itself confronted with great challenges. The high expectations within its own following may not be the least of the government's problems, if it is not able to demonstrate successful outcomes in the foreseeable future.

The new government's first steps, and the composition of the cabinet in particular, lead one to expect an essential continuity with the Cardoso government in terms of both democratic and economic transformation. The government has extremely little leeway, given the heavy debt burden and the difficult budget situation. Only if it succeeds in achieving distinctly more growth than in recent years will the government be able to fulfill its promises of more distributive justice and more investment in social welfare without jeopardizing stability. Brazil is on a positive path towards transformation, but it will continue to face difficult tasks and challenges in the coming years.