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Inefficient National Political Parties in Brazil and the Effects on Economic Policy

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THE CARL AND WINIFRED LEE HONORS COLLEGE

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Jason Sullivan, having been admitted to the Carl and Winifred Lee Honors College in Fall 1999 successfully presented the Lee Honors College Thesis on April 10, 2003.

The title of the paper is:

"Weak Political Parties and Brazil's Economic Policy"

A handwritten signature in blue ink, reading "Sybil D. Rhodes", written over a horizontal line.

Dr. Sybil Rhodes, Political Science

A handwritten signature in blue ink, reading "Murray S. Tanner", written over a horizontal line.

Dr. Murray Tanner, Political Science

A handwritten signature in blue ink, reading "Steven Benfell", written over a horizontal line.

Dr. Steven Benfell, Political Science

**Inefficient National Political Parties in Brazil
and the Effects on Economic Policy**

Jason Sullivan
Senior Honors Thesis
Spring 2003
Western Michigan University

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Preface

As I considered writing my senior thesis I thought about what were the topics that interested me the most. The most interesting area of political science that I had studied was foreign policy and with my interest in Latin America and economics I tried to find something in that included those themes. Brazil seemed to be the best country to look at since it is the tenth largest economy in the world. I had not ever really studied the country in-depth but I knew that there was controversy about the involvement of the International Monetary Fund and the economic troubles that Brazil seems to be constantly facing.

I intended to study the domestic and international issues that pushed and pulled at the government in its creation of its economic policy. I intended to focus on the executive branch of the government and the international organizations and sovereign nations that influenced the policy decisions surrounding the specific year of 1997. However, as I researched I found something that I think is as just as important if not more important in creating Brazil's economic policy. As I researched it became evident that the characteristics of the Brazilian political parties had an influence on how all policies are formulated, more so than the rest of Latin America. The characteristics of the parties and their effects on the government and policy formation seem to be a large part of problem that the government has in solving the policy dilemmas it faces. The question of how the parties developed and the social issues that drive the parties led drove most of my research.

Although I still looked directly at the specific policy decisions and economic events of 1997, I broadened my focus to the economic policies that were created (or not created) in the 1990s. From this research I developed my thesis that a stronger national party system could have minimized the severity of the economic crises that Brazil faced.

There are two underlying assumptions that went into the paper. First of all, while I discuss the possible policy measures that Brazil could have used I focus mainly on the fiscal

measures proposed by the Cardoso administration. In reality, while there are other possible solutions they did not necessarily play a role in Brazil's actions. From the Real Plan Cardoso had been committed to a neo-liberal strategy. Cardoso had taken the stance of opening the markets up and attempting to make Brazil a competitive player in the world economy. Due to the fact that there were not any other plans or ideas proposed by other Brazilian political I focus my paper on the ability of the government to act according to the chosen economic agenda.

The second assumption I make is that the Congress is the greater manifestation of the weakness in the political parties. While it can be argued that the executive is responsible for garnering support for his agenda among his own party and supporting coalition, I focused on the role of the parties in the legislature. Due to the clientilistic nature of the legislature and the lack of counter policies proposed by the opposition parties I feel that the parties are least effective in the formulating a coherent national policy proposal at the legislative level.

Inefficient National Political Parties in Brazil and the Effects on Economic Policy

In 1997 an economic crisis in Asia had a ripple effect throughout the world's economies. Many developing or emerging markets were damaged by the widespread panic of foreign investors that pulled their money out of countries that were considered high risk, Brazil was one such country. In the weeks of late October and early November around \$8 billion dollars in investment capital were pulled out of Brazil and the stock markets in Brazil suffered 5% and 6% losses on a daily basis.¹ These problems threatened to either cause widespread recession or inflation for Brazil's economy.

There are several economic reasons that explain why Brazil's economy was shaken by the events of 1997. Brazil had an extremely high level of foreign debt, the country had only recently ended the cyclical inflation it had experienced for several decades, and the *Real* (Brazil's currency) was loosely pegged to the U.S. dollar making it susceptible to international monetary fluctuations.

There were also many international factors that played a role. In the end of 1997 many Asian markets had begun to collapse. High levels of foreign capital had been pulled out of those markets and had resulted in an economic ripple that began to spread across the globe. Due to those factors and Brazil was in a precarious position. There were a lot of foreign investors that saw Brazil as a lucrative emerging market and had invested a lot of capital into the country. However, as the international economy took a downturn, Brazil also suffered. As I discuss later in the paper, the international situation did have a significant impact on Brazil's economy and the possible solutions that Brazil had available to attempt to solve them.

While all of these economic and international problems were the source of immediate doubt about the market, I argue here that a political concept is at the real root of the problem. Brazil has very weak political parties in regard to national organization. Well-developed political parties play a large role in the running of government in democratic societies. However, as the case of Brazil shows, weak political parties also have a great effect on the political structure and the effectiveness of its economic policy. In order to make this point clear, the historical development of political parties in Brazil will be explained, followed by a description of the social environment surrounding the political parties. With an understanding of the organization and working of the political parties, the effect that they have on the government will be shown. The weakness of the parties that support the congressional representatives had a direct effect on the ability of the congress as part of the government to make any movement to prevent Brazil from falling into an economic crisis.

Theoretical Look at Legislative Policy Power²

The main focus of this paper is on how political parties without a clear national agenda effect national policy formation and implementation. Usually in democracies the main policy makers are the executive and legislative branches of government, which are elected into office by political parties. To better understand how the political parties' organization has an impact on policy making it is important to understand the type of relationship that the legislature and the executive have in presidential systems. Michael Mezey categorizes legislative bodies into three different types according to their policy-making powers. The three categories are *strong policy power*, *modest policy power*, and *little or no policy power*.

¹ Roger Cohen, "Brazil Backs its Currency in Austerity," The New York Times, 11 November 1997, Section A, Page 7, Late Edition.

² Research on Theory of Legislatures taken from Larry Diamond, Jonathan Hartlyn, Juan J. Linz, and Seymour Martin Lipset, eds., Democracy in Developing Countries, (Boulder: Lynne Reiner Press, 1999), Michael Mezey, Comparative Legislatures, (Durham: Duke University Press, 1979), and Scott Morgenstern and Benito Nacif, Legislative Politics in Latin America, (Cambridge: Cambridge University Press, 2002).

The first type of legislature is the strong legislative body. An example of this would be the U.S. Congress since it has been the center of U.S. policy making. The Congress is popularly elected and enjoys a large amount of support from the American people. The Congress has the ability to reject or amend initiatives set forth from the executive branch and it has used them throughout its history. Therefore due to the stability of the institution its powers can not be usurped and it does not have to fear being bypassed by any other institution in the government

The legislatures with little or no policy power, in some cases, do nothing more than “rubber-stamp” executive laws. This may occur in political systems in which the executive branch has vast constitutional powers. As Scott Mainwaring points out, when an executive position has the ability to veto bills and issue decree laws, the legislature can be by passed regardless of which party or leaders are in control of the legislature. One of the main reasons is that a presidential decree is already law when it is passed. In some cases a legislative vote can reverse a presidential decree but this can be made very difficult if not impossible if an executive issues many decrees at one time. The legislature can not possibly review all of the decrees and vote on them before the impacts of the decrees are felt. Legislatures with minimal powers can not initiate legislation effectively, nor can the reasonably amend legislation that is initiated by the executive.

Finally, the intermediate category is the legislature with *modest policy power*. It would seem that Brazil’s legislature falls into this category because it is not especially powerful in initiating legislation but it has and it uses its power to amend bills promoted by the executive. While many see Latin American democracies as having very powerful executive branches with ineffective or even irrelevant legislatures, Brazil is not that case. There are several ways in which the Congress has the ability to influence policy-making. For instance as I look at the reform presented by President Cardoso for presidential reelection, it is

clear that the Congress had the power to reject that bill and there was doubt about if Cardoso could get it to pass. Also, for Cardoso's reforms to pass they must first go through the legislature twice. When I examine the economic policies and fiscal measures that were attempted prior to and during 1997, it is clear that the legislature has a great deal of power in policy making. Although the Congress does not write the legislation and is not as active as the U.S. model the Brazilian Congress can hardly be called irrelevant. In fact, Brazil's legislature is now very capable of rejecting decrees and their power influences the scope of the bills that the executive proposes. The executive must be very aware of what Congress will and will not support. Although Congress does not necessarily create the legislation, its power does limit the executive's powers and type of legislation that can be passed.

While the Brazilian policy making process is not perfect and as I discuss in this paper is often hindered by the fragmentation among the political parties, the legislative branch does play a significant role. The weaknesses that I discuss concerning the legislature is not due to the policy powers the Congress has according to the Constitution. The Congress does not just rubber-stamp the executives decrees. Rather the weaknesses in the legislature come from the inability of opposition powers in Congress to formulate economic policy. This combined with the inability of the majority party or majority coalition to formulate a national platform creates a situation in which it is difficult to pass efficient and effective public policy. I argue here that with more policy or ideology oriented parties, Brazil could more effectively implement public policy.

The Role of Political Parties

Political parties are the organizations that are used to elect politicians into office. These politicians are representatives of the party and are used to advocate the views of the party and at a larger level the views of the population that elected them. The political party organizations are the mechanisms that bring policy issues to the government. The political

party organizations are the mechanisms that implement policy and laws through the government. The parties' roles in electing officials and determining policy give them the great responsibility of governing the country and maintaining a balance within the country. It is their responsibility to the people and the interests that they represent to maintain the development of the country according to the demands of the population. The government and by extension, the parties, must act to prevent international and domestic factors from disrupting the balance of society and causing turmoil. If there is not a balance it is the government's duty to find that balance. An effective government is one that can resolve the issues, whether social, economic, or political, that face a country. A government is judged based on the way it solves its policy dilemmas. I argue here that the political parties and the government did not effectively work to solve the economic problems of Brazil. In fact, the problems that occurred happened in part to the parties' inability to create and implement effective economic policies.

Development of Political Parties in Brazil

To start, the development of political parties in Brazil must be examined. Brazil has only recently experienced a re-democratization movement that began in the 1980s. From 1964 until 1985, Brazil was an authoritarian military dictatorship.³ This period in Brazil's history is marked by the fact that power became very centralized in the hands of the federal government and any opposing voices that countered the military regime were oppressed. Typical of many conservative authoritarian regimes, leftist opposition leaders were repressed, and hundreds of people were excluded from holding any political or influential position in society.

During the military rule there had only been two parties, the first being the National Renovating Alliance (ARENA) which was intended to support the military government and

was guaranteed a majority in the Congress. The second party had been the Brazilian Democratic Movement (MDB) which was meant to provide a controlled criticism against the government. In 1974, Joao Figueiredo was selected to be the President of Brazil. At this time Brazil was facing an economic recession, and there was an increasing amount of civil unrest against the military regime. However, instead of violently repressing the workers strikes for higher wages, Figueiredo committed to a reopening of the Brazilian political system. Initially, Figueiredo had planned to increase the control of ARENA by allowing the MDB to fragment into several less powerful political parties, and this is exactly what happened at first. In 1979, he approved of an amnesty bill that allowed for the reinstatement of almost all of the individuals that had been punished or removed from Brazil based on political issues. Another change involved the termination of the artificial two party-system that had been mandated during the rule of Castelo Branco in 1965. ARENA changed its name to the Social Democrat Party (PDS), and the MDB became the Party of the Brazilian Democratic Movement (PMDB). The new PMDB party; however, lost some of its strength as newly allowed leftist parties developed. The most significant of these parties were the Brazilian Labor Party (PTB), Democratic Labor Party (PDT), and the Worker's Party (PT). Despite the fact that the former MDB party was divided into several smaller factions that were not united, the new opposition parties were successful in gaining political power against the PDS in the 1982 election.

Following that election Brazil continued to suffer difficult economic problems, and the military began to lose its legitimacy among the people. Along with an economic recession, news reports began to surface that in 1981, the military was involved in several bombing plots that were targeted towards civilians. Due to these factors the opposition parties were able to make some gains in attaining political power. The PDS lost its majority in the lower-

³ Research on Authoritarian Period taken from Smith, Joseph. A History of Brazil, (London: Longman, 2002).

house of Congress but was able to maintain control of the Senate. Even more importantly the minority parties were able to win ten of the twenty-six state governor positions. As President Figueiredo experienced poor health in the early 1980s there was an even greater push for the opening up of the Brazilian political system. On April 25th, 1983, an amendment changing the presidential selection to direct popular election in the elections of 1985 was proposed and narrowly defeated despite large public support. However, this signified to the military regime that they could no longer maintain control of the government and in 1985, both the PDS and the PMDB ran a civilian candidate. In January of 1985, the PMDB ticket of Tancredo Neves and former PDS Senate leader Jose Sarney, was voted in by the Electoral College. However, Neves had been ill. He died in April shortly after his presidential inauguration.

Jose Sarney took over the presidential role and under his watch there were several major changes to the Brazilian political system. One of the first things that occurred was that the Congress that was elected in 1986 began writing a new constitution. This document was passed on October 5th, 1988. Some of the major aspects of the new constitution were that it changed the presidential selection from the Electoral College to a run-off electoral system. This was especially significant because for the first time the people directly elected the president and the winner would have to receive at least fifty percent of the vote, greatly adding to the democratic legitimacy of the presidential powers.

1988 Constitutional Reforms

Along with the Constitution of 1988 came important decentralization measures that have greatly effected Brazilian politics. During the authoritarian regime, the local and municipal governments lost much of their decision-making ability. Although the local governments were used to bolster support for the federal government, the regime had removed most of the power from the local and state governments in order to secure the

regime's power over the country.⁴ The 1988 Constitution made large gains in giving power back to local governments. Specifically, the constitution granted specific powers to the Federal government, shared powers for the Federal, State, and local governments, and it reserved certain powers for just the State or local government. Along with an increase in the local governments' ability to run social services was an increase in the amount of fiscal revenue that the local governments received. In 1985 the Federal government received 44.6% of the revenue while the states received 37.2%. With the new Brazilian Constitution, the estimated revenue of the Federal government fell to 36.5% while the State government received 40.7% of the total revenues. With the increase in the local government's ability to spend fiscal revenue, the states increased their ability to make their own decisions and become more autonomous from the Federal government.

Another aspect of the Constitution that changed the federalism of Brazil is that the powers of the Congress were expanded. With the increase in the power of the Congress, the states have also indirectly increased in their power. Most Congress members were closely aligned with the governors of the states that they represent. This close alliance to regional allies is especially important considering Brazil's weak political party system that will be discussed more in depth later. Due to the Congressional consideration of local government leaders and a loyalty to the constituency that they represent, the checks and balances of the Brazilian system make it very difficult for the executive branch to pass any measures without support from the State governments.

With all of the measures that were passed decentralizing power in Brazil, the political parties did not develop into structured or particularly powerful political machines. By 1997 the political parties still remained weak and very limited in their influence over national

⁴ Research on Constitutional Reform Era taken from Celina Souza, Constitutional Engineering in Brazil: The Politics of Federalism and Decentralization, (New York: St. Martin's Press, 1997).

policies of Brazil. The social structure and system of patronage is one of the main reasons why the political parties have not developed a tightly controlled organization, as I show in the next section.

Social Stratification and the Problem with Inflation

First of all, there is a very large separation between the wealthy and the poor in Brazilian society. From income distribution statistics it is clear that this has been a problem for Brazil for all of the later part of the twentieth century. In 1960 the poorest 20% of the population made 3.5% of the national income while the richest 10% made 39.7%. The actual inequality has increased since then and by 1990, the poorest 20% made only 2.3% while the richest 10% increased to 49.7%.⁵

One of the reasons for the continued plight of the poor in Brazil can be attributed to the inflation that has plagued Brazil in the past. Most of the poor rely on cash in order to purchase goods. With the consistent devaluing of the currency, many of the poor lost their buying power when they could not spend their money fast enough. If they did not spend their wages as soon as they received them, the money would be worthless in a matter of days, or even faster.

Inflation has been problematic historically for Brazil and has only recently been cured by Cardoso's Real Plan. Due to this it was to be avoided at almost all cost. The reason was that inflation had been an institutional characteristic of Brazil's economy and had been very detrimental to the economic progress of the country and its citizens. Before the Real Plan, Brazil's biggest economic problem was inflation, and at some points, hyperinflation. During Brazil's authoritarian period (1960s and 1970s), one of the first things that the new regime tried to do was curb inflation and stimulate economic growth. In the first couple of years of the regime under Castelo Branco, inflation was decreased from about 100% to 25%, and there

was an increase in the number of exports due to the devaluing of the *cruziero*. However, in 1967 the economic policy of Brazil changed when Costa e Silva took over the presidency. Silva and other leaders believed that Brazil must build a strong independent economy. For the next six years Brazil's economy boomed and expanded greatly. Silva and Finance Minister Antonio Delfim Neto urged this economic growth by expanding the monetary supply and curbing inflation by indexing prices and by avoiding the detrimental devaluation of the *cuziero*. Another aspect of their economic policy was that the military government directly owned or gave important funding to most of the successful industries during the economic upturn. Along with heavy investment, which can be seen from the foreign debt figure of over \$12 million in 1974, Brazil was able to effectively modernize their economy, increase growth rates, while keeping inflationary levels at relatively lower levels.

In the 1970s both oil shocks had extreme consequences for Brazil. Brazil had relied on foreign supplied oil, thus it had no control over the prices of the important commodity. In 1973 and again in 1979, as the price of oil increased, Brazil took out a large foreign debt to make up for the budgetary deficits. By 1979, Brazil was again facing high rates of domestic inflation. The government, instead of cutting back the spending programs, relied upon by the people of Brazil, the government borrowed money, which rose prices and increased Brazil's foreign debt. In the early 1980s, as the international interest rate increased rapidly, it dramatically increased the size of Brazil's debt, which had been set at a floating interest rate. By 1983, Brazil faced an economic crisis as its foreign debt grew to \$87 billion. The Proalcool program attempted to decrease the national debt by devaluing the currency in order to increase Brazil's export to import ratio. However, the constant devaluation and indexing of wages led to an expectation of rising prices and wages and so inflation was built into the system. In the 1980s and early 1990s, two plans were used to attempt to end the inflation that

⁵ Purcell, S. K., & Roett, R., eds. Brazil Under Cardoso, (Boulder: Lynne Rienner Publishers, 1997), 73.

was becoming institutionalized in the Brazilian economy. The first plan was the 1986 Cruzado Plan that attempted to end inflation by replacing the *cruzeiro* with the new currency, the *Cruzado*, and froze housing prices for one year and all other prices indefinitely. By 1989, Brazil had suffered extensive economic damage from the plan because prices had been frozen for too long. The plan had instead brought on a decline in economic growth and Brazil's inflation rate reached hyperinflation levels of 1,000 percent annually. The second plan, the Collor Plan in 1990, attempted the same recovery as the Cruzado Plan, by reducing government spending and tax rates. The plan also included the price and wage freezes but also included a freeze on bank deposits. Again, the Collor Plan faced the same problems as the previous solutions and as soon as prices were allowed to fluctuate with the market, inflation began to rise in Brazil. Due to the great problems that inflation had created and the great difficulty with which it was solved, Cardoso could not allow any devaluation of the Real that would possibly restart the inflationary cycle.

A second reason for the difference in earnings of the rich and the poor is a result of the educational system of Brazil. One of the main problems is that while the education system is being changed to attempt to expand and teach more students, the quality of the education that is being offered has suffered. In an effort to improve the educational system, local and state governments were given control of the education budget.

However, this has created an environment where increasing student numbers and building new structures for education became the focus and little thought has been given to the improvement of the quality of the instructors or of the material being taught.⁶ As a result, schools in Brazil have shown an increase in the numbers of students that are attending. By 1994 the number of students in school was 42 million, almost double the number of students in 1980, and two and a half times the number of students in 1970. This is not as much of as

an improvement as it would seem. It is estimated that half of the workers in Brazil today have not finished primary school, and at most only one-third of all workers have even attended secondary schools.

Another important characteristic of Brazilian society is the difference between the rural and the urban areas, especially among the poor. Inequality has been persistent throughout Brazil's history but with the urbanization of Brazil the problem has become even greater and more complex. With the development of Brazil, two different, yet similar groups have been almost completely ignored by the system.

By the 1990s, approximately 70% of the Brazilian population lived in urban areas.⁷ The switch to an industrialized society that has been occurring over the past 30 years has been largely unregulated and has had some very damaging results. As more and more rural Brazilians moved to the cities, large *favelas* were built surrounding haphazardly placed factories and other industrial sites. There were not and still are not enough jobs to hire the large populations of uneducated and unskilled workers that make up the *favelas*. Due to the desperate conditions the *favelas* have become areas known not only for their poor environmental and health conditions, but also for the centers of drug trafficking and criminal activities that occur within their borders.⁸ The poor that live in the urban areas face the economic problems that are mostly the result of underemployment, inadequate social services such as housing and health, along with highly unequal income distributions.⁹ The urban poor are not the only group in Brazil that suffer extreme economic conditions.

⁶ Purcell, S. K., eds. *Brazil Under Cardoso*, (Boulder: Lynne Rienner Publishers, 1997), 71.

⁷ "The Cardoso Administration at Midterm," *The Latin American Program Working Paper Series* no. 227, Feb. 25, 1997, Page 13..

⁸ Smith, Joseph. *A History of Brazil*, (London: Longman, 2002), 228.

⁹ "The Cardoso Administration," *The Latin American*, no. 227, Feb. 25, 1997, Page 13.

One half of the poor Brazilians live in the rural Northeast.¹⁰ During the 1960s and 1970s as the military regime attempted to increase the production of sugarcane and other crops that could be used to trade with foreign countries, they promoted the cultivation of the frontier areas of the North and West in Brazil. What has happened as a result is that the corporations and large landowners were able to acquire huge tracts of land while peasant and migrant farmers were not able to own any land. "It is estimated that 58,000 large estates account for about 45 percent of the total farmable land, whereas 2.9 million small and middle-size farms must share a meager 2 percent."¹¹ The status quo has remained over the past several decades, and there have been several outbreaks of violence between peasants who have attempted to occupy land and claim it as their own and the land owners and officials that claim the land. The problem is not just isolated to the northern sections of the country, but is experienced in other rural areas of Brazil. In the 1980s, the Workers Party along with the Catholic Church helped peasants form the Landless Rural Workers Movement. The movement attempted to take and farm over a million acres of land.¹² It is clear that the problems facing the rural poor and the problems of the urban poor have not been resolved.

As a result, Brazilian society is largely divided between the rural and urban sectors and then again between the rich and the poor in those sectors. It seems that Brazilian politicians are highly aware of the conditions that are causing social turmoil. More than one third of Brazil's Senators in 1991 and again in 1995 believed that if the social and economic conditions of the poor were not improved, Brazil would face social unrest within the next 10 years. However, the issue may not be a collapse of the system but rather an increase in the overall crime rates in Brazil. In 1990, then Senator Fernando Henrique Cardoso, made a statement that Brazil's highly complex system may not necessarily breed a rise in social

¹⁰ "The Cardoso Administration," *The Latin American*, no. 227, Feb. 25, 1997, Page 14.

¹¹ Purcell, S. K., eds. *Brazil Under Cardoso*, (Boulder: Lynne Rienner Publishers, 1997), 78.

unrest. Instead he pointed out that, “The reality is that Brazil is nowadays a complex and highly segmented society. Social unrest in one sector does not necessarily spread to the next.”¹³ This is significant because even though Brazil faces many problems and many of its citizens are living in poverty, it shows that the people are not unified to do anything about it. The lack of a non-governmental agency or political party has strongly effected the ability of the people to change the way the government works. While civilian action and involvement is highly effective in some areas of the country, it is limited to those small areas. The lack of communication and resources to mobilize large groups of people has prevented change in Brazilian society. The political parties of the system have not responded to the call for change either.

Political Parties and Politics in the 1990s

In the 1990s Brazil’s political party system was quite unique compared to other Latin American countries.¹⁴ The historical and social influences greatly affected how the parties developed. There are several characteristics of Brazilian political parties that make them unique. First of all, the political parties can be divided into two separate categories, broad catch-all parties and smaller specific parties.¹⁵ These two types of parties have several differences and these differences have varying effects on the political system. Second of all, political parties in Brazil have traditionally been characterized as patron-client systems. The impact of this is that most congressional representatives are more focused on bringing benefits and policies to their specific constituencies at the cost of the nation as a whole. This fact within the political party system has had a significant impact on the ability of the Brazilian government to pass legislation that benefits a majority of the population.

¹² Smith, Joseph. *A History of Brazil*, (London: Longman, 2002), 230.

¹³ Purcell, S. K., eds. *Brazil Under Cardoso*, (Boulder: Lynne Rienner Publishers, 1997), 65.

¹⁴ Scott P. Mainwaring, *Rethinking Party Systems in the Third Wave of Democratization: The Case of Brazil*. (Stanford: Stanford University Press, 1999).

¹⁵ Scott P. Mainwaring, *Rethinking Party Systems Brazil*. (Stanford: Stanford U. Press, 1999)

When analyzing Brazil's political parties, Dr. Scott P. Mainwaring points out that the political parties can be divided into two groups. First of all, there are the large catch-all parties such as the PMDB and then there are specific parties such as the PT. One of the main differences between these two parties is that the catch-all parties are not rigidly aligned along one strong party platform. Almost all of the parties in Brazil can be characterized as "shifting groups of self-interested individuals who find it convenient to come together under a bland banner that usually includes words such as *progressive*, *social*, or *democratic*."¹⁶ Due to the fact that most of the larger parties in Brazil lack a specific platform, it is quite difficult to categorize each of the parties because party leaders from different parts of the country have different ideas about certain policies. As discussed earlier, Brazil is a very diverse country and there are many different factions. Most political party leaders make their decisions based on personal commitments to their own specific region rather than based on their party's specific program. One of the reasons that the catch-all parties do not have a cohesive single party line is because there is little incentive for representatives from that party to follow any party directives. Although there are some sanctions that can be imposed on party members that do not follow the party mandates, this rarely happens. Representatives do not have any fear of repercussions for voting outside of the party.¹⁷ Also, the catch-all parties do not experience the same amount of loyalty as more specific parties. From 1987-1990, the PMDB went from having 305 congressional representatives to 153 congressional representatives.¹⁸ This is especially important because of the political party switches that occurred, almost 20% of those involved representatives moved to a party that was not close to the original party's ideology. The lack of party loyalty in the catch-all parties signifies that the national parties

¹⁶ Purcell, S. K., eds. Brazil Under Cardoso, (Boulder: Lynne Rienner Publishers, 1997), 21.

¹⁷ Scott P. Mainwaring, Rethinking Party Systems in the Third Wave of Democratization: The Case of Brazil. (Stanford: Stanford University Press, 1999) 141.

¹⁸ Research concerning types of Political Parties taken from Scott P. Mainwaring, Rethinking Party Systems. (Stanford: Stanford University Press, 1999) 143.

are very heterogeneous in their political ideology. This causes problems for the parties in their ability to create strong and effective party lines. With the lack of stable and national party platforms, other issues take prominence. After switching from a Leftist to a Conservative Party a Brazilian congressional representative stated that, “in the interior, party labels don’t mean anything. What matters are the people who form the ticket: their competence, honesty, and integrity.”¹⁹ More and more, politicians that want to take a leadership position stress their independence or non-partisan ship.²⁰ The broad political parties in Brazil do not have strong loyalty among their members and they have very broad and often contradictory policies within their leadership. An advantage of this type of structure is that they can develop a very large support base and foundation. The downside to the catch-all parties is that their membership is not very loyal and does not necessarily follow the party line, which makes it difficult for the party to push for any type of policy with any success.

The smaller parties, such as the PT, have completely different characteristics, but they still face problems. The PT is based on class issues and strongly advocates unionization and better benefits for the working class. The party mostly relies on the support of industrial workers as well as urban intellectuals.²¹ The official party began in 1980, and has slowly increased its foothold in Brazilian politics. While the party claims democracy as a goal, it sees itself as an instrument for civil participation and a voice for the ignored or marginalized sections of society. The PT has slowly increased the number of representatives it has in the Brazilian government. From 1980 to 1998 they increased their number of congressional representatives from one Senator to seven Senators. In the same time frame the Party increased their numbers from five to fifty-eight representatives in the House.²² Part of the

¹⁹ Scott P. Mainwaring, *Rethinking Party Systems*. (Stanford: Stanford University Press, 1999) 145.

²⁰ Howard J. Wiarda, and Harvey F. Kline, eds., *Latin American Politics and Development*, 4th ed. (Boulder, CO: Westview Press, 1996), 129.

²¹ Howard J. Wiarda, *Latin American Politics and Development*, (Boulder, CO: Westview Press, 1996), 126.

²² Peter R. Kingstone, and Timothy J. Power, eds., *Democratic Brazil: Actors, Institutions, and Processes*,

reason that the growth of the PT has been quite slow is that in the past it has pushed for very radical policies. The PT has been very successful in exposing corruption within the government, supporting grass roots movements, and winning elections at the local level. However, until the mid 1990s, the views of the party were considered too hard line and unwilling to compromise by many in the population.²³ Due to these extremist views and the perception of the Brazilian people, the PT has been ineffective at garnering widespread support for its policies or candidates on the national level. However, things have changed for the PT and in 2002, party leader Lula was elected President of Brazil. Some of the main reasons that Lula was able to win the election is that his views have moderated and are now closer to the center. Instead of being viewed as an extremist, the PT and Lula have shifted closer to the center and have adopted more moderate policies. Still the PT has remained a specific party that holds a single party line and members of the party remain loyal to it. While the policies may have slightly shifted, the party structure remains intact.

Party Effects on Government

The structure of the political parties in Brazil has also had a very important effect on the functioning of the Congress. An elected legislative body is usually meant to represent the population or constituency that it represents. In some respects the Brazilian Congress does this to perfection. It is a very divided body that has difficulty in making any sort of consensus. It is characterized by its inability to compromise and general inefficiency. The same problems that plague the political party structure in Brazil carry over into the work of the elected representatives of the parties.

As is the case with the political parties, the legislature is weak in carrying out its tasks. Before 1988, the legislature was only a body that passed the laws and decrees set out by the

(Pittsburgh: University of Pittsburgh Press, 2000) 130.

²³ "Underperforming Opposition," The Economist, 29 November 1997, 34.

executive branch, due to the inability of the Congress to work on its own in developing policy. Around 75% of all of the legislation that the Congress approved in a single year originated in the executive office.²⁴ Part of the problem lies in the fact that the legislative branch is very weak in many Latin American countries and this is especially true in Brazil. Any executive position, be it President, governor, or mayor, usually affords more power and prestige than a congressional representative. For that reason, a congressional representative position is often used as a stepping stone towards a more executive leadership position.²⁵ One of the problems that this creates is that, again the representatives do not have any reason to follow party guidelines. Since the ultimate goal of a politician's career is usually an executive position at any level of government, which does not require political party affiliation to win, whether they please party leaders or not, does not effect them. Instead congressional representatives focus on pork-barrel legislation that helps them or their constituents directly. Often the executive branch will trade votes or compromise with the congressional leaders by adding public works projects to bills so that Congress will pass the bills. Rather than focusing on issues that are of the greatest importance to the nation as a whole, the congressional deputies focus on what attachments they can add to bills in order for personal financial improvement.²⁶ Rather than work towards solutions to the serious economic and social issues that Brazil is facing, the Congress is tied up with arranging jobs and looking for profit that they can return to their constituents.

Economic Events of 1997

With the problems of the Brazilian Party System and Congress in mind it is time to look at how they have specifically effected the events leading up to and after the stock market

²⁴ Peter R. Kingstone, Democratic Brazil: Actors, Institutions, and Processes, (Pittsburgh: 2000) 130.

²⁵ Scott P. Mainwaring, Rethinking Party Systems. (Stanford: Stanford University Press, 1999) 275.

²⁶ Howard Handelman and Mark Tessler, eds., Democracy and its Limits, (Notre Dame, IN: University of Notre Dame Press, 1999), 161.

crisis of 1997. It is also important to have a better understanding of the exact events that lead up to the crisis itself.

The 1990s were a decade in which Brazil seemed to be overcoming the political instabilities of the past. In 1994 Fernando Henrique Cardoso, Brazil's then Minister of Finance, developed a highly effective plan that put a stop to Brazil's inflationary problems that had plagued the country for several decades. Cardoso's *Real Plan* stabilized the Brazilian economy and made Brazil's markets and industries very lucrative investments for foreigners. This plan actually was a double edged sword for Brazil. Since the *Real Plan* temporarily solved the economic crisis it allowed the government to become complacent about the institutional problems that had developed. Instead of being forced to reconcile the problems with the Brazil's institutions the government was able to move on to other issues since the government appeared it could handle its problems.²⁷ By early 1997, most of Latin America, especially Brazil, was benefiting from the renewed expectations and economic stability. This can be seen from a *New York Times* article by Dan Colarusso on February 23, 1997. The title "Latin Markets Again Run with the Bulls" begins the article by discussing the positive aspects of the market. The article goes even further to state that the past year has been a huge success for anyone who invested in the region. While the risks are clearly stated, they are far outweighed by the earning potential that was still predicted for the area. The article ends with a very promising prediction, "The ride shows no sign of ending. Ed Vaimberg, manager of the Bear Stearns Emerging Markets Debt Portfolio, predicts 20 percent gains this year."²⁸ Other investment consultants agreed and gave high ratings to the investment opportunities in Brazil. The Union Bank of Switzerland stated in a report in April of 1997, that Brazil's growth was

²⁷ Peter R. Kingstone, *Democratic Brazil: Actors, Institutions, and Processes*, (Pittsburgh: 2000) 34.

²⁸ Dan Colarusso, "Mutual Funds: Latin Markets Again Run with the Bulls," *The New York Times*, 23 February 1997, Section 3, page 8, late edition.

very unlikely to overheat and the expected growth rate for the country in 1997 was 4.3%.²⁹

This is just one example of the international enthusiasm that was felt toward the possibilities that were present in Latin America and more specifically in Brazil.

Despite the high prospects for economic returns, investors did not blindly throw money into Brazil's stock market (BOVESPA). Instead they closely watched political and economic events as there were several things in 1997 that indicated the vulnerability of the market. These were warning signs of the future problems.

First of all, President Fernando Henrique Cardoso was attempting to change the constitutional structure of Brazil. The major reform that caused the biggest concern about the stability of Brazil was that Cardoso was attempting to change the law limiting the executive office to one term of five years. Cardoso introduced an amendment that would allow the president to be reelected and serve two five-year terms. Due to the political history and instances of authoritarian regimes, this caused a reasonable amount of uncertainty about how this would effect Brazil's stability. There was some concern that Cardoso was following in the path of Peruvian President Alberto Fujimoro. After democratically winning the presidency in 1990, Fujimoro ignored and eventually discarded the country's constitution.³⁰ Like Fujimoro, Cardoso helped stop his country's inflationary problems and stabilized the economy, but at the cost of the democratic characteristic of the government. In the beginning of 1997, there was fear that the outcome of the referendum to increase the number of terms that a president could serve could disrupt the stability of Brazil. Although, this concern did have some effect and slow down the increase in the value of the Bovespa in early 1997, it did not have a lasting effect on the Brazilian market. After it was clear that the amendment would pass, trade resumed at high levels, in part due to the new sense of stability and continuity that

²⁹ "Brazil," Union Bank of Switzerland New Horizon Economies. April 1997, Country Profile, 46.

³⁰ Peter Muello, "Latin Americans Uneasy over Trend to 'Democratic Dictators'," Associated Press, 28

Brazil seemed to be showing. As is the case with almost all of the legislation that is passed by Congress, the amendment only passed through Congress after it was modified to benefit many of the congressional representatives.³¹

Another concern for Brazil's economy was the high level of foreign debt. In 1997 Brazil's foreign debt had reached US \$194 billion. This amount was almost one quarter of Brazil's annual GDP, 24.2%.³² Many times, when countries face large amounts of debt, often caused by the imbalance of the country's exports to their imports, the country will devalue the currency. This occurred in Mexico in 1994 and was occurring in many of the Asian markets in 1997. In order to stem fears of Brazil devaluing the Real, Cardoso assured foreign investors that any extra money that the government received from the privatization of the state owned telecommunications firms would be used to help finance the foreign debt. Between the auctioning off of the cell phone sector and privatizing all of the other areas of telecommunications, Brazil was expected to profit US \$30 billion.³³ Along with the telecommunication sector Brazil had been working to shift several other state owned sectors into private ownership. Among these was the state owned mining company, *Companhia Vale do Rio Doce*, that was also privatized in 1997.³⁴

While privatization seems like workable short-term solution for solving the public debt, there are several problems that hinder its success. First of all, Brazil's laws mandate that in order for any state owned industry to be sold the government must first give approval. Again, this is an instance when the congress can delay or not even vote on the issue for months at a time. The inability of the Congress to make decisions and pass the executives laws is often exasperating for the executive branch. In some cases it also takes a constitutional

January 1997, AM Cycle.

³¹ Howard Handelman, *Democracy and its Limit*, (Nortre Dame: 1999), 167.

³² "Brazil," *Union Bank of Switzerland*. April 1997, 46.

³³ "Brazil," *Union Bank of Switzerland*. April 1997, 46.

³⁴ "Constitutional Amendments, Overcoming Inflation, Accelerating Privatizations, Current Accounts,"

amendment in order to permit the selling of the company. Second, private companies bid for the contract to evaluate and appraise the state owned company. This process involves assessing the economic and financial position of the company as well as developing a strategy to privatize it.³⁵ Finally, the company is auctioned off to qualified and approved buyers. The actual privatization sequence can be delayed at various points in the process, and it can be slowed down or even ended at anytime. An example of this is occurred in 1996 while Cardoso was attempting to privatize a small bank along with other government industry such as electricity, steel, and fertilizers. All of these attempts to privatize were met with strong opposition from regional leaders and congressional representatives.³⁶ Also, even though a firm may be sold it does not guarantee that the funds will be used for decreasing the public debt. Brazil's government is overburdened in its expenditures, education, medical care, state employee's salaries, and a multitude of other social programs are desperately under-funded. Although, Cardoso seemed committed to decreasing the public debt due to the other economic advantages he believes it will bring, the money from privatization is not guaranteed to be used for decreasing the debt. The effects of privatization on a domestic economy can be debated and this paper is not supporting that increased privatization would have helped improve the economy. Instead the focus is on how difficult it is for the executive to enact reforms without support from the legislature. This difficulty is caused by the weakness of the political parties to create and support a political agenda. Whether a policy will help or hinder the resolution of problem is no longer a reasonable question when a policy cannot be implemented in a timely fashion to solve the problem.

The weaknesses that were in the Brazilian economy and stock market became more clearly exposed in July of 1997. As the stock markets of the "Asian Tigers" began to decline

Latin Finance, 9 September 1997, 9.

³⁵ "Constitutional Amendments, Overcoming Inflation," Latin Finance, September 1997, 9.

and negative aspects of those countries' economic policies were beginning to be known, foreign investors became more leery of the growth in Brazil. The expected rate of growth was doubted, and more and more questions were raised about Brazil's ability to sustain and support continued economic growth. Along with the increasing public debt, investors worried that since Brazil's currency (the *real*) was pegged to the US dollar, it was over-valued. These two factors made the prospect of currency devaluation more likely and made Brazil a less attractive market to invest in. During the week of July 19th, 1997, the Bovespa fell sixteen percent as foreign investors began pulling out of Brazil's market. The fall was indicative of the widespread fear caused by the falling Asian markets and of the future problem that would face Brazil.³⁷

Throughout the rest of the summer Brazil's stock market rose and fell as the Asian markets continued to decline. By early September 1997, Brazil was criticized for being in a worse position than some of the other falling Asian markets. Despite the fact that the dominant economic prediction was that Brazil was going to be able to withstand the economic downturn, former Brazilian finance minister, Rubens Ricupero, disagreed with this view. According to Ricupero in September of 1997, Brazil had a larger public debt than many of the other countries, and Brazil did not have the same ability or capacity to increase its exports as those other countries. Furthermore, Ricupero believed that the amount of capital that was going to leave Brazil would only increase. As firms that had invested large amounts of money in the previous years began to experience profits, more money would be pulled out of Brazil increasing the imbalance of payments.³⁸ To a certain extent these fears were realized in late October 1997. In part due to the trouble of the Hong Kong exchange markets, Brazil's

³⁶ "Brazil Heads for Recession," The Economist, 15 November 1997, 33.

³⁷ Anthony Faiola, "Go-Go Market Plunges, Spooking Brazil Investors," The Washington Post, 20 July 1997, A24, Final Edition.

³⁸ Geoff Dyer, "Brazil's Economy gets Dismal Review from Former Minister," The Financial Post, 6 September 1997, Section 1, Page 20, Weekly Editions.

own uncertainties led to a large decline in the value of the stocks. On October 28th, two of the major stock exchanges indexes fell 12% and 13%. Even communication stocks which recently had been the lone bright spot in the Brazilian market were down around 18%.³⁹ The daily drops of the markets in Brazil caused the Central Bank of Brazil to sell off at least \$5 billion of its cash reserves. Although Brazil still had over \$50 billion in reserve the losses further worried foreign investors and made it much less likely for Brazil to attract buyers for its state owned firms and other investors in its markets to help offset the public debt.⁴⁰ The selling of cash reserves also increased doubt that the Brazilian banks had enough money to back the losses that had occurred to the Bovespa. The 35.6% drop that occurred over 6 sessions in late October began to cause concern that there was a shortage of cash at many of the larger banks in Brazil.⁴¹ Despite the bleak outlook, Cardoso and many others attempted to calm any fears about the great turnaround in the stocks of Brazil. While the central bank of Brazil stated that there was not a cash shortage, Cardoso prepared Brazil for the measures that he felt were necessary to bring Brazil out of its current crisis. On October 31, 1997, Cardoso stated, "By the proportions this crisis had in stock markets the world over, there is no point in believing there will be no consequences. But, in spite of the consequences, we have to equip ourselves to come out of it (the crisis), which would be the recession. We have to think positive."⁴² These words were a foreshadowing of the measures that Cardoso would implement in the weeks after the economic crisis.

Government Action

The first move that Cardoso made was actually not to make a move at all. On November 5th, 1997, Cardoso pledged that the Real would not be devalued and that the

³⁹ "Rio de Janeiro Stock Exchange Falls 13.9%," Gazeta Mercantil Online, 28 October 1997.

⁴⁰ Peter Muello, "Plunging Markets Cloud Brazil's Long-Range Plans," The Associated Press, 30 October 1997, AM Cycle.

⁴¹ "Brazil Stocks Plunge 9.8% on Worries about Banks," The New York Times, 31 October 1997, D5, Late Edition.

monetary policy of Brazil would not be changed, despite the downward turn the economy had taken. However, with this, Cardoso began to explain the fiscal policy measures that would have to be taken in order to solve the problems. Early in November, the spending cuts were projected to be about 4% of the country's GDP that was estimated at \$750 billion.⁴³ After the Bovespa continued to decline in the first weeks of November, Cardoso called together emergency government meetings to find a way to avoid devaluing the Real that would lead to inflation, a frightening prospect for Brazil.

The solutions to the 1997 problem that were decided upon involved decreasing government spending and increasing taxes. Some of the areas that would receive cuts were temporary government employees, investment in state owned industry, and a freeze on all government employee's salaries. The increased taxes would be applied to gasoline, and airline travel, as well as a 10% increase in income tax for almost all of Brazil's taxpayers. In all, Cardoso issued 51 reforms, 17 of which were executive decrees. The main problem that Cardoso faced was that the decrees had to be approved by Congress within 60 days.⁴⁴ However, congressional representatives again met these measures with strict opposition. One of the biggest reforms that Cardoso was opposed on was the ability of the government to get rid of 33,000 temporary employees. Although this was predicted to help free up millions of dollars in the federal budget it was strongly opposed by members of Congress who feared that the short-term losses that the country would suffer would hurt their political careers. Economic analysts had pointed to Brazil's expanding budget deficit for several months before the October incident. However, Cardoso was not able to immediately rally the Congress to support these measures due to the unpopularity that the possible unemployment and economic

⁴² "Brazil Can Continue to Attract Capital Declares Cardoso," Gazeta Mercantil Online, 31 October 1997.

⁴³ "Brasilia, Brazil," The Associated Press, 5 November 1997, International News, AM Cycle.

⁴⁴ Roger Cohen, "Brazil Backs its Currency in Austerity," The New York Times, 11 November 1997, A7, Late Edition.

slowdown could have caused. Immediately after the proposal of the economic measures, popularity for Cardoso and the Real Plan dropped below 50%. Concerns about increased unemployment caused the number of support of Cardoso to fall to 47%, the lowest it had been since the implementation of the Real Plan.⁴⁵ Despite the frustration with the government the alternatives to Cardoso's measures were even less appealing. The alternatives to inaction were to possibly bring back inflation or to have to look for a monetary bail out loan from the international community.⁴⁶ Both of those possible outcomes would have been disgraceful to the Brazilian people and government, so slowly many Congress members agreed to support Cardoso.

The opposition eventually diminished in Congress as it became obvious that Brazil had to change its fiscal policies in order to right its economy. The urgency of the crisis moved many of the Congress to look to the greater good of the country rather than to the good of their local constituents. Still Cardoso had to negotiate with many of the members of Congress and "pork" legislation was added to make sure that the measures were approved. The effect of Cardoso's negotiations along with the pressure and urgency of the situation led congressional representatives to vote for Cardoso's reforms. Rather than still advocating the local interests of their constituencies Congress saw that it was better to support the hard to swallow reforms of Cardoso than be blamed for allowing the economic problems to continue.⁴⁷ The fact remains that many of the fiscal reforms that were finally passed in 1997 had been pushed by Cardoso before the crisis. One of the key elements that sparked the flight of capital from Brazil was the large deficit in government spending. Due to the decentralization of the budgetary powers between the federal and state governments it is very difficult for the executive to create a budget surplus. The reforms that Cardoso attempted to

⁴⁵ Maria Osava, "Economy Brazil: Support Declines," Inter Press Services, 12 November 1997.

⁴⁶ "Brazil Heads for Recession," The Economist, 15 November 1997, Page 34.

make, that could have freed up millions of dollars in the budget, were not passed prior to 1997. Either the legislature did not act on the amendments or they were altered in such a way that rendered the most important parts of the bills ineffective. An example of this is a reform that Cardoso had proposed that would have allowed surplus workers to be let go from local and state government positions. In June of 1997 it was narrowly passed on the first reading, but the clause allowing workers to be let go was removed. After that, the bill just sat and leaders did not move with any urgency to move it into law. However, after the crisis, congressional leaders promised to move on the bill, and it was expected by some officials that the reform would move through the House and Senate successfully by March.⁴⁸ However, this prediction is questionable since the administration was attempting to repair its international image. The real problem was that the government was handicapped by the political parties that drove the policy-making. The IMF and foreign investors had let Brazil know of its economic deficiencies before the events of 1997 and there were attempts to fix those problems according to the guidelines of IMF policy. However, due to the weak political party structure, support could not be mounted to act with any urgency.

It has been shown that political parties are weakly organized and fail to effectively act as national bodies. This fact plays a large role in the ability of the executive to work with the legislative and the members of Congress to work together in creating policy in time to preempt problems rather than quickly patch over them.

Consequences and Outcomes

The contention of this paper is that if the political parties had a stronger national agenda, the crisis that Brazil suffered in 1997 would have been less severe. International economies around the world suffered, but had the political parties in Brazil been able to

⁴⁷ "Brazil on Borrowed Time," The Economist, 8 November 1997, Page 37.

⁴⁸ "Brazil on Borrowed Time," The Economist, 8 November 1997, Page 37.

effectively create legislation that would have resolved the poor characteristics of the economy, the crisis would have been just a small bump on the radar. It has been shown that parties have not taken strong political stands on any national issues but have focused on local benefits they can take home to a small constituency. It has been shown that the lack of focus on national issues has rendered the Congress ineffective in passing any legislature that benefits the long-term plan of the entire country. The lack of structure has made the passage of any reform proposed by the executive a very slow and cumbersome event, that often results in not passing the bill. As a result of the parties' weaknesses, Brazil was unable to give its foreign debt and budget deficit anything more than lip-service. As investors saw what can happen when an economy is mismanaged as was the result in Asia, Brazil appeared to be the next one to go down. Had the parties been able to pass more significant reforms before October of 1997 the damage that resulted could have been less devastating.

Systems Level Analysis

Despite the role that the political parties and domestic factors had in the events of the crisis, the systems level and international structure can not be ignored. As already discussed, the events that took place in Brazil were a part of a greater ripple that went through the entire world economy in 1997. The crises that began in Asia eventually spread to all parts of the world and to varying degrees had an effect on most of the world's markets. Clearly, there is not one single factor that can be seen as the root cause of the economic troubles in Brazil, but some would argue that the blame actually belongs more on the international sector, specifically the International Monetary Fund. In reality the IMF is the sole international organization that has the ability to lend money to emerging countries that face currency shortages and other economic problems. As many other countries along with Brazil faced the same problems of over valued currency and large budget deficits, the IMF gave its standard diagnosis and prescription for a cure. The catch-all solution according to the IMF is to

decrease the budget deficit as much as possible and raise interest rates. This is mainly done through strict fiscal policies that cut government spending across all areas of the society and raising interest rates is used to keep foreign investors from dumping the domestic currency. Often loans are given to the countries to help cover the currency shortages and encourage the countries to take the often difficult measures, that cut social expenditures and increase unemployment, that it takes to balance the budget. In 1997, the IMF did not give Brazil any loan packages but it advised Brazil to protect its currency and cut government spending. Shortly after the initial drop in stocks in Brazil, Cardoso raised short term interest rates to 43% in an attempt to save the currency. However, by 1998, Brazil had depleted most of its foreign reserves and the IMF made a loan package of over \$40 billion in November of that year. Clearly, the IMF's advice did not succeed in Brazil as the program to protect the currency failed after eight weeks. Early in 1999 the IMF stated that Brazil's economy was falling and predicted negative levels of growth for the next year.

With the continued drop in Brazil's economy during the years after 1997, some people question the actual role that Brazil has in correcting its economic problems. While the Brazilian government had a role to play, some say that it is the poor economic strategies of the IMF and the policies it recommends that have caused Brazil and other nations to continue in their economic decline. According to Jeffery Sachs, in an article entitled "Brazil Currency Crisis," there are several reasons why Brazil's crisis has continued on for several years. According to Sachs one of the biggest reasons is the IMF's position against devaluing currency and favoring bail out packages instead. The Real Plan loosely pegged Brazil's currency to the US dollar and it had caused the Real to be increasingly overvalued. As stated before Cardoso had his own reservations against devaluing the currency due to the historical inflationary problems. Sachs points out that the US and the IMF allowed Brazil to ignore the problem of the overvalued Real by giving Brazil the \$41 million loan in 1998. Instead of

analyzing Brazil's case as unique circumstance it is argued that the IMF backed the pegged currency and allowed Brazil's problems to become increasingly severe. Also, foreign investors with large holdings in Brazil and its assets were strongly against any devaluation in Brazil. Sachs argues that the corporate sector's control of the US government allowed for misguided policies to be recommended by the USA at the expense of the Brazilian economy and people.

While the systems level may do a large part in explaining the economic reasons why Brazil continues to struggle, that does not let the domestic actors could not have prevented or lessened the severity of the problems. While the crisis can be blamed on the fact that the overvaluing of the currency was ignored, it can also be argued that if the Brazilian government had acted faster, the effects of the crisis could have been diminished. If the government had sound economic policies in the view of the international system, there is little reason for investors to speculate and pull out of the economy. However, when a second look is taken and the policies of a government are unstable that causes the long-term problems that Brazil has faced and continues to face.

Look to the Future

In 2002, the PT party won the Presidential election in Brazil. In October of 2002, Luiz Ignacio Lula da Silva of the PT won 61.3% of the vote and began his term as president on January 1st, 2003. In the legislative branch of the government the PT is also gaining more power and seats. In the Senate, the PT controls only 14 of the 81 seats and in the lower-house the PT controls 91 of the 513 seats.⁴⁹ Like Cardoso and the other Presidents before him Lula will face the problems of trying to organize a government that will be effective. As we have seen the true difficulty lies in developing an agenda that will be supported by a majority in the

⁴⁹ "Brazil," *The World Fact Book* [Online]. Available <http://www.cia.gov/cia/publications/factbook/geos/br.html>
Last Updated, 19 March 2003.

legislature that is controlled by over 10 political parties that are weakly associated. As was the case with Cardoso's rule, it is difficult to develop policy and enact it without it being distorted and changed by the various interests that rule the local and state governments. However, while the weakness and inefficiencies of the political parties and the entire system adversely affected Brazil, especially in the economic arena, the system does have its advantages. It protects parties and individuals from gaining too much power and control. It is a system that does not allow any one particular group in a society with many different interests to act without any accountability. However, the system has proven to be inadequate in dealing with national level concerns that demand swift and decisive action. Instead of building solid economic policy and working to change the system, political parties have not done much to increase their status and are inferior to state and regional coalitions. The question remains whether Brazil's political parties be able to bolster their influence and effectiveness in creating agendas that benefit the nation as a whole.

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