Brazil

Political and Economic Lessons From Democratic Transitions

Carlos Pio
June 2013
Civil Society, Markets, and Democracy Initiative
The Council on Foreign Relations (CFR) is an independent, nonpartisan membership organization, think
tank, and publisher dedicated to being a resource for its members, government officials, business executives,
journalists, educators and students, civic and religious leaders, and other interested citizens in order to help
them better understand the world and the foreign policy choices facing the United States and other countries.
Founded in 1921, CFR carries out its mission by maintaining a diverse membership, with special programs to
promote interest and develop expertise in the next generation of foreign policy leaders; convening meetings
at its headquarters in New York and in Washington, DC, and other cities where senior government officials,
members of Congress, global leaders, and prominent thinkers come together with CFR members to discuss
and debate major international issues; supporting a Studies Program that fosters independent research, ena-
bling CFR scholars to produce articles, reports, and books and hold roundtables that analyze foreign policy
issues and make concrete policy recommendations; publishing Foreign Affairs, the preeminent journal on in-
ternational affairs and U.S. foreign policy; sponsoring Independent Task Forces that produce reports with
both findings and policy prescriptions on the most important foreign policy topics; and providing up-to-date
information and analysis about world events and American foreign policy on its website, CFR.org.

The Council on Foreign Relations takes no institutional positions on policy issues and has no affiliation with
the U.S. government. All views expressed in its publications and on its website are the sole responsibility of
the author or authors.

For further information about CFR or this paper, please write to the Council on Foreign Relations, 58 East
68th Street, New York, NY 10065, or call Communications at 212.434.9888. Visit CFR’s website,

Copyright © 2013 by the Council on Foreign Relations®, Inc.
All rights reserved.

This paper may not be reproduced in whole or in part, in any form beyond the reproduction permitted by
Sections 107 and 108 of the U.S. Copyright Law Act (17 U.S.C. Sections 107 and 108) and excerpts by re-
viewers for the public press, without express written permission from the Council on Foreign Relations.
Overview

Brazil's democratic transition, begun in 1979 by military rulers facing an economic crisis, proved gradual, reasonably peaceful, and steady. After the return of democracy came market-oriented reforms, inflation control, and innovative programs to assist the poor. Despite pitfalls and ongoing obstacles, the country has enjoyed an increasingly vigorous democracy, some growth, and widening opportunity.

During much of the twentieth century, Brazil alternated between quasi-representative government and authoritarianism. The country’s cornerstone economic policy, beginning in the 1930s, was import substitution industrialization (ISI). The government promoted domestic industries through state-owned enterprises, infrastructure investment, and incentives to favored private firms. A strong safety net, including health care and pensions, existed only for formal urban workers, who benefited from bargains driven by their unions.

For forty years this strategy delivered strong, if uneven, economic gains. Business groups, unions, and an emerging middle class supported the government’s economic policies and the rise of a technocratic ruling elite.

Despite its relative success in promoting manufacturing, ISI imposed a heavy fiscal burden. External debt soared from $5.3 billion in 1972 to $31 billion in 1978. Meanwhile, a combination of regressive taxation, inflationary fiscal and monetary policies, currency appreciation, and protectionism began to hurt Brazil’s poor and stymie its exports.

When worldwide interest rates rose following the global oil crisis of 1978–79, Brazil’s economy staggered under an external debt crisis, shrinking reserves, and spiraling inflation. Intended to boost exports, a 30 percent currency devaluation instead made a bad situation worse. Social mobilizations blossomed in the manufacturing heartland near Sao Paulo, and confidence in the military’s competence sank.

Under these circumstances, the military launched a gradual democratic transition in 1979. The generals expected a controlled process of increasingly open electoral competition, though they did not expect to lose power as soon as they ultimately did. They liberalized laws governing elections and parties in 1981 and instituted direct elections for major state and municipal offices to occur in 1982 and 1985.

Economic pressure continued to increase. After international financing suddenly ceased in 1982, Brazil’s only alternative to default was a loan from the International Monetary Fund (IMF). Restrictive policies mandated by the IMF plunged the country into stagflation, provoking social and economic turmoil and damaging the economic rationale for authoritarian rule.

In 1983 and 1984, continued discontent swelled into a tsunami of protest. This led the military to adopt a hands-off approach to the indirect 1985 presidential election. Opposition candidate Tancredo Neves won with the backing of many longtime regime supporters. However, he died shortly thereafter, never taking office. Ironically, this made Jose Sarney, the vice president and former leader of the pro-military party, Brazil’s first civilian president since 1964. Sarney opened the party system, called
a constitutional assembly, and liberalized trade-union controls. Once the military withdrew to the barracks, it never meddled in politics again.

The subsequent two decades saw the consolidation of Brazil’s democracy. Sarney’s successor, Fernando Collor, was impeached in 1992 over corruption allegations in a process largely free from irregularities. Finance Minister Fernando Henrique Cardoso implemented the Real Plan in 1993–94, which tamed Brazil’s persistent inflation, catapulting him to the presidency. Luiz Inacio Lula da Silva succeeded Cardoso in 2002, capping the two-decade transition to democracy.

Pathways to Freedom: Political and Economic Lessons From Democratic Transitions, a new book from the Council on Foreign Relations, explores Brazil’s progress and challenges in six areas of economic, political, and social development.

SOCIOECONOMIC EXCLUSION AND INCLUSION

Brazil’s social policies long benefited mainly the families of urban, unionized workers with formal contracts. The democratic constitution of 1988 changed this, universalizing access to health facilities and boosting spending on primary education and pensions. Beginning in 1995, Brazil’s government also adopted targeted social spending programs called conditional cash transfers (CCTs). These programs were expanded in 2001 and, in 2003, unified by President Lula under the brand Bolsa Familia, which grew to cover twelve million families.

POVERTY AND SOCIAL SPENDING IN BRAZIL

This mix of universal safety nets and targeted income distribution extended social protection to long-excluded Brazilians. Blacks felt perhaps the biggest impact. For decades, Brazil’s black population was largely denied education and political participation, given that illiterates could not vote. Today, 61 percent of Brazil’s poor are black, yet blacks make up less than 10 percent of the population.

Beyond targeted policies, pro-market reforms also boosted social inclusion. The move away from ISI benefited consumers, especially low-income ones, as trade liberalization reduced prices. Global competition also prompted Brazilian firms to move production into the lower-cost countryside, spreading employment to the rural poor.

**ECONOMIC STRUCTURE AND POLICIES**

ISI produced a hangover of inflation, debt, stifling regulations, and minimal funds for social inclusion. Early democratic governments tried repeatedly—and unsuccessfully—to fight inflation without reducing spending. After at least five rounds of wage and price controls, inflation resurged, reaching more than 2,000 percent in 1993.

Cardoso’s Real Plan differed from these previous attempts. Cardoso launched the program after the government had begun market-oriented reforms, piloting a two-stage currency replacement to overcome core inflation driven by wage and contract indexation. Moreover, Cardoso’s team insisted on government spending reductions first, subduing inflationary pressures before the de-indexation of contracts.

Lula, long a critic of the Real Plan and other market-oriented reforms, grudgingly accepted most of them once elected. He let the Central Bank set interest rates and sustain a floating exchange rate. He also kept fiscal balance as a central commitment. Meanwhile, Lula expanded targeted income distribution schemes, safety nets, and healthcare and education for the poor. Overall, Brazil’s post-1990 reforms fundamentally departed from the ISI model and stimulated strong growth, benefiting the poor as both workers and consumers. Nonetheless, structural obstacles to sustained growth and inclusion still abound.

**CIVIL SOCIETY AND MEDIA**

Both international and domestic organizations countered authoritarianism in Brazil. Amnesty International and the Vatican’s Pontifical Commission for Justice and Peace played early roles in denouncing torture. Foreign media broadcast news of political repression. Inside Brazil, the Catholic Church, Brazilian Bar Association, and Brazilian Press Association were important voices. The church and bar association were initially divided between backers and opponents of the military regime, but both gradually grew supportive of greater rights. The Movement of Landless Workers (MST) and the Uniao Nacional dos Estudantes (UNE)—Brazil’s primary association of college students—were active in left-wing politics.

Unions were also instrumental in Brazil’s transition, as was the Workers’ Party, created by a union faction in 1982. With President Lula’s election in 2002 at the party’s head, the movement’s leaders (as well as those of MST and UNE) ascended to senior positions, boosting their influence but weakening their independence from the state.
Finally, Brazilian media—allowed increasing freedom starting in the late 1970s—spread information about growing anger with the regime. Television networks criticized the military government less than did newspapers, but all media embraced the new liberties they received under civilian rule. However, Brazil’s transition increased the number of radio and television licenses granted by the government in exchange for political support. Many politicians now own stations, allowing them to manipulate coverage.

**LEGAL SYSTEM AND RULE OF LAW**

Despite Brazil’s robust transition, the rule of law remains inequitable, tilted in favor of privileged citizens and politicians. The current constitution, like previous ones, entitles college-educated Brazilians to special prison cells. A complex appeals court structure benefits those who can pay to manipulate formalities to their advantage. And those who can afford competent lawyers can avoid detention and influence judges’ decisions. Brazil’s prison system is 50 percent over capacity and home to violence and ill treatment. Moreover, the military police, which handles civilian law enforcement, practices torture and nonjudicial executions.

The 1988 constitution established an independent prosecutor’s office that has tried to fight Brazil’s enduring culture of impunity. Although these efforts are promising, critics have cited prosecutors’ apparent tendency to pursue crusades in tune with left-wing agendas. After Brazil’s Supreme Court reaffirmed in 2010 the validity of the 1979 Amnesty Law passed by Congress with the military government’s backing, the Inter-American Court of Human Rights ruled that the law should not prevent investigations into the dictatorship’s alleged violations. This subject remains unresolved.

**GOVERNMENT STRUCTURE AND DIVISION OF POWER**

Brazil’s federal system dates from 1889, but its previous legacy as a unitary country means that the union is powerful in relation to its twenty-six states. Most governors try to advance their state’s agenda by influencing national politics. In the last two decades, federalism has increasingly meant nationally designed policies that take states’ particularities into account. States normally accept federal conditions on their policies in exchange for more federal funds.

The Chamber of Deputies and state and local legislatures are elected through a proportional system that encourages the proliferation of parties. More than twenty are currently represented in Congress. No president, therefore, can govern without building a large coalition. This can encourage compromise and the gradual accommodation of ideological differences. However, it also hinders parties from honoring promises and governing consistently, sometimes producing stalemate and confrontation, as in the case of President Collor’s impeachment.

**EDUCATION AND DEMOGRAPHY**

Brazil’s 1988 constitution fixed minimum spending requirements for education: 18 percent of federal and municipal budgets and 25 percent for states. In the 1990s, over objections from the Congressional opposition and teachers’ unions, the Cardoso administration offered municipalities incentives to promote school attendance, set minimum teacher salaries (triggering raises in rural areas), and assess student and teacher performance, among other steps. This combination of constitutional and
policy reforms produced nearly universal primary enrollment by 1997, expanding human capital and opportunities for the poor.

**ILLITERACY AND EDUCATION SPENDING IN BRAZIL**

![Graph showing illiteracy and education spending in Brazil]


However, infrastructure and education quality remain challenging. In the countryside, 6 percent of schools still lack electricity, 12 percent lack clean water, and 40 percent lack adequate sanitation. Meanwhile, in international tests in 2010, Brazilian fifteen-year-olds ranked fifty-third of sixty-five countries in reading and fifty-seventh in math. On average, whites continue to attain more years of schooling than blacks, and illiteracy is almost three times higher in rural than in urban areas.

**CONCLUSION**

Brazil’s political transition occurred in tandem with crucial economic reforms. To tackle the economic crisis left behind by the military, Brazil needed to balance its budget and pursue market-oriented policies as well as aggressively expand social inclusion. At times, it seemed nearly impossible to advance reforms that were both effective and politically feasible. But Brazilians persevered, forging a largely successful strategy of growth with equity.
Timeline

1930: Vargas Gains Power, Pursues Industrialization
On October 24, a coalition of civilian leaders and military officers overthrows the government and Getulio Dornelles Vargas takes power. He rules as a dictator until 1945 and again as an elected president from 1951 to 1954. Beginning under Vargas in the 1930s, Brazil makes ISI its cornerstone economic policy. For forty years, this strategy delivers strong, if uneven, economic growth.

1964: Military Dictatorship Begins
After a democratic interlude (1945–64), Brazil's military mounts another coup d'état on March 31. The economy continues its strong performance for the first decade of military rule, but only through a reliance on large coffee-export revenues, a growing internal market, lax monetary and fiscal policies, and rising external debt. Indeed, the ISI strategy imposes a heavy fiscal burden, and financial insolvency becomes almost inevitable.

1978: Global Oil Crisis Rocks Brazil
A severe external debt crisis, triggered by the global oil shock of 1978–79, serves as the immediate cause for Brazil's democratic opening. After an explosion of external debt in previous years, declining economic performance sparks waves of political and social mobilizations and triggers macroeconomic stabilization policies to satisfy international creditors. The image of the military's competence is damaged. Social unrest blossoms in the nation's manufacturing heartland near Sao Paulo.

1979: Military Begins Transition to Democracy
Faced with an ongoing economic crisis, the military begins Brazil's democratic transition in 1979 as a gradual process of liberalization. In anticipation of some type of transition, military leaders prevail on Congress to pass the 1979 Amnesty Law, which grants a full pardon for all actions committed on duty by the military, as well as by civilian guerrillas. The military liberalizes laws governing elections and parties in 1981 and institutes direct elections for various state and local offices to occur in 1982 and 1985. The opposition party wins a surprisingly big victory in the 1982 elections.

1982: Debt Crisis Forces IMF Loan
The military government comes under further pressure in the second half of 1982 when faced with a sudden halt in international financing. Brazil's only alternative to default is a loan from the International Monetary Fund. The loan is conditioned on the adoption of an orthodox stabilization program, including currency devaluation, high interest rates, and fiscal consolidation. However, the devaluation increases energy and food prices, resulting in painful stagflation that throws economic production into disarray, provokes social turmoil, and further undermines support for the military. The devaluation, along with tight import
restraints and generous export subsidies, leads to large trade surpluses between 1984 and 1986, but this allows for the delay of deeper, long-term structural adjustments. Inflation picks up.

1985: Opposition Leader Neves Wins Presidential Election
Opposition candidate Tancredo Neves wins a surprising victory in the presidential election of January 15 after longtime supporters of the authoritarian government abandon the regime party and support him. However, Neves falls ill before his inauguration and dies in April. Ironically, this makes Jose Sarney, the vice president and former leader of the pro-military party, Brazil's first civilian president since 1964. Sarney immediately opens the party system, calls an assembly to write a new constitution, and liberalizes controls over trade unions. He also inaugurates a long list of stabilization programs, which are implemented between 1986 and 1991. After initially dropping, inflation tends to resurge each time.

1988: Brazil Adopts New Constitution
Brazil adopts a new democratic constitution on October 5. It universalizes access to hospitals and health facilities and imposes minimum spending requirements for primary education. Along with new federal policies and expenditures, this paves the way for steep improvements in human capital and economic opportunities for the poor and disadvantaged—particularly for blacks and residents of neglected rural areas. By 1997, 98 percent of children aged five to fourteen are enrolled in school.

1992: Collor Impeached
Brazil's House of Representatives overwhelmingly decides on September 29 that the Senate should start formal impeachment proceedings against President Fernando Collor. He is suspended from the presidency and never returns. Collor's downfall results from a combination of corruption allegations and fragile support in Congress. His impeachment and the subsequent peaceful instatement of Vice President Itamar Franco signal the consolidation of Brazil's new democracy. Collor leaves office with a mixed legacy. Despite his failed attempts at price stabilization, his structural reforms help pave the way for the success of the Real Plan.

1993–94: Cardoso Launches Real Plan
Fernando Henrique Cardoso, appointed finance minister in 1993, implements a macroeconomic stabilization program known as the Real Plan. It includes a two-step process resulting in the launch of a new currency, the real, on July 1, 1994. Benefiting heavily from the market-oriented reforms implemented by Collor and Franco, the Real Plan succeeds in taming inflation, which had reached more than 2,000 percent in 1993. This success catapults Cardoso to the presidency in October 1994.

1995: Brazil Begins Social Spending for the Poor
Starting in 1995, Brazil's maturing democratic government adopts a series of targeted social spending policies called conditional cash transfers (CCTs). CCTs are used to encourage school enrollment, bolster health, discourage child labor, and advance other goals. In 2003, several CCT programs are unified under the brand Bolsa Familia (family stipend), which ex-
pands until it reaches 12 million families. Along with universal safety nets written into the 1988 constitution and gradually implemented thereafter, these targeted income distribution schemes extend social protection to rural and nonunionized workers, who had long been excluded.

**2002: Lula Elected President**

Luiz Inacio Lula da Silva is elected to lead Brazil on October 27 in his fourth attempt at the presidency. His inauguration on January 1, 2003, deepens Brazil’s new strategy to promote sustained and inclusive growth. Previously a fierce critic of market-oriented reforms, Lula grudgingly accepts most of them once elected. At the same time, he works to expand targeted income distribution schemes, universalize social safety nets, and improve health and education for the poor. Lula oversees the robust expansion of Brazil’s economy but does not match his predecessors’ reformist zeal. GDP exceeds $1 trillion in 2006 for the first time ever, on its way to more than $2 trillion by 2010. Despite these gains, structural obstacles to sustained economic growth and social inclusion abound.

**2010: Rousseff Elected to Succeed Lula**

Dilma Rousseff, a former energy minister and chief of staff to President Lula, is elected Brazil’s first female president on October 31. Her victory is seen as a vote for continuity by Brazilians satisfied with socioeconomic gains under Lula. Before entering politics, Rousseff had been involved in a Communist guerrilla movement opposed to Brazil’s military regime, and she was arrested in 1970 and subjected to torture. In the first years of her term, she is surprised by a series of corruption scandals involving several ministers from the cabinet she inherited from Lula. In sharp contrast to her former boss, she fires all of those accused of improprieties. In an attempt to avoid market-oriented reforms, she also pursues a traditional state-led approach to economic stimulus to boost slowing growth in 2011–2012. These efforts bear meager results, leading Rousseff to sell concessions for private firms to modernize and manage important infrastructure.
Further Reading

A firsthand account and analysis of the transformations put in place during Cardoso’s two administrations, as well as his unsuccessful attempts to reform the country’s institutions more deeply.

A book describing Brazil’s historical path since the arrival of the first Portuguese settlers in the sixteenth century.

A book that interprets Brazil’s economic and political rise as a global player as the result of deliberate choices made by Presidents Cardoso and Lula.

A book that dissects the way traditional Brazilian elites, particularly in the critical state of Minas Gerais, accommodated themselves to the rise of the military.

A book that explains the path toward moderation of the once-radical Brazilian Workers’ Party.

A collection of essays examining the final stages of Brazil’s transition to democracy, from the inauguration of President Sarney in 1985 to the end of President Cardoso’s first term in 1998.

A collection of essays that explore the mixed record of democratic consolidation during the first term of President Lula.

A collection of essays on the policymaking process and major policy choices of Lula’s first administration, as well as its initial results.

A book offering a journalistic account of Brazil’s history and present state by a former *New York Times* correspondent.


A book that makes an anthropological excursion into the poverty, deprivation, and violence of northeastern Brazil’s shantytowns before the adoption of innovative social policies in the mid-1990s.


A book that scrutinizes the way Brazilian intellectuals and state officials dealt with the question of race, from the abolition of slavery until the 1920s.


A book analyzing Brazilian politics from the ascension of Getúlio Vargas as a dictator in 1930 to the 1964 military coup.


A book that examines the trajectory of Brazil’s military regime, including the evolution of its economic and political policies and institutions.


An edited volume that explores the causes and early dynamics of the military regime that took power in 1964.


A book analyzing Brazil’s failed attempts to reform important social institutions in order to create a more inclusive society.