

Number 227

**THE CARDOSO ADMINISTRATION AT MIDTERM**

**Rapporteur's Report from the Conference at  
the Woodrow Wilson International Center for Scholars  
February 25, 1997**

Latin American Program  
Woodrow Wilson International Center for Scholars

Copyright June 1997

This publication is one of a series of Working Papers of the Latin American Program of the Woodrow Wilson International Center for Scholars. The series includes papers in the humanities and social sciences from Program fellows, guest scholars, workshops, colloquia, and conferences. The series aims to extend the Program's discussions to a wider community throughout the Americas, to help authors obtain timely criticism of work in progress, and to provide, directly or indirectly, scholarly and intellectual context for contemporary policy concerns.

Single copies of Working Papers may be obtained without charge by writing to:

Latin American Program Working Papers  
The Woodrow Wilson Center  
1000 Jefferson Drive, S.W.  
Washington, D.C. 20560

The Woodrow Wilson International Center for Scholars was created by Congress in 1968 as a "living institution expressing the ideals and concerns of Woodrow Wilson, symbolizing and strengthening the fruitful relations between the world of learning and the world of public affairs." The Center's Latin American Program was established in 1977.

#### LATIN AMERICAN PROGRAM STAFF

Joseph S. Tulchin, Director  
Cynthia Arnson, Senior Program Associate  
Allison M. Garland, Program Associate  
Ralph H. Espach, Research Assistant  
Michelle Granson, Program Assistant  
Audrey Donaldson, Program Aide

# THE CARDOSO ADMINISTRATION AT MIDTERM

## Rapporteur's Report from the Conference at the Woodrow Wilson International Center for Scholars, February 25, 1997

### TABLE OF CONTENTS

	<b>Acknowledgments</b>	<b>5</b>
<b>I.</b>	<b>Introduction</b>	<b>6</b>
<b>II.</b>	<b>Executive Summary</b>	<b>9</b>
<b>III.</b>	<b>Panel One: Economic Policies and Performance: Stabilization and Growth</b>	
	Presentations:	
	Marcelo de Paiva Abreu, <i>Pontifícia Universidade Católica, Rio de Janeiro</i>	13
	Albert Fishlow, <i>Council on Foreign Relations</i>	18
	Moderator: Leslie Bethell, <i>Oxford University</i> and the <i>Woodrow Wilson International Center for Scholars</i>	
	Discussion	22
<b>IV.</b>	<b>Panel Two: Addressing the Social Issues: Poverty, Health, and Education</b>	
	Presentations:	
	Simón Schwartzman, <i>Fundação Instituto Brasileiro de Geografia e Estatística</i>	25
	Claudio de Moura Castro, <i>Inter-American Development Bank</i>	29
	Moderator: Joan Dassin, <i>Inter-American Dialogue</i>	
	Discussion	34

<b>V.</b>	<b>Panel Three: Political Reform and the Consolidation of Democracy</b>	
	Presentations:	
	Bolívar Lamounier, <i>Instituto de Estudos Econômicos, Sociais e Políticos</i>	36
	Thomas Skidmore, <i>Brown University</i>	39
	Moderator: Leslie Bethell, <i>Oxford University</i> and the <i>Woodrow Wilson International Center for Scholars</i>	
	Discussion	43
<b>VI.</b>	<b>Panel Four: Brazil’s Emerging Regional and Global Role</b>	
	Presentations:	
	Monica Hirst, <i>Fundación Centro dos Estudos Brasileiros</i>	45
	Riordan Roett, <i>The Paul H. Nitze School of Advanced International Studies, The Johns Hopkins University</i>	50
	Moderator: Leslie Bethell, <i>Oxford University</i> and the <i>Woodrow Wilson International Center for Scholars</i>	
	Discussion	54
<b>VII.</b>	<b>List of Participants</b>	56

## ACKNOWLEDGEMENTS

This report was prepared by Jane Marcus-Delgado, doctoral candidate in Latin American Studies at the Paul H. Nitze School of Advanced International Studies, The John Hopkins University, and Ralph Espach, Research Assistant at the Latin American Program of the Woodrow Wilson International Center for Scholars. It summarizes the presentations and discussion from an all-day conference held at the Wilson Center on February 25, 1997. The event was organized by Joseph S. Tulchin, Director of the Latin American Program, Ralph Espach, and Leslie Bethell, Senior Fellow at St. Antony's College, Oxford University, and at that time a Guest Scholar at the Wilson Center. The event was part of the ongoing program "Brazil at the Wilson Center," a project that seeks to illuminate the complex challenges and increasing opportunities facing the country in the late 1990s and beyond. Michelle Granson, Latin American Program Assistant, Audrey Donaldson, Program Aide, and Interns Jacquie Lynch, Britta Hillstrom and Heather Quinter provided valuable assistance and support.

The Latin American Program wishes to express its gratitude to the São Paulo Stock Exchange (BOVESPA), and to the Brazilian Foreign Ministry, in particular to Ambassador Paulo Tarso Flecha de Lima, for their generous support of the conference. We also wish to thank the Inter-American Dialogue and the Council on Foreign Relations for co-sponsoring the event and working to ensure the overall success of the meeting.

Finally, we owe a debt to all the conference participants, whose openness and seriousness of purpose made for a frank and enriching exchange.

In preparing this report, every effort was made to remain true to the text of the transcribed presentations. Explanatory footnotes were added to explain or identify particular events or items mentioned by the panelists. Despite our best efforts, difficulties involving transcription and the summarizing of complex arguments leave ample room for inadvertent error. The Latin American Program regrets and is solely responsible for any errors of fact or interpretation that may be contained in this document.

## INTRODUCTION

Democracy reemerged in Brazil in 1985, after two decades of authoritarian rule by the military. In the twelve years since then Brazil has seen its share of challenges, including a presidential impeachment, a controversial new constitution, and its worst economic crisis of the century. Despite this turbulence--and partly because of it--the mood in the country has become somewhat optimistic. The current administration, under President Fernando Henrique Cardoso, has stabilized the economy and is pushing for changes in the constitution that will enable him to address the country's fiscal, political, and social concerns in a more focused manner. Brazil is also enlarging its presence as a regional and global actor, through the expansion of Mercosul, and increasing bilateral exchanges with countries around the globe. After two years in office, President Cardoso enjoys wide popular support.

This optimism, however, may be unwarranted. Recent polls show that Brazilians continue to have ambivalent feelings toward democracy in general and to view the political system with cynicism. A legacy of patrimonialism infects Brazilian government at all levels, and entrenched interests stubbornly resist efforts at reform. The powers of the states, as well as an extremely fragmented congress, appear to tie the hands of the Cardoso administration and to limit the responsiveness of the federal government. Crime levels have risen in recent years, unemployment runs high, and economic growth still lags behind what it was under the dictatorship. Wide economic disparities and persistent problems in meeting education and health care goals continue to frustrate national development and to limit Brazil's long-term prospects for growth.

The interrelationship among these divergent forces--those of Brazil's impressive emergence as an economic and political power internationally and the pressures from within for meaningful social and political reform--define the country's current situation. At the close of the

20th century, Brazil has an unprecedented opportunity to become one of the world's principal powers, but it faces significant challenges at home. President Cardoso has shown he has the ambition to lead Brazil into a new era, but has he been successful so far in accomplishing his agenda for reform? What are the particular challenges facing his administration, both domestically and abroad? And, what are the long-term implications of Brazil's current path under Cardoso?

To answer these questions, the Latin American Program at the Woodrow Wilson International Center for Scholars joined with the Inter-American Dialogue and the Council on Foreign Relations to hold a conference on February 25, 1997, to examine Brazil's situation at the midpoint of Cardoso's four-year administration. The timeliness of the meeting was punctuated by the passage, two days before, of a constitutional reform allowing Cardoso to run for a second term, so that the 1994-98 term appears likely to be the first of two. This development magnifies the importance of Cardoso's current agenda, as it is likely to represent Brazilian national policy into the next century. The conference at the Wilson Center convened ten renowned experts on Brazil to discuss and analyze the record and agenda of the Cardoso administration thus far. The conference consisted of four panels, each covering a particular aspect of the Brazilian equation: economic policies, social issues, political reform and democratic consolidation, and Brazil's international relations and global role. The experts' assessments were mixed: optimism tinged with reservations. Economically, although the success of the Real Plan in stabilizing the country's macro-economy is undeniable, formidable challenges lie ahead in certain areas, including employment, poverty, future privatization, and other adjustments. Politically, President Cardoso remains popular, but he is likely to face increasing constraints as he attempts to institute governmental reforms and to consolidate the nation's democracy.

The administration also received a mixed report card on its efforts to address social issues. While impressive advances have been made in primary school reform, other areas of the

education sector remain ineffective and inadequate. Poverty levels remain extremely high in parts of the country, and income inequality ranks among the worst in the world. The health care sector is inefficient and expensive, and little progress has been made in improving Brazil's universal health system.

Finally, Brazil's leading role in Mercosul has thrust it into the foreground of the regional and global economic stage. Relations within the Southern Cone and throughout Latin America are reaching an unprecedented level of integration and cooperation. Ties to Europe and Asia have also been strengthened, and President Cardoso has taken on a highly visible role as the ambassador of his nation's foreign policy. Progress in U.S.-Brazilian relations, however, remains elusive, as the two administrations pursue separate and seemingly incompatible agendas in their roles as the hemisphere's two largest powers.

This report summarizes the thoughtful and wide-ranging assessment of the Cardoso administration at midterm provided by the Brazilian and U.S. presenters and discussants. It is our sincere hope that the proceedings will both shed light and provoke further dialogue on contemporary Brazil and on its emerging role as a hemispheric and global leader.

## EXECUTIVE SUMMARY

Economists, historians, and political scientists gathered at the Woodrow Wilson Center on February 25 for a conference on the "Cardoso Administration at Midterm." The objective of the meeting was to analyze Brazil's current political and economic situation, discuss its accomplishments, and outline the challenges that lie ahead.

**Leslie Bethell** of Oxford University and the Woodrow Wilson Center opened the conference by outlining the day's four panels covering areas of the economy, social issues, political reform and democratic consolidation, and Brazil's role in the hemisphere and the world. He then introduced the first panelists, **Marcelo de Paiva Abreu** and **Albert Fishlow**, who discussed current economic policies and performance.

**Marcelo de Paiva Abreu**, Director of the Economics Department at the Pontificia Universidade Católica in Rio de Janeiro, pointed to the government's economic plan, which has stabilized the Real for the past thirty months, as the greatest accomplishment of the Cardoso administration to date. However, he cautioned that the country still faces difficult obstacles, such as excessive state expenditures, income inequality, and maintaining the trade balance. Economist **Albert Fishlow** of the Council on Foreign Relations echoed Dr. Abreu's enthusiasm for the Real Plan while emphasizing the pressing need for increases in domestic savings and public sector reform. Privatization, the elimination of excess employment, social security reform, more efficiency in the educational sector, and greater decentralization of government activities are all necessary adjustments for redefining the Brazilian state.

**Joan Dassin**, Vice President of the Inter-American Dialogue, introduced the session on social policy. She stressed the significant effects issues of social development and poverty have on Brazil's foreign and domestic agendas. The panel's first presenter was **Simón Schwartzman**,

President of the Fundação Instituto Brasileiro de Geografia e Estatística. Dr. Schwartzman examined the complexity of Brazil's social problems by comparing rural to urban populations, geographical and regional disparities in the North and South, and distortions in the government's highly centralized federal social service programs. He identified political, budgetary, historical, and structural barriers to improving the provision of services. The improvement of social welfare and the reduction of inequality are now regarded as crucial steps in Brazil's long-term economic development. The key question, however, remains how to improve social programs, in particular how to improve their effectiveness, within a context of cost reduction and government downsizing.

**Claudio de Moura Castro**, Chief of the Social Programs Division at the Inter-American Development Bank, compared policies within two sectors--health and education--to stress the importance of decentralization and consensus-building needed for creating efficacious social policies. While there has been a paradigm shift in education, led by local-level innovations and radical changes in the primary school system, no such reform has taken place in the health care system. Dr. Castro identified structural problems and mismanagement within the health system as factors that distort pricing and incentives. He also examined prospects for reform, which will require leadership and creativity on the part of both the administration and congress. Policies must be coordinated at the federal, state, and municipal levels, and Dr. Castro pointed to Education Secretary Paulo Renato Souza's success in this process. In the discussion following the panel, as well as in both presentations, it was clear that finding additional funds for the reform or expansion of social services will be very difficult; however, the major weaknesses in Brazil's social policies are related less to a lack of funds than to structural flaws in the system and mismanagement. Remedy for these will require resources that seem more scarce than money: innovative solutions, a broad congressional consensus, and firm political will.

The third panel addressed political reform and the consolidation of democracy. **Bolívar Lamounier** of the Instituto de Estudos Econômicos, Sociais, e Políticos (IDESP) examined the debate and progress on political reforms over the past few decades. He noted the way in which the design of the constitution and the existing institutional structures, coupled with Brazilians' relatively low support for democracy, inhibit the potential for necessary political reforms. Dr. Lamounier examined the options open for political reconfiguration, a process that has been painfully difficult for Brazil despite repeated attempts, and argued that democratic consolidation should ultimately be based on a more disciplined and stable political party system.

**Thomas Skidmore**, Director of the Center for Latin American Studies at Brown University, focused his presentation on the need to build democracy beyond the personal qualities and aims of President Cardoso. While recognizing the president's impressive credentials and accomplishments, he contended that the administration has only "postponed the pain" of profound political and economic reforms that will eventually be necessary for the future development of Brazil. The discussion following the panel centered on the options available for political reform and on the absence of any mention of the parties of the Left from the speakers' presentations.

Finally, **Monica Hirst** of the Fundación Centro dos Estudos Brasileiros in Buenos Aires and **Riordan Roett** of the Paul H. Nitze School of Advanced International Studies, Johns Hopkins University, concluded the day's program with an assessment of Brazil's contemporary international relations. Both panelists emphasized the importance of Mercosul as the cornerstone of the country's foreign policy. Monica Hirst described both the consistencies and novelties in Brazil's expanding foreign policy under Cardoso. In addition to deepening regional ties, based on the structure of Mercosul, Brazil is increasing its relations with Asia, Africa, and especially Europe, which aims to negotiate soon a trade accord with Mercosul. Dra. Hirst reiterated Dr. Skidmore's assertion that Fernando Henrique Cardoso's personal activity and vision are the key

elements in the current success of Brazil's foreign and domestic agendas, and she suggested this increased presidential activity may have long-term effects on the design of the country's foreign policy.

**Riordan Roett** stressed that although Brazil has made progress in its standing as a global actor, these advances may prove ephemeral if economic stability is not maintained. He noted challenges ahead for relations between the United States and Brazil, chiefly due to the U.S. government's downplaying of the significance of Mercosul while championing its own agenda for hemispheric integration. This disparity of interests is likely to lead to further tensions and will require deft diplomacy on both sides. Dr. Roett criticized the Clinton administration for its lack of coherent policy on Brazil, and called upon Brazil to strengthen its world position through sound economic reforms and greater linkage between foreign and domestic policymaking. Discussion following the panel emphasized the perception that U.S.-Brazilian relations had deteriorated under the Clinton administration, despite the noted mutual fondness of the two presidents. The prospects for a Brazilian-led Mercosul as a challenger to U.S. interests and to NAFTA were debated, with emphasis on the possibilities for extraregional ties to Asia and Europe.

## **THE CARDOSO ADMINISTRATION AT MIDTERM**

### **PANEL ONE: ECONOMIC POLICIES AND PERFORMANCE: STABILIZATION AND GROWTH**

MARCELO DE PAIVA ABREU

It is difficult to separate the first two years of the current administration from the period just prior to the inauguration, because President Cardoso had such a great influence in the Itamar Franco government and was crucial to the implementation of the Real Plan. However, the main point of today's presentation is that it is impossible to exaggerate the major achievement of this three-year period: the stabilization of the Brazilian currency by means of the Real Plan.

People, and especially politicians, tend to forget that, prior to the implementation of this economic plan, monthly inflation in Brazil was running at an average of 40 percent. The difference between the Real Plan and past economic programs is that price stabilization in previous plans lasted only two to three months; Brazil has now had an average of less than one percent inflation per month for the past thirty months. While there is clearly a need to pursue the consolidation that has begun, this relatively long period of price stability has been achieved with decent overall growth, with GDP rising by 4.1 percent in 1995 and by over 3 percent (estimated) in 1996. It is important to note that these current rates of expansion are accompanied by population growth of about 1.5 percent, about half the rate of increase in the past, so comparisons with previous periods of growth must be adjusted accordingly. In all, the growth performance was quite good, especially considering the economic stagnation that had plagued Brazil since 1980.

There are new developments in Brazil's balance of payments, most importantly a reversal of the long-standing positive trade balance. It had reached approximately \$15 billion in the early

1990s and is now negative \$5 billion. There are also corresponding changes in the capital account. Investments increased from \$500 million in 1992 to \$16 billion in 1996, of which \$9 billion is direct investment. The nation's reserves, which had already increased prior to the Real Plan, rose from \$20 billion in 1992 to \$60 billion in 1996. The economy weathered the 1994 Mexican economic crisis fairly well, in spite of some loss in reserves. Adjustments that had to be made included the tightening of monetary policy and some changes in commercial policy.

Important congressional reforms were passed during the first two years of the administration. Perhaps the most significant were amendments to the "economic order" chapter of the constitution, which allow privatization of a wide range of sectors and broadened competition. It has been charged that the government did not take advantage of its relatively comfortable political position in the first half of 1995 when it had the opportunity to pass a wide range of reforms. Since that period, the administration has increasingly faced difficult political obstacles to reforms, especially those affecting social security and benefits to civil servants. This has led to postponing consideration of such reforms.

The administration's record on cutting expenses has not been very good. There has been a lack of clear policy in some major decisions, such as the case of Banespa<sup>1</sup>--whether it should remain with the state of São Paulo, whether it should be privatized, and so forth--and a lot of resources were spent while these questions were being pondered. There was also an unexpected and significant increase in civil servants' wages in 1995, and the government has now been forced to take a more conservative stance toward such expenditures. Policies concerning transfers or debt rescheduling that affected states' and municipalities' finances were very lax.

---

<sup>1</sup> Banespa, the Banco do Estado de São Paulo, is São Paulo's development bank. It was returned from Central Bank to state control in 1996.

Privatization has proceeded well, although the current wave has involved a much more complex set of factors than prior undertakings. Some complications arose because the sales involved public service companies, which required the resolution of additional difficult legal problems. This notwithstanding, electrical distribution networks have been privatized, as has been the whole railway network. In fact, total privatization proceeds from the first two years under Cardoso were comparable to the revenue raised during Itamar Franco's entire term of office.

### **Current Economic Challenges**

The main difficulty that Brazil currently faces is how to maintain the trade balance without causing an upheaval in the exchange rate policy that would jeopardize the stabilization program. There is a well-known argument that it does not make sense to consider the exchange rate as a standard or index price, since so much has been changed in structural terms concerning the balance of payments. Now that there is a return to normalcy in the capital account, it would not be reasonable simply to consider the exchange rate level of the early 1990s as an indication of the equilibrium level for the exchange rate. On the other hand, it is difficult to accept that it is possible to sustain such a position with a balance-of-trade deficit equivalent to around 3 percent of GDP, given the lack of progress in government fiscal reforms. In fact, the level is actually higher: 3 percent for the trade deficit and approximately 3 percent for the fiscal deficit.

Regarding imports and exports, 1996 data show that the former have increased by 6.9 percent, while the latter have risen by only 2.7 percent. The disappointing export performance is partly explained by the fact that semimanufactured exports decreased by almost 9 percent, mainly due to the effects of price increases in such products as aluminum and wood pulp. On the import side, the data can be explained by the recovery in the level of economic activity.

There is not much to report in the sluggish behavior of the export sector. Brazil has traditionally specialized in selling to markets characterized by low growth rates. The attempt to tie the exchange rate policy to the behavior of exports has not been very successful. Studies by the Foundation Center of Foreign Trade suggest that there is no marked causal link between sectoral behavior of the Real, the exchange rate, and exports. For Brazil, it is a question of having a supply constraint, and this is linked with the behavior of the domestic market.

### **Prospects for Brazil's Future**

Three prospects for the future can be cited: First, Brazil has a comfortable level of foreign reserves. This allows it to wait for a clearer picture of the long-term effects of stabilization and trade liberalization on the balance of trade. Future corrections could include different combinations of policies, including a slow devaluation of the Real. Contrary to current thinking, Brazil has enough flexibility in its exchange rate policy. Second, there will be a modest reversal of its expansionist policy, which will be important for controlling import levels. Third, there will be a determined effort to increase exports, including serious attempts to reduce obstacles to Brazilian exports. Corrections *not* to be considered would be further protectionist regimes like those for automobiles or "exotic" safeguards, such as those for certain toys and textiles. It will be important to sustain Brazil's economic liberalization program; further liberalization will--among other benefits--continue to improve the nation's efficiency, credibility, and price discipline. However, the persistence of protectionist sentiments should not be underestimated. Brazil has traditionally been a very inward-looking economy, and there is still a vague idea that going abroad to buy goods is somehow "sinful."

It is essential that the government concentrate on its efforts to improve fiscal performance. Data on public sector borrowing requirements indicate a marked deterioration in this area between December 1994 and December 1995, and only a modest improvement between

December 1995 and December 1996. Funds made available when interest payments have been lower have been eaten up by other expenditures. The total deficit is just under 4 percent, and while Brazil's debt-to-GDP ratio is not very high, it will need to be careful about such indicators.

One of the principal difficulties to be faced concerns electoral developments and the timing of expenditures. The government is bound to spend more if it wants to win elections, but after Cardoso is granted permission to run for reelection, he will be in a position to propose more conservative policies. One issue that will surely arise is what to do with the \$6 billion that will result from the sale of Vale do Rio Doce.<sup>2</sup> While there was hope that the profit would be used to reduce debt, the new logic is that since the states will be hurt by this privatization, they need to be compensated. A deal is being negotiated for 50 percent of the proceeds to go to a fund in the National Development Plan to finance projects, the selection of which would be coordinated with state governors. Another difficulty will be how to cut expenditures on civil servants' wages. The Supreme Court may grant them a 30 percent increase, which would surely be seen as a menace to the nation's international credibility.

The bottom line is that sustained price stabilization has been a tremendous success in the first years of the Cardoso administration, but Brazil still faces many obstacles before it can enter a stable pattern in the direction of sustainable growth.

---

<sup>2</sup> The Companhia de Rio Doce (CVRD) is a mining and transport conglomerate that is slated to be privatized this year. The congress is reluctant to proceed with the privatization, and it is becoming a test of Cardoso's leadership. --Ed.

## ALBERT FISHLOW

It is important to remember that Brazil is one of the last of the region's countries to stabilize--its reforms followed those of Mexico, Argentina, Chile, and Peru. To some degree, its lack of growth during the 1980s can be explained by the kinds of economic policies demanded by the crises of that period.

We have seen a cyclical pattern in Brazil, in which periods of expansion were followed by times of restraint. Restrictive government policies caused declines in income and all kinds of difficulties until some degree of stabilization was achieved, followed again by a wave of expansion. The process was one of virtually ten years of inability--after the *Cruzado* Plan--to achieve what Brazil had been one of the earliest countries in the region to attempt.

This presentation will focus on the broader question of the future, and the extent to which the redefinition of the state is possible under present circumstances in Brazil. That will determine the extent to which the program can be maintained in the face of pressures that may lead to its reversal, as we saw in the case of Mexico in 1994.

Brazil today has reserves of approximately \$60 billion, a huge national expense. For such resources it is paying more than it is able to earn, so there is a hidden cost of around \$5 billion associated with sustaining a balance of this magnitude. The high reserves are maintained to convince external investors that Brazil is following a stable policy.

Nonetheless, the Real Plan differs in two fundamental respects from earlier programs. First, it recognizes the importance of imports. An early part of its emphasis was the reliance upon a much greater level of imports to provide competition and to limit the extent to which domestic prices would rise. The second important difference was the lack of dependence upon

internal price and wage controls at the beginning of the plan, which were then removed at a later stage. This signaled to the private sector the opportunity to raise prices and wages. In both respects, there had been a learning process and the adoption of a clear anchor on the exchange rate, which provided the essential stability that was required.

Two and a half years later, the prospects for Brazil appear quite positive in all respects, except in terms of the fundamental issue of domestic savings. There has been a lack of attention given to Brazil's need to achieve much greater levels of domestic investment, which will be necessary to sustain the high rates of growth that have been possible since the plan's inception. This lack of focus on savings is due in part to the degree of excess capacity that has existed in Brazil. The utilization of that excess capacity has made possible the expansion of production, but sooner or later shortages and needs for technological change and expansion must be confronted. This is one of the reasons why there must be an upgrade in foreign investment. Less important than the actual dollar value of foreign investment is the undertaking of investment that would have relatively higher productivity and open the market to continuing possibilities for exports in the future.

### **Domestic Savings and the Redefinition of the State**

An important factor in the prospects for increased domestic savings will be the use of the government sector as a source of savings. This means sustaining levels of government revenue while cutting back on expenditures. Cutting state spending would provide the opportunity for public sector savings to occur in significant magnitude. In Brazil there is currently a domestic savings rate of approximately 18 percent. To achieve a growth rate of 5 to 6 percent, it will need a savings rate close to 25 percent; Brazil has a long way to go in this respect. It is absolutely critical for the public sector to show its leadership, and this will require a redefinition of the state.

Privatization, the elimination of excess employment, social security reform, and greater decentralization of public sector activities are all necessary for limiting expenditures. This is done not to reduce the level of taxation, but to provide a margin for the expansion that the government will inevitably have to undertake.

In Brazil, as in other economies in the region, there is an absence of a state-led direction in the process of internal savings. There is a tendency, instead, to increase consumption with a consequent reduction in savings; this was very clear in the cases of Mexico and Argentina, for example. Chile is the one exception to this regional phenomenon, having greatly expanded domestic savings through a combination of an immense increase in public sector and small enterprise savings.

It is not too early in the Cardoso administration, then, to stress the importance of domestic savings and state redefinition. Rather than playing its traditional role as investor while leaving savings to the private sector, the state needs to do the opposite: increase public sector savings.

## **Education**

Education is a crucially important area for public sector expenditure. Brazil's education system shows high rates of repetition and extraordinary inefficiencies. The East Asian experience has demonstrated that it is possible to create an educational system that functions fairly effectively and efficiently; it has also shown that such a system is costly.

One of the promising signals emerging from the Cardoso administration has been progress in education. It would be unfortunate if expenditures in areas that have long-term benefits, such as education, are cut as a result of the pressure to reduce internal deficits. One of

the major challenges facing Brazil is an attempt to come to grips with its national system of free education at the university level, which involves an enormous expenditure of state resources. Although the Brazilian universities have never had the political will to charge students tuition or fees, doing so would create the revenues necessary for improving the higher education system.

### **Income Inequality**

Brazilian income distribution ranks as the worst in the world (South Africa is the only country with which it competes for this distinction). All of the data suggest Gini coefficients<sup>3</sup> above 0.60, and there has not been any tangible gain in this area. On the other hand, the lowest income groups have benefited significantly from the Real Plan's success at cutting inflation. These groups were dependent upon currency, the value of which deteriorated on a day-to-day basis, largely because they did not have access to interest-bearing bank accounts or the various other mechanisms available to wealthier groups.

While it is true that the Real Plan has improved the economic situation of the bottom group, improvement must go further and with more consistency. Income distribution will continue to worsen and to show pernicious effects within the society as long as it is not confronted in a direct and palpable fashion. It will manifest indirectly, as pressure for wage increases, special government expenditures, subsidies, and so on. One of the ways to deal with income distribution is through education. Another, already underway in Brazil, is through land reform. Also, the government must try to assure that there is continuous access to a liberal trade policy, which will be particularly important for the Northeast, where the relatively lower wages can become a target for foreign investment willing to take advantage of Brazil's labor market.

---

<sup>3</sup> The Gini coefficient is a common index of social inequality. The index measurement ranges between 0 (no inequality) and 1 (extreme inequality).

## **External Policies**

Brazil has maintained its stabilization policy and movement toward free trade quite independently. The United States has not been a factor in the implementation or maintenance of the plan. But the question of U.S.-Brazilian relations becomes increasingly important in light of discussions about the Free Trade Area of the Americas (FTAA), since it is contingent upon successful relations between the two. This path is becoming more troublesome, as the United States perceives Brazil's derelictions, including its apparent lack of willingness to go along with the FTAA agenda. Brazil is trying to expand Mercosul by adding Bolivia and Chile, and Venezuela may soon follow. In effect, it is creating a strong free trade area of South America, which makes NAFTA-led FTAA discussions all the more difficult.

President Clinton will visit Brazil this Spring, but he is not going with any specific policy; he will really only be there to see what is going on.<sup>4</sup> The truth is that the FTAA will be decided over the course of the next year. And in the midst of congratulating Brazil for its economic success, it will be an important goal for the external policies of both the United States and Brazil to deal with sustained growth and external and internal stability.

---

<sup>4</sup> A month after this meeting, an accident caused Clinton to cancel his trip to South America. A meeting of American trade ministers in Belo Horizonte, however, will be held in mid-May.

## DISCUSSION

Moderator Leslie Bethell opened the discussion with a question and comment on government expenditures and income. He asserted that while there has been an emphasis on reducing expenditures, Brazil will need to increase spending on certain sectors, particularly the social . On the income side, Bethell asked the presenters to comment on Brazil's current level of taxation. Both Marcelo de Paiva Abreu and Albert Fishlow responded that the problem is not the level of taxation, but that too few people pay taxes, and that the government continues to spend excessively and unwisely. The focus should continue to be on expenditures, not on income.

The conversation then turned to government expenditures on education and on bailouts of the banking system. Rather than spend money on failing state banks, asked Peter Knight (formerly of the World Bank), why not dedicate the funds to improving Brazil's educational system? Paiva Abreu commented that allowing state banks to fail would not be a solution for reducing government expenditures. The Central Bank must retain a certain level of intervention, which is prudent and keeps the system from collapsing. Fishlow mentioned that allowing banks to fail would not increase savings, nor would it provide confidence in the system, especially to depositors who would lose resources in the process. Both presenters agreed that additional resources for education could come from the imposition of fees at the public universities, which would help defray the state's expenditures.

The issue of generating higher savings levels was discussed, but no simple solutions were offered. Fishlow stated that the idea of raising interest rates to generate savings is not feasible in Brazil, as the country already has high interest rates and has produced no elasticity of savings with respect to these rates. Savings may increase as a result of greater confidence in the continuity of circumstance, since the Real Plan is still relatively new and has arrived in the wake

of a decade of failed economic programs. Although savings continue to be a significant problem, there is still an important public sector role in accelerating the process.

An audience member asked why the inflation rate has continued to decline, given that the economy is working at a fairly high level and the public sector deficit is still around 4 percent of GDP. Paiva Abreu answered that part of the reason is that some sectors of the service industry, those which could only adjust very slowly to the changing economic conditions, have now caught up and their prices are declining.

**PANEL TWO: ADDRESSING THE SOCIAL ISSUES:  
POVERTY, HEALTH AND EDUCATION**

SIMON SCHWARTZMAN

It is important to remember that inequality in Brazil is not a recent issue; it goes back for centuries and has its roots in the plantation system. The way that the nation developed was by how its population grew, through a rapid process that began in the 1930s and accelerated between the 1960s and the 1970s. It was a social democratic-type configuration, with large segments of the population left entirely out of the system.

The intense demographic transition during the 1960s and 1970s converted Brazil from a rural to an urban society: 70 percent of the population is urban today. Another important demographic change was a dramatic reduction in population growth, which is currently approaching the levels of a European country; rates have changed from 3 percent between 1950 and 1960 to less than 2 percent between 1980 and 1991.

Social indicators also improved during the 1980s as basic services, such as access to potable water, got better. One of the consequences of this has been that such issues--access to schools, infant mortality, illiteracy, and so on--have now become less important on the national agenda. However, Brazil is facing problems similar to those encountered by more developed nations, such as how to deal with a workforce that is aging, an older population that requires medical care, and an urban environment that is very large and complex.

The current situation can now be divided into two social questions: One is how to deal with the modern part of the economy, with issues such as underemployment, income distribution, and the provision of social services of health, education, and housing. The other question is how

to tackle poverty in the large sector of the population that lives in the countryside. Recent data show there are approximately 60 million people subsisting below the poverty line in Brazil. One-half of poor Brazilians reside in the Northeast, 24 percent in the Southeast; and 42 percent of indigent Brazilians live in rural areas, where they have been completely excluded from their nation's modernization process.

### **Issues on the Social Agenda**

Employment, extreme poverty, violence, rural conflicts, and minority groups are all part of the president's agenda. The Cardoso administration is examining how to finance programs that already exist and how to improve the efficiency of government spending. There are currently huge distortions in how money is spent for social issues.

The government faces certain restraints in dealing with social concerns. First, not all of these matters are federal problems; some, such as education and health, are state or municipal issues. Second, the government cannot increase its expenditures in these areas, due to intense pressures for fiscal restraint. Third, the distribution of funds is highly politicized in some issues, for example, higher education and proposed legislation regarding retirement benefits. And, finally, it is difficult to deal with micro-level social systems from Brasília; previous efforts has often proved disastrous.

Many of the social issues facing the Cardoso administration already existed when the president came to office: there was a tradition of inequality, high inflation, and the 1988 constitution that explicitly allocated money to certain sectors in states by fixed percentages. By law, 14 percent of Brazil's GDP has to go to social spending, but projections indicate that social security and other projects are financially unsustainable in the long-term. Two-thirds of the money for social spending goes to the general population, who get small amounts of benefits; 21

percent of public expenditures in health, housing, and other areas goes directly to the highest income quintile of the population.

The government's most important achievement to date has been the Real Plan itself, and its effects are still seen, especially among the population's middle sectors.<sup>5</sup> The demand brought on by high increases in consumption raised many people above the poverty line when the plan was implemented. However, there is less industrial employment in Brazil than in the past, the number of people working in the formal economy is decreasing, and the informal sector is on the rise. On the other hand, incomes are not necessarily lower and there is an official unemployment rate of only 5 percent. This figure, however, is highly dependent upon how unemployment is defined and where surveys are conducted, as statistics do not exist for all areas of the country.

### **Current Progress on Social Issues**

The Cardoso government has recognized that the social security system needs reform in order to survive. The administration was unable to pass the necessary legislation in this area and the system's financial woes have yet to be resolved. These obstacles notwithstanding, corruption has been reduced and the program operates more efficiently than in the past.

The government is trying to decentralize the disastrous health system, but there is no functioning policy currently in place. In contrast, there is a consensus that positive changes are taking place in education. However, although there are many initiatives in primary education at the state and municipal levels, secondary education issues are still not being discussed. In higher education, large sums of money are being spent on a very small system.

---

<sup>5</sup> The lowest income sectors have also gained significantly from the stabilization of the currency brought on by the Real Plan. See A. Fishlow's presentation, above.

Programs for the mobilization of civil society, including non-governmental organizations, to alleviate poverty have had little success so far, and national attention has not been given to this problem. Where there has been an active movement, however, has been among the landless working for agrarian reform. The government is trying to accelerate land distribution and improve the taxation system, but land reform is very costly.

### **Prospects for the Future**

Is the government doing all it can? The government could spend more; it could increase expenditures without worrying about the macro-economy. However, this his would be a poor solution, because the country is likely to suffer further if the nation's economic equilibrium is upset. It is possible, however, to improve income distribution without disturbing the macro-level balance.

There are proposals regarding minimum income levels, for example, but the problem of limited resources always arises. What is lacking are more organized ways of dealing with social issues. If a consensus can be formed in certain areas, problems may be solved, but as yet the government has not been very successful at building a consensus on these issues. Since the central government has to "put out fires" every day, it has no time to deal with larger issues. Local governments must get involved. However, if not implemented carefully, decentralization can deepen income inequality by allocating power and resources to states or municipalities that show the most capacity for putting them to use, while regions with ineffective or less responsive governments would receive proportionately less, a pattern which would exacerbate existing disparities.

## CLAUDIO DE MOURA CASTRO

There has been significant progress in this administration in improving education, but little advancement in improving health. This is not because of differences in federal policies, but rather a consequence of the existence of a paradigm in the former area, and the absence of one in the latter.

The Cardoso administration has created the opportunity for improvements in the social area by giving it political attention. However, reform depends more on congress, where the process is generally slow, imperfect, and messy. In general, Brazil's civil service regulations preclude efficient processes of contracting and paying workers, and this has not changed with the current government. One positive change, however, is that the federal government is accomplishing its objectives at the state and municipal levels by overseeing them from a distance rather than becoming directly involved.

The national health agenda is constrained by a conceptual stalemate or a sort of cognitive dissonance. The old paradigms do not work very well, but nothing has yet emerged to replace them. No change is possible in social areas unless people share a common view of the problem and the solution. This is lacking in the health care area because decisions on ways to tackle these issues have to be taken at all levels simultaneously--federal, state, and municipal--and this requires a paradigm.

### **The Health Care System**

The average Brazilian thinks that the problem with the nation's health care system is a combination of a lack of resources, poor management, and corruption, but that is not true. Brazil spends money on health care like a middle-income country, but receives only the quality of

service of a poor country. The central problem is that the government does not know how to manage the system.

The backbone of Brazil's national health program is a virtual currency called SUS (*Sistema Único de Saude* or Universal Health System), which regulates all health transactions. But there is no established way to determine what the prices should be; that is, since they are not determined by market forces, they are set administratively by the government. This brings a tremendous amount of distortion into the system because of pressure from the private sector. As a result, unrealistic tariffs are imposed on high-tech procedures, while a simple consultation is paid at a fraction of a modest realistic price.

The main problem is that the constitution precludes the nation from establishing a sane system by promising free health care to all, with no limits. It offers no way to establish priorities in health care. There is no means of proper allocation other than lines, no family doctor, no gatekeepers. Prepayment schemes are geared toward fees for service, so there is a built-in incentive for price inflation. The private sector gets paid by the public sector for expensive treatments. In addition, the system is not well understood and there is no shared public opinion on what is wrong. From a political viewpoint, the system is in equilibrium--it provides well for those who know how to bargain and complain. The poor, on the other hand, have been incapable of responding politically to the fact that they are being cheated by the system.

The problem is not due to a lack of resources or corruption, but to structural inefficiencies. Brazil has received small Inter-American Development Bank and World Bank loans for its health care system that are extremely modest in the reforms they aim to achieve. These may somewhat help the SUS price-setting problem and, more importantly, provide some autonomy to the states. Autonomy for the states is the best hope for reforms, since it is at the state level that experimentation is beginning to take place. Just as in the United States, the first

innovations in health care come from the municipalities. It is interesting to note that in two such places, Curitiba and São Paulo, there are family doctors and a system of gatekeepers and computers that control access to higher levels of services.

## **The Education System**

As with health care, Brazil spends money on education like a middle- income country but only achieves the results of the poorest of Latin American nations. The only difference is that there are islands of excellence at every level and in every area of education, which makes a tremendous difference. The competent minister of education seized upon an opportunity and captured the imagination of the people, which led to a dramatic improvement in some states' primary education levels.

There has long been a common perception that problems at the primary level create a bottleneck in the overall advancement of Brazil's educational system. Recently, people have begun to do something about it. The most critical event took place five years ago in Minas Gerais. It resulted from a combination of a governor who had no fear of teacher union strikes and a secretary of education, an accomplished entrepreneur in the private sector, who adopted what he observed around the country and created the simple paradigm that has revolutionized Brazilian primary education. First, he removed politics from the schools. Measures were created to carefully test candidates for the position of principal and for community participation in the selection process. This depoliticization actually pleased politicians, who previously had to face the difficult decisions of who, out of many, should be selected for these choice posts.

Then, school funds were placed under principals' control, allowing schools more freedom to govern themselves. Strong parent-teacher associations were developed, which gave the schools more autonomy, with the parents' backing. Social marketing of education was

strengthened, along with increased participation of the private sector. Finally testing of students began, which was hard to impose, but ultimately faced less resistance than was anticipated.

When Paulo Renato Souza became Minister of Education in 1995, he changed the structural organization of the ministry. Prior to his arrival, all ministry employees in primary education were former teachers; however, staff in higher education were the state universities' best administrators and fundraisers, sent explicitly by their directors to lobby for the universities. That is how priorities were set for higher education (I learned this while I was head of CAPES [*Coordenação de Aperfeiçoamento de Pessoal de Nível Superior* or Brazilian Agency for the Improvement of Higher Education Personnel]). Calling attention to the fact that the Ministry was neglecting, in a relative sense, programs in primary education was truly radical.

The creation of the Association of State Secretaries of Education has also been influential in making changes in this sector. Paulo Renato exports good ideas from states that are making progress, including São Paulo, Minas Gerais, and Paraná, and imports them to other states where reforms are lagging. Today there are vast improvements in primary education in the center and south of Brazil. Test scores have been rising at a rate of nearly 10 percent annually for the past five years, and repetition rates are declining. The states of Minas Gerais, São Paulo, Santa Catarina, Rio Grande do Sul, and even Bahia, in the northeast, are all moving toward positive changes in primary education.

Despite this progress at the lower levels, the higher education sector is mired down. The universities cost as much as European schools, and the results are mediocre. This is both a cause and result of chronic crises of governance and perverse internal incentives. Paulo Renato hopes to create autonomy in higher education, following the example of the São Paulo system, which is very promising. One positive step that has been taken in higher education, and this is no minor feat, is that students are administered standardized tests in certain fields during their final

semester. More such tests will be added as a prerequisite for graduation; this will permit the evaluation of how well the students and the schools are doing. Initiating testing of graduating seniors was a major political victory, because it was the first real challenge to the established higher education system--and the ministry won.

## DISCUSSION

A question was raised about mobilizing members of civil society to tackle social issues rather than waiting for the government to deal with them. Simón Schwartzman explained that although Brazilians do not have a tradition of getting involved in and working on such issues, whenever such an opportunity is created by individuals or by non-governmental organizations, it receives a great deal of support. He acknowledged that such initiatives must originate locally, and cannot come from Brasília. Claudio de Moura Castro added that states with strong parent-teacher associations are seeing the best results in primary education reform. In Minas Gerais, Rio Grande do Sul, and Paraná, for example, these alliances are engines of change.

The conversation continued its focus on education, addressing the possibility of building public consensus around the need for changes in social policy. It was asked if both the media and the private sector could take a more active role in stressing the importance of investing in public education. Schwartzman mentioned an Inter-American Dialogue project that encourages private sector involvement and awareness in education, as well as attempting to mobilize public opinion about social issues. Castro added that the Ministry of Education's statistics have improved greatly, which can contribute to public awareness of the situation. Since there is a well-known paradigm in education, the press and the public can play a role in that area; in contrast, there is so little understanding about health care that civil society and the media can offer little assistance.

Ambassador Lincoln Gordon, of the Brookings Institution, raised the issues of the importance of secondary education, absenteeism, and the role of pre-schools. It was observed that if primary education improves, so will the quality of secondary schools. It is not as crucial to focus on secondary schools until the institutions that prepare their students for entrance are significantly bettered. On absenteeism, a participant asked if Brazilian children miss school

because they are forced to work to support themselves or their families. Castro commented that most children miss school because they do not have schools in their area, or the schools are inadequate, or the students have been kept back so many times they become frustrated and drop out. Although the presenters agreed that pre-schools are a good idea in principle, they are seen as a potentially sensitive political issue. This is because money that would be spent on building more schools and hiring more teachers would drain resources away from primary schools rather than improving them.

Dr. Margaret Keck of Johns Hopkins University asked about teacher training. It was asserted that teachers are poorly paid, have low social status, and are undereducated. Unfortunately, there is much evidence to demonstrate that teacher retraining programs in Brazil are ineffective. Teachers have already been hired and they do not want to leave or retire. A proposal has been considered to allow university graduates from disciplines other than education to become teachers, so that the profession is not “closed and for life.” This idea has met resistance from the teachers’ unions, but it would provide flexibility in the profession and merits further exploration.

Castro responded to a question on higher education in Brazil by describing problems with the system, including the inability to reduce the bloated, nonproductive workforce and excessive bureaucracy. Tackling these problems will not exact the high political cost that would come from imposing tuition or other fees, and would greatly improve the universities.

## **PANEL THREE: POLITICAL REFORM AND THE CONSOLIDATION OF DEMOCRACY**

BOLIVAR LAMOUNIER

Political reform is usually considered for one of three reasons. One is as a matter of principle. There are people who believe that one system is better than another. For example, there are parliamentarists and presidentialists; each believe in a particular way of conducting politics and under no circumstances do they change their position on the subject. Second, reforms are considered in order to solve medium-term political problems. When factions in a country need to be reconciled, or a partial democracy is being expanded into a full democracy, or the system is moving from authoritarianism to democracy, there are discussions of how to carry out these reforms most practically. Finally, there is the aspect broadly known as governability, or achieving more effective governance.

In Brazil, each of these three motivations for reform has unfolded over time. Just after the republic was founded there were discussions about systems of government and whether or not presidentialism was an appropriate structure for Brazil. In the 1950s, governability and how to make the system more efficient began to be discussed. The mainstream view was that Brazil needed a two-party system, with single-member districts, and so on. The political apparatus that finally evolved was designed to make the system flexible and to facilitate entrance into it. It is based on a strong presidency combined with a divided, fragmented, multiparty system with proportional representation, and voting for individual candidates rather than a party list. When the government was still in a transitional phase this set of principles evolved despite the dictatorship of 1964 and consolidated as the framework of the Brazilian political system.

Brazil entered the 1980s with a severe problem of political vulnerability. It emerged from a period of military rule and formed a congress with no party guidelines, no texts, and no framework. At the time, not one of the existing parties called a meeting to deal with its own consolidation. So in the 1980s, political reform was discussed in terms of principle. The discussions became heated and intense, because most Brazilians thought the nation was in a vicious cycle of economic debilitation, crisis, and political upheaval. Brazil is probably the country that has tried hardest to undertake comprehensive formal institutional reforms--from holding a full-fledged Constitutional Congress to a plebiscite on possibly restoring the monarchy--and all of them have failed.

### **Current Thinking on Reform**

The Council for the Reform of the State is currently considering three models of reform: first, a political model combining a French type of semipresidential, semiparliamentary system with an electoral process that would retain proportional voting and a more balanced federation among the states. This became the programmatic proposal for the social democrats. The PSDB,<sup>6</sup> which was founded in 1987, adopted this agenda and succeeded in scheduling a plebiscite on Brazil's system of government. But the semiparliamentary and parliamentary proposals were defeated in 1993, and the other reform items lost momentum after this failure. The second idea is to leave the system as it is. There are many who think the system is a good one (although I disagree with them). And the third model is similar to that of the United States, a presidential system with two consecutive terms of office combined with single-district member voting.

President Cardoso has not made any of these models a priority for one simple reason. When he took office, his program involved a series of amendments with serious political

---

<sup>6</sup> PSDB, *Partido Social Democrata do Brasil*, is the Brazilian Social Democratic Party.

repercussions. When a government tells people that it is going to reform social security and make employment security more flexible, people usually respond negatively. The way the constitution was rewritten, amendments will need 60 percent of the congressional vote to pass; since the largest party in Brazil holds 20 percent of the congressional seats, the numbers do not add up--and the amendments will not pass.

Representative democracy is in place and seems strong not because people love it but because of changes in the world. Public opinion research is highly disturbing in terms of Latin American, and especially Brazilian, support for democracy. In the *Latin Barometer*, a comparative public opinion study that included seventeen Latin American nations and Spain, Brazil was fifteenth in support of democracy as a value.

Fragile nation-states are likely to become more fragile, depending on the degree of inequality and other factors, so how can a democracy be organized to be more resilient to crisis, to change, to adapting to the new world, and to facing difficult reforms when it has less and less control over its environment? What is the meaning of representative democracy when it is separated from the nation-state?

Brazil has the wrong institutional structure. Democracy has to do with the supply of meaningful alternatives for voters--which must be based on political parties. People cannot act individually, without groupings. It would be best to search for appropriate ways to increase party quality, effectiveness, and cohesion, combined with a reasonable degree of flexibility, and not to start imagining that the issues of weak institutional structure and fragmentation of the electorate no longer exist.

## THOMAS SKIDMORE

Two quotations explain the fog in which many of us have been living for all of these years, trying to study and understand Brazil. The first is from Betinho, the well-known Brazilian sociologist, who says, “Fernando Henrique [Cardoso] is merely a figurehead traveling as our Prince Charles. Wouldn’t it be cheaper to do away with intermediaries and hand over the government once and for all to the one who really governs, the World Bank? Then presidents could have a more tranquil life, travel even more, and we could finally become a truly global state.”<sup>7</sup> The other citation is from a columnist for *Folha de São Paulo* last year, who captures the sort of mood that we sometimes fall into. He says, “*Estamos dentro de uma telenovela . . . nessa ordem maluca, trágica e sorridente, da qual os brasileiros, num misto de orgulho, sentimentalismo e deboche, se orgulham, enquanto não cessam de se queixar em vão.*”<sup>8</sup> Roughly translated, he is saying that Brazil is living an “hallucination,” or inside a soap opera plot.

Before becoming too critical, some very important features of Brazil’s political record in the last few years are worth mentioning because they give evidence of a learning curve that has to do with political reform and the consolidation of democracy. The first is Collor’s removal as president . Historically, the way to remove a Brazilian president was by military coup, and yet in Collor’s case it was carried out by an orderly congressional vote, which is a significant and telling improvement. The second accomplishment is an extremely impressive economic stabilization. Third is how the Brazilian government handled the banking crisis, with much greater skill and less damage than occurred in Chile in the early 1980s or in Mexico in 1994. Fourth, the way in which elections are supervised and certified in Brazil is impressive; the country has an extremely modern system and no one questions the honesty of its methods of calculating votes--an important step for democracy. Fifth, the military has become disengaged

---

<sup>7</sup> Betinho is the nickname of Herbert de Souza, writing in December 1996 - January 1997.

<sup>8</sup> Marcelo Coelho, *Folha de São Paulo*, June 26, 1996.

from politics. And finally, the congress has turned out to be more productive in passing legislation over the past two years than any of its predecessors in the Sarney, Collor, or Franco administrations.

Brazil now has a brilliant intellectual figure as president--Fernando Henrique Cardoso--but his presidency has really nothing to do with his academic excellence. The actions of Cardoso's presidency are based on power, not on the theoretical content of a book on dependency theory that he wrote in 1969.<sup>9</sup> The government has been very impressive symbolically. The president is not only intelligent, he is a polyglot, and he is honest. He knows how to improve the nation's image abroad, and he certainly deserves credit for being the first president to acknowledge the existence of racial prejudice in Brazil.

The government has also achieved extraordinary success with its stabilization program. Despite predictions in 1994 that it would fail, it was a brilliantly executed plan that broke inflationary expectations with apparent ease. It has also actually improved the distribution of income at the bottom. Although it may be that the betterment in the distribution of income was a one-time improvement, it is an extremely interesting and impressive stabilization effort that merits further analysis.

What is the relationship between economic policy and electoral reform? At the time that Collor was overthrown, it was thought that Brazil was ungovernable and that electoral reform was the only solution to the country's problems. But the stabilization plan was carried out through the setting of two primary instruments that do not require congressional action: the exchange rate and the interest rate. While it may seem that this success has disproved the need

---

<sup>9</sup> This refers to the classic study that defined the concept of dependency, F.H. Cardoso and Enzo Faletto, Dependencia y Subdesarrollo.

for political reform, in fact, the agenda for the future shows why political reform is all the more necessary.

Why is Cardoso trying to become president for another term? The implicit strategy is that he and his advisors are hoping that in a second term they can achieve high economic growth, and they will be able to use some of the money to attack the social debt. They also believe they are the only ones in Brazil who can do it. Cardoso currently has a 60 percent popularity rating in the polls. He has the votes for the reelection amendment.<sup>10</sup> The problem is that he has postponed the pain. That is why he is popular and why he is hoping to be reelected to another term. He has put off the attack on the corporatist structure, the pension system, the state corporations, the federal bureaucratic structure, the debt system of the state governments, and all the privileges and subsidies of the middle class--some of which include the way the social security system helps the rich in Brazil and free university tuition. There are landowners whose vast resources have not been touched by government reform for years. The second painful point would be to reduce consumption, which is also not popular. If the nation wants to raise the level of savings however, it will need to reduce consumption.

### **Faith in Democracy?**

Since 1960, Brazil has had only one civilian president who has completed his term. All of the military presidents from 1964 to 1985 were accused of wanting to extend their terms and none of them did, except Castelo Branco, who extended it by one year. Thus, during the dictatorship the generals avoided at least personal *continuismo*. Now, however, there is a civilian president amending the constitution so he can be reelected. This raises major questions

---

<sup>10</sup> Cardoso's amendment allowing consecutive terms was under debate in the Brazilian Congress at the time of this conference. It was passed in the Lower House on February 26.--*Ed.*

about how people will view democracy, how Cardoso will be seen, and the effect it will have on the political system.

## DISCUSSION

The discussion began with observations about the Brazilian political party system and relations between the executive and legislative branches of government. Regarding *medidas provisórias*,<sup>11</sup> Bolivar Lamounier observed that these are inadequate measures, incompatible with representative democracy, and symptoms of the overall weakness of the party system. He claimed, however, that Brazil is moving toward a better party system because of the economic agenda and higher standards of performance at the local level. The political process is also becoming simpler and more clearly bipolar in structure, but it continues to suffer from the lack of institutional mechanisms. If President Cardoso were to lose the next presidential election, the system would lose some of its integrity because of its weak institutional infrastructure.

Lamounier discussed the relative merits of a parliamentary system, among them its flexibility in confronting crises. The current problem is that since reforms were defeated in the plebiscite, it is difficult to know when they might legitimately be raised again. Those who believe in changing the system are constrained by the results of the plebiscite.

Regarding the president's term of office, Lamounier defined the choice as between a term of six years or reelection for two consecutive four-year periods. He favored the option of consecutive terms because if the president is incompetent or ill, his length of stay in the presidency is shorter. An audience member questioned the legitimacy of President Cardoso's having proposed a reelection amendment while serving in office. The proposal was defended on the grounds that it was made according to rules established by the constitution, and must be voted upon accordingly.

---

<sup>11</sup> *Medidas provisórias* are executive orders that take effect immediately but must be ratified by a simple majority of Congress within 30 days or they lose their validity. They are one of the principal tools of presidential power in Brazil. [For more on the presidential system in Brazil, see Latin American Program Working Paper #225 by Scott Mainwaring of the University of Notre Dame.--Ed.]

Barry Ames of the University of Pittsburgh, although acknowledging the Real Plan's "one-shot" improvement to income distribution, commented that this positive trend was unlikely to persist. He also observed that the presentations had failed to mention the disappearance of the Left in Brazilian politics. Ames views the lack of a Leftist alternative as a temporary condition, and one in which there is a potential for future political strife. He added that outside of Brazil's cities there has been a growing trend toward two-party competition, as opposed to the multiparty configuration of the urban centers. Ames ended his comments by noting that if the president is reelected he will face increasing congressional opposition to his reform program, and will be forced to compromise and make major concessions.

The presenters observed that the Brazilian government will face some challenges in the near future. One is the issue of job stability in the civil service. It will be difficult to get a 60 percent vote in the congress to limit job security in the way that the government is proposing. Another, according to Lamounier, will be the social security proposal, which establishes a higher age limit at which people can retire. Finally, judicial reforms will be introduced this year that propose making Supreme Court decisions binding on lower courts. Since most judges regard this as authoritarian and centralizing, it should present a significant political fight.

Skidmore added two final points to the discussion regarding the economy and the social debt. First, there is the problem of high growth. Brazil is currently slowing down its economy to deal with the balance of payments deficit. The economists who accomplished the Real Plan do not appear to have a viable strategy for transition to growth, which would seem to require a more realistic exchange rate and lower interest rates. Second, he offered little hope that the problem of the social debt will be resolved in the near future.

## **PANEL FOUR: BRAZIL'S EMERGING REGIONAL AND GLOBAL ROLE**

MONICA HIRST

Brazil's foreign policy and international relations in the late 1990s contain elements of both 20th- and 21st-century conceptions of foreign affairs. Five principal aspects of the nation's foreign policy are based on 20th-century perceptions and realities: (1) state actors are still more relevant than non-state actors in shaping foreign policy; (2) the distribution of power in the world, especially the unequal distribution of power, is still a major concern; (3) international law is the basic instrument that manages interstate relations for Brazil; (4) the United States is the most important shaping force in the definition of Brazil's foreign relations; and (5) Brazil's definition of national interest is based upon its economic potential and a consensual project of economic modernization; this project, which has existed for almost seventy years, has been adjusted, changed, and paralyzed at times, but has been neither discontinued nor abandoned.

Brazil's foreign policy also looks ahead to 21st-century aspects of foreign relations. First, the country has enormously diversified its interaction between states and non-state actors in managing its foreign affairs. These non-state actors are the business sectors, trade unions, academics, political parties, and non-governmental organizations. Second, Brazil has for the first time based its foreign policies upon the premise of the consolidation of its democratic regime. The defense of democracy is now the most important political value of the nation's foreign policy. As a corollary of that, Brazil's strategic policy has also adopted democratic values as the most important premise of its international interests. A third aspect linking Brazil to the 21st century is its insertion into the world economy. The global economy has now become part of a positive relationship among internal economic policies, multilateral trade commitments, and regional integration. Fourth, Brazil has begun to share the concerns of the international post-Cold War security agenda. Strong commitments to nonproliferation regimes and participation in

peacekeeping operations are both examples of changes in the security agenda. Finally, Brazil has deepened and diversified its ties with a large number of countries and regions. This has been accomplished recently with very active presidential diplomacy in which Brazil has attempted to link its foreign policy to the new political world map.

### **Brazil's Current Foreign Policy**

What is new and what is not new in Brazilian foreign policy? Since Fernando Henrique Cardoso served as foreign minister in the previous administration, there is great continuity not only regarding the premises of foreign policy, but also in his role as the leader and main voice of Brazil's foreign policy today. This does not downgrade the importance of other agencies, but this continuity has affected the ongoing importance of Itamaraty<sup>12</sup> as the main state agency in the design and execution of foreign policy. It is that body's belief system and traditions that have perpetuated long-held perceptions of Brazil's role in the hemisphere.

Another important ingredient of Brazil's current foreign policy concerns economic policies and especially the effects of economic stabilization policies. Brazil is now viewed internally and externally as a site for new economic opportunities and this has become a main theme of its international relations. In presidential speeches, in any declarations by the foreign minister, or in any statements by government agents, the effects and results of economic stabilization are cited as elements of international legitimacy.

In analyzing the Cardoso administration's foreign policy since 1995, it is important to remember that the government began in the wake of the "Tequila Effect," caused by the devaluation of the Mexican peso in 1994. This shaped not only the internal development of

---

<sup>12</sup> Itamaraty is the name given to Brazil's equivalent of the Department of State, charged with the formulation and execution of national foreign policy. --*Ed.*

Brazil's political and economic decisions, but also influenced international perceptions of the country. It was overcome in the six to eight months after the government came to power, but it left its mark by never permitting the administration to recover the tranquillity and stability it anticipated to expand the credibility of its international economic interests.

### **Mercosul, the European Community, and the United States**

Five developments are important in understanding current Brazilian foreign policy. First, presidential diplomacy has become the main tool in foreign affairs, especially for the consolidation of the Mercosul process. Mercosul is a top priority for Brazil, and the country now has a kind of dual personality in world affairs. It speaks for itself, but it has also assumed a Mercosul identity in many forums and circumstances. Second, a new dialogue has emerged with the United States. Third, the Cardoso administration has made an enormous effort to deepen ties with a number of Latin American countries. Argentina has come first, and this has to do with the development of Mercosul. The two countries now have a unique relationship regarding economic, political, and cultural interactions and interests. Relations with Chile have also improved tremendously, as have those with Venezuela and Paraguay. Fourth, a development that has been underemphasized is the evolution of a European agenda, and the final component is a reactivation of interest in ties with Africa. This linkage with Africa had been abandoned for years, but has attracted new attention in the post-Cold War context because of the potential for a new kind of relationship with South Africa and in peacekeeping operations.

Mercosul has become a first priority of Brazil's foreign relations. It is considered a success story in many ways, particularly in the area of intraregional trade. From 1991 to 1995, intraregional exports grew by 29.6 percent, and Brazil's exports to Mercosul countries rose by 27.8 percent. So there is a very clear parallel between the country's progress in the process and the overall growth of the entity. This is also true when examining the average rise in total

exports of the Mercosul countries, which were around 11.3 percent, with Brazil's growing at 8.3 percent. The same tendency has occurred in imports. Growth was much smaller, from 28 percent and 22 percent in the case of Brazil, but Brazil again follows the same trend as the process itself.

Brazil has a growing interest in Mercosul both economically and politically. Today it would be the country most hurt if the process went wrong or if there were serious external or internal difficulties in proceeding with the intraregional trade liberalization measures or with other commitments. Mercosul has become an important tool for Brazil's economic relations everywhere, in the World Trade Organization, with NAFTA, and with the European Union.

There has been enormous improvement in Brazil's relations with the United States. There has been a dismantling of the negative agenda that existed for the past five to eight years regarding security, trade, and political issues. However, the two nations still have far to go. A positive shared agenda has yet to emerge and will need to be constructed on the basis of further concrete negotiations and dialogue.

### **Brazil's Role in Regional and Global Politics**

There is no doubt that the Brazilian government has aspirations to be an actor in the global decision-making process. The country strongly believes in multilateral institutions and the need to find a place for itself as a key figure in those organizations. Brazil wants to maintain its regional economic and political weight. Trade data show the enormous expansion of economic relationships with all of the continent's countries, indicating the importance of Brazil's internal market for South American countries. Regarding infrastructure, and using energy as an example, Brazil has completely changed its policy. It is now working closely with Bolivia as a

producer of natural gas, while Argentina has become Brazil's main petroleum supplier. These developments signal a new quality of linkages among the countries.

Brazil faces two challenges for the future. The first has to do with the self-image of the nation and of the government. In this area, national identity must evolve with the inclusion of a diversified set of interests and views; it is closely linked to the process of democratic consolidation. The second challenge has to do with the foreign policy agenda itself, which involves three main areas of focus: the construction of a positive relationship with the United States; the deepening of Mercosul and the ongoing dismantling of non-trade barriers; and finally, the creation of a new agenda with the European Union.

## RIORDAN ROETT

In foreign policy and in its emerging regional and global position, Brazil is on a roll once again. However, Brazil has been on a roll in foreign policy a number of times, and in the past it has always fallen flat on its face. The real question going into the 21st century is whether the critical elements are in place to make this a coherent, pragmatic foreign policy that has important regional dimensions and will give Brazil the global role it has never had. Can this role in foreign policy continue without a deepening of the economic reform process? There are many in Brazil who formulate and implement foreign policy while disconnecting it from the realities of the economy--and there are others who do not. It is an important question.

On the one hand, the São Paulo Stock Exchange has gone up 25 percent this year. A recent Institute for International Finance report on private flows to Latin America highlights that Brazil received a very large share of those flows. The projections for new investment this year are very, very good. Direct foreign investment was \$800 million in January alone, the same trend appears in the stock market. Interviews with the business community indicate tremendous confidence in the Brazilian economy, both for the country and regionally. On the other hand, one reads increasingly in Wall Street newsletters and elsewhere that people are concerned about the budget deficit, which was projected at 4.5 percent of GDP for 1996. *The Financial Times* reported that it came in at 3.89 percent, which is quite good, except that the government target was 2.5 percent. There is reason for concern about the fiscal implications of recent Supreme Court rulings that match wage increases for civil servants to those of the military. There is also a new Supreme Court decision that may or may not (depending on its outcome) slow down privatization in telecommunications. And, finally, there is the important question of the escalating trade deficit. Some argue that it is out of control, while others do not see a problem.

A similar situation exists with the current account deficit. Is it a problem or not? The current account deficit of Brazil is only 3.3 percent of GDP. Brazil has \$60 billion in international reserves, and plant and equipment foreign direct investment rose to a record \$9.2 billion in 1996. It is not clear whether the bottle is half full or half empty. What is clear is that people are watching Brazil very carefully. Its ability to manage the economy will significantly affect the continuation of its attractiveness beyond 1996-97. This is very much related to whether there are institutional changes and fiscal changes (which are basically political changes) that are feasible, possible, and acceptable and at what price such changes would be introduced.

The second question regards the disjuncture between Brazilian domestic and foreign policies. There is a great deal of interrelationship between society and state, but Itamaraty is still highly autonomous in formulating and framing foreign policy. The appointment of Antonio Carlos Magalhães as chairman of the senate foreign policy committee is certainly a political gesture, but it may not solve much in terms of bringing the congress into foreign policy making. There is a large difference between the role of domestic constituencies in foreign affairs in Brazil, which is minor, and in the United States, where internal political concerns have a great deal of influence. However, the critical issue is whether this makes a difference for Brazil and whether or not the nation can pursue its international agenda without a kind of vetting of foreign policy issues.

### **U.S.-Brazilian Relations**

Mercosul is the “make or break” issue in Brazilian foreign policy. It is the critical question from my point of view in setting the new U.S.-Brazilian agenda. There is currently no agenda between the two nations, and this is due in large part to Mercosul. The Clinton administration views Mercosul as directly contradicting Miami 1994, contradicting the notion of

the Free Trade Area of the Americas (FTAA) by the year 2005,<sup>13</sup> and contradicting the plan set forth by Richard Feinberg, formerly of the National Security Council. Feinberg has recently written a book that savages Brazil and claims that it was a negative force on the road to Miami. Charlene Barshefsky's testimony before the Senate Foreign Relations Committee not only downgraded Mercosul but was condescending in terms of its disdain for the organization and anything that deviates from the FTAA and 2005.

In Davos<sup>14</sup> this year one of U.S. Undersecretary of Commerce Stuart Eizenstat's roles was to counter the Brazilian foreign minister's assertion that Mercosul was an important building block toward regional integration. The minister was repeating what President Cardoso had recently stated in London. Eizenstat's position was that Miami 2005 was the "way we are going."

The meeting of trade ministers from across the Americas in Belo Horizonte is going to be the same kind of clash, as will the summit in Santiago in 1998. Chilean President Frei's visit to Washington this week is an example, because the administration believes that the Chileans are coming on bended knee, waiting for the call to join NAFTA. From the Latin American press, however, it is clear that Chile is delighted with its bilateral agreements with Mexico and Canada and is pleased with its associate membership with Mercosul. President Frei's comments upon arriving in Washington indicate that Chile does not need accession to NAFTA the way it might have two years ago.

---

<sup>13</sup> In 1994, 34 heads of state convened in Miami for a Summit of the Americas. An agreement emerged to forge a Free Trade Area of the Americas (FTAA) that would incorporate every American nation (except Cuba) by the year 2005.

<sup>14</sup> Davos, Switzerland, is the site of the annual meeting of the World Economic Forum, the principal venue for off-the-record, substantive discussion among global political and economic leaders.

There is a growing dismay on the part of Brazil over the increasing number of restrictions being placed on Brazilian imports into the United States. There have now been sixty-seven types of restrictions placed on imports, including high import tariffs, surcharges over dumping, compensation for subsidies, technical barriers, and other forms of discrimination. The U.S. market is becoming increasingly protectionist because of domestic political concerns.

Competition is no longer solely within the G-7--there is burgeoning global competition from world class rivals that may emerge from anywhere. The new entrants include Brazil, China, India, Malaysia, and Chile, but the only candidate to be a big emerging competitor in this hemisphere--if they get the politics and economics right--is Brazil in the context of Mercosul. Therefore, without an agenda in Washington, and with the administration seeing Mercosul as a threat and a body that is going nowhere unless it fits into FTAA and 2005, the material does not yet exist for a complementary foreign policy agenda in the Americas.

Brazil needs to make important decisions about this new role in foreign policy, supported by serious and important fiscal changes. That, in turn, needs to be linked to a greater degree into the dynamics of Brazilian society. Because there is no coherent U.S. policy toward Brazil, the ball game is Brazil's to lose. They have lost it most other times when they have tried to expand and have an independent foreign policy. On the other hand, this time they are under strong presidential leadership with a more coherent set of goals and objectives and a clear, workable subregional strategy. Brazil may well be able to use that as an important building block, not just regionally but globally.

## DISCUSSION

The discussion opened on the topic of the Mercosul's proposed hemispheric expansion. Riordan Roett commented that although NAFTA was based on the premise that it would open negotiations with Central America and the Caribbean, it is Mercosul that is actually holding meetings with the CARICOM to discuss trade. Brazil is playing a real role in promoting this type of outreach.

On the subject of U.S.-Brazilian relations, Roett observed that the problem with U.S. policy lies in the executive branch, which has its attention solely focused on the Summit of the Americas and the Free Trade Area of the Americas. The administration excludes any other visions of how the hemisphere might function in terms of trade integration. Brazil is emerging as a competitive actor that will present a very important counterpoise to the United States. There was strong general sentiment among the conference attendees that relations among the two nations have deteriorated under the current administration.

Marcelo Dantas of the Brazilian Embassy observed that while Mercosul functions well now, it will eventually need to move to another level of integration with the United States, since the body currently has no dynamic technological center. The issues of widening and broadening Mercosul were brought up, including the improvement of relations with the Andean countries, the Caribbean, the European Union, and Asia. In working with the latter region, it was noted that attention is now turning to developing South America's infrastructure for increased trade with Asia, including roads and deep-water ports. Paulo Sotero, Washington correspondent of the *Estado de São Paulo*, noted that Brazil's capacity for expanded trade also suffers from a lack of institutional coordination and effectiveness among the various bureaucracies involved.

Monica Hirst then responded to a question from a State Department representative about the Rio Group.<sup>15</sup> Currently the only diplomatic political instrument in the region, the Rio Group has played a key part in resolving the Peru-Ecuador conflict in 1995, yet it faces several obstacles. One of its problems is that the U.S. government has never recognized the Group as an important political voice. While there is a positive agenda between the European Union and the Group, such a relationship does not exist with the United States. Another difficulty is that of consensus building among the region's countries. Roett added that although the Rio Group has not accomplished very much substantively, it receives a lot of press coverage in Europe and serves as an important mechanism for dialogue between the European Union and Latin America.

---

<sup>15</sup> The Rio Group is an organization of eleven Latin American countries representing approximately 300 million people. Its members are Brazil, Mexico, Argentina, Chile, Venezuela, Colombia, Peru, Ecuador, Bolivia, Paraguay, and Peru. The Rio Group was formed in 1986 to promote democracy and economic integration in Latin America.

## LIST OF PARTICIPANTS

(in order of appearance)

Leslie Bethell is currently a Guest Scholar at the Latin American Program of the Woodrow Wilson International Center for Scholars. He is a Senior Research Fellow at St. Antony's College, Oxford, and is creating a Centre for Brazilian Studies in the University of Oxford. Dr. Bethell is the editor of the twelve-volume *Cambridge History of Latin America* and author of *Latin America Between the Second World War and the Cold War, 1944-1948* (New York: Cambridge University Press, 1992). He has studied, taught, and written about the history, politics, society, and culture of Latin America, and especially Brazil, for more than thirty years.

Marcelo de Paiva Abreu is Professor of Economics and Economics Department Director at the Pontificia Universidade Católica (PUC) in Rio de Janeiro. Before joining PUC-Rio, Dr. Abreu worked for the Brazilian Planning Ministry and has served as a consultant to many Brazilian government agencies, international organizations, and foundations. He has recently been Brazil's representative to the Advisory Committee of the Trade Commission of the Organization of American States. Dr. Abreu has published several books and numerous articles on trade policy, financial history, and economic policy. His recent works include: "Brazil: Widening the Scope for Balanced Growth," with D. Careiro and R. Werneck, *World Development* (24, no. 2, 1996) and "O Brasil e o GATT, 1947-1991" in J.A.G. Albuquerque, ed., *Sessenta Anos de Política Externa Brasileira (1930-1990)* (São Paulo: Cultura, 1996).

Albert Fishlow is Paul A. Volcker Senior Fellow for Economics at the Council on Foreign Relations. Prior to joining the Council, Dr. Fishlow was Professor of Economics at the University of California at Berkeley, where he was the first Dean of International and Area Studies. He served as Deputy Assistant Secretary of State for Inter-American Affairs in 1975-76 and has been a member of many public task forces related to Latin American affairs. His

research has addressed issues in economic history, Brazilian and Latin American development strategy, and the problem of the foreign debt.

Joan Dassin is Vice President of the Inter-American Dialogue in Washington, D.C. Prior to joining the Dialogue, Dr. Dassin was the Regional Director of Latin American and Caribbean Programs and Representative of the Brazil Office of the Ford Foundation. She has been Assistant Professor of Communications at Fordham University and a Research Associate at the Institute of Latin American and Iberian Studies, Columbia University. Dr. Dassin is the author of over thirty publications on human rights, authoritarianism and democracy, and press censorship and the media, film, and literature in Brazil, Latin America, and the United States.

Simón Schwartzman is President of the Fundação Instituto Brasileiro de Geografia e Estatística. He is currently on leave from the Universidade de São Paulo and the Fundação Getúlio Vargas. Dr. Schwartzman's current work focuses on the sociological and political dimensions of the production of knowledge in science, technology, education, and social issues. In 1985 he was the rapporteur of a Presidential Commission to reorganize Brazil's higher education system, and in 1993-94 he headed a working group commissioned by the Ministry of Science and Technology to study Brazil's science and technology sector. He is the author of *The New Production of Knowledge* (with M. Gibbons et al., New York: Sage, 1991) and *América Latina: Universidades en Transición* (Washington: Organization of American States, 1996), as well as many other publications.

Claudio de Moura Castro is Chief of the Social Programs Division of the Inter-American Development Bank. Prior to joining the Bank, he worked as Senior Resource Economist in a technical division of the World Bank. He has taught at the Catholic University of Rio de Janeiro, the Vargas Foundation, and other prestigious universities in Brazil, Europe, and the United States, and has served as Director of CAPES (Brazilian Agency for Post-Graduate Education)

and Executive Secretary of CNRH (the social policy institute of Brazil's Planning Secretariat). Dr. Castro was Chief of the Training Policies Branch of the International Labor Office from 1986 to 1992. He has written extensively on labor markets, social and economic aspects of education, vocational training, science policy and postgraduate education, technological development, and the economics of nutrition and health.

Bolívar Lamounier founded and is currently Senior Researcher and Research Director of the Instituto de Estudos Econômicos, Sociais e Políticos (IDESP). He has participated in several high-level Brazilian and international commissions and panels, including the constitutional drafting commissions appointed by President Sarney in 1985. In 1992-93 he coordinated a 46-member commission set up by the Universidade de São Paulo to offer proposals for Constitutional revision and is currently a member of the Consultative Commission on Public Sector Reform, appointed by President Cardoso in 1995. He is a member of COPS (Council of Social and Political Orientation), FIESP (São Paulo Federation of Industries), and a partner of MCM Consultants, one of Brazil's leading economic consulting firms. Dr. Lamounier has written extensively on Brazilian politics and economic development. His most recent book is *A Democracia Brasileira no Limiar de Século 21* (São Paulo: Konrad-Adenauer Stiftung, 1996).

Thomas Skidmore is the Carlos Manuel de Céspedes Professor of Modern Latin American History and Professor of Portuguese and Brazilian Studies at Brown University, where he also serves as Director of the Center for Latin American Studies. Dr. Skidmore has written widely on Brazilian history and politics. Among his most recent publications are: *Brazil Visto de Fora* (São Paulo: Editora Paz e Terra, 1994), "Collor's Downfall in Historical Perspective," in K. Rosenn, ed., *Whither Brazil After Collor?* (Miami: North-South Center, 1996), and the fourth edition of *Modern Latin America* (with Peter H. Smith, New York: Oxford University Press, 1996).

Monica Hirst is Executive Director of the Fundación Centro dos Estudos Brasileiros in Buenos Aires and Professor and Senior Researcher in the International Relations Program at FLACSO-Argentina. She is also a Professor at the Argentine Institute of Foreign Service of the Ministry of Foreign Affairs. She has written numerous books and articles on Brazilian foreign policy and international relations of the Southern Cone, including *Democracia, seguridad e integración: América Latina en un mundo en transición* (Buenos Aires: Ed. Norma/Tesis, 1996) and “Las relaciones del Mercosur con la Unión Europea, de la cooperación a la asociación,” with M. Mendiburu and H. Soltz, IRELA, *Anuario Relaciones Europeo Latinoamericanas*, IRELA/95.

Riordan Roett is the Sarita and Don Johnston Professor of Political Science of the Latin American Studies program of the Paul H. Nitze School of Advanced International Studies (SAIS), Johns Hopkins University. Dr. Roett is the founding director of the SAIS Center of Brazilian Studies and has written extensively on Brazil, including *Brazil: Politics in a Patrimonial Society* (currently in its fourth edition). He worked as Senior Political Analyst for the Chase Manhattan Bank from 1983 to 1995 and is Senior Advisor to the World Economic Forum in Davos, Switzerland.