

INCOMPLETE MODERNIZATION AND POLITICAL PACTS IN BRAZIL

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Modernization in Brazil is an incomplete process, not just an aborted or frustrated one, as many analysts - influenced by the extremely high rates of inflation still prevailing - assume. Since the present crisis broke up in 1979, the balance of payments stabilization was achieved, huge trade surpluses are being accomplished every year, trade liberalization took place, privatization is advancing, society became more aware of the fiscal crisis and of the need for adjustment, and business enterprises, although not expanding given inflation and the extremely high interest rates, modernized their plants and are being able to compete internationally.

The economic crisis prevailing since 1979 and the political crisis that emerged eight years later, after the failure of the Cruzado Plan, are both modernization crises. Starting in the 1930s Brazil adopted a state led strategy of development, that proved to be a successful road to modernity for some decades, but since the 1960s it started to present increasing problems. The military regime that came to political power in 1964 kept to the same import substitution policies of the past, in spite of its modern rhetoric. The difference was that in the 1970s import substitution was not financed by internal resources but by foreign savings. The outcome is well known: after some years, the state went bankrupt, was paralyzed, and around 1979 the modernization process collapsed. Economic stagnation and a rapid deterioration of social conditions followed.

Since then Brazil is striving to overcome this crisis. Most analysts, however, agree that this will only be possible if the political elites are able to define a new, development oriented, political pact, that would warrant them the required political legitimacy and assure governability. In this paper I will discuss this problem, starting from a question that is not usually asked: why Latin American and particularly Brazilian analysts stress so much the need of

a development project and of a political pact to support it, while in the developed countries people seldom speak about this?

To answer this question, I will associate the problem to the radical heterogeneity of the Brazilian society. While in more homogeneous societies, as the developed ones, a Hobbesian social contract is enough, in dual and underdeveloped societies it is additionally required a development oriented political pact. Only some sort of cooperation among social classes and sectors of society, some sort of class coalition endowed of a development project will be able to assure the necessary governability to the regime. A political pact will enable price stabilization, the implementations of the required - market-oriented - reforms of the state, the resumption of economic growth and the consolidation of democracy.

Brazilian history, since this crisis broke up, has been a story of some successes and other failures. The bureaucratic-capitalist regime, that fathered the present crisis, failed to solve it. The same arrived to the populist-democratic regime that took power in 1985 as an outcome of the transition to democracy. The Sarney administration ended in hyperinflation and in political crisis. The Collor administration, beginning in March 1990, seemed initially to represent a dramatic change towards modernization. Not only the speech changed, policies also changed. Fiscal adjustment, in the first two years, was really severe. Yet, in 1992, the economy was back to budget deficit. The main reason for that were not populist expenditures, but a huge increase in the interest rate paid by the state, that reached more than 30 percent yearly in real terms, while the economy was deep in recession.

The Collor years, that ended with his impeachment late 1992, under the charge of corruption, were years of fiscal adjustment, but were also years of inefficient economic policies, abusively high interest rates and severe recession, as Table 1 shows. Since the inertial character of the Brazilian "indexed hyperinflation" was not adequately taken into consideration by policy-makers, stabilization was not achieved. Yet, market-oriented economic reforms did begin with Collor.

These reforms were continued in the new administration. When vice-president Itamar Franco replaced Collor in September 1992, many thought that he would adopt populist policies, given his political background. Instead, he kept to fiscal adjustment, trade liberalization and privatization, since, in the framework of an acute fiscal crisis, when the treasury is empty and the state has no credit, there is no room for economic populism. Yet, given high inflation, that in August 1993 reached 34 percent a month, conventional wisdom in the First World was that Brazil was the only major country in Latin America that resisted reform. This was false, the outcome of a certain

kind of blindness that high inflation provoke. Modernization, although incomplete, was taking place in Brazil, in spite that a structural crisis plagued the Brazilian political system and turned governability precarious.

Table 1: Budget Deficit, Growth and Inflation (%)

	Budget Deficit	GDP Growth	Inflation
1989	6.9	3.3	1,635.8
1990	-1.2	-4.4	1,639.1
1991	-1.5	0.9	458.6
1992	2.3*	-0.9*	1,129.5
1993**	2.5	4.0	1,500.0

* Preliminary data.

** Estimated.

Sources: Budget deficit (%GDP), public sector borrowing requirements in real terms: Central Bank. GDP growth: (IBGE) Instituto Brasileiro de Geografia e Estatística. Inflation, consumer price index: FIPE (Fundação Instituto de Pesquisas Econômicas).

In this paper I will not discuss the more pressing problem Brazilian society faces: the failure to stabilize.¹ Instead I will discuss a more general question: the relative failure to modernize. Which is the origin of the political crisis? Why governability is so precarious? Why the country was only partially able to implement fiscal adjustment and to adopt structural and social reforms? Is it basically a problem of lack of strong political institutions or of lack of a political agreement? Why a political pact is so important in Brazil and in most Latin American countries, while in the developed nations it is not? Does this have some relation to the "citizenship contradiction" that characterizes radically heterogeneous societies as Brazil?

1. The Concept of Modernity

Modernity is a very open and imprecise word. Often it means capitalism. But not all types of capitalism. Modernity is identified with the type of capitalism that prevails in the developed capitalist countries, which, in spite of all their problems, represent a model for the developing countries and for the former statist countries. A society is modern when: (1) in the economic realm, it allocates resources in a reasonably efficient way through the market and is dynamic in technological terms; (2) in the social real, economic inequality is not excessive and shows a long term tendency to improve; and (3) in the political realm, when its democracy is solid. A modern society is not only a

1 - On the subject see Bresser-Pereira (1993b).

society that is not traditional, that is not particularist, that is not defined by the privilege, that is not dominated by an oligarchy of aristocrats, robber barons or bureaucrats. As Touraine (1992: 239 and 374) observes, modernity must also be defined in positive terms. A modern society is a democratic society, where the social actors are able to live in freedom, as they are able to internalize personal and collective rights, to recognize the plurality of interests and ideas, and to assume their political responsibility as citizens.

Modernity has an ideological content, but this content is not to be confused with the distinction between Left and Right, which is a part of the modernity concept. To be modern is not to be conservative, much less, neo-liberal or neo-conservative. The distinction between being conservative, or putting order above justice, and being progressive, which means to be willing to risk order in the name of the justice, remains as important as ever. Yet, in times of transformations as ours the distinction between archaic (or populist, or statist, or corporatist) and modern has become crucial. There is an archaic and a modern Left, as there is an archaic and a modern Right. Hélio Jaguaribe correctly suggested that "the distance between the modern Left, and the modern Right is far smaller than the gap between them and their archaic forms".(1990: 4).

Modernity means democracy, the primacy of efficiency and an effective concern with social equity. Moderate and modern conservatives, that like to call themselves liberal-democrats, accept a sizeable intervention of the state in social affairs and limited state intervention in economic matters. On the other hand, modern social-democrats, that I am here linking to the modern Left,² may be liberal (in the European sense), as they privilege market allocation of resources, stress individual and human rights as consistent with social rights, and consider as essential to democracy a clear separation between civil society and the state. Yet, in contrast to the conservatives, they are more committed to egalitarianism and have as personal utopia something like a market, self-managed and democratic socialism. Capitalism, despite all its shortcomings, may be the most efficient way to reach such utopia some day, but is not to be confused with it.

This modern Left has been evolving in many ways. During the 1960s we heard about a "new left" in the developed countries. In the 1970s, in the United States, inside the Democratic Party, a new current of progressive politicians, that some people identified with the "Kennedy's children" and

2 - I am well aware that many people that call themselves social-democrats and are member of social-democratic political parties are, in fact, liberal-democrats, i.e., moderate conservatives.

William Schneider (1990) mistakenly called "neo-liberals", was born. As those young politicians gave far greater emphasis to the market than to efficiency, they were often mistakenly seen as being conservatives. These new progressive politicians aimed at blending the "liberal (progressive) tradition with the values of pragmatism, efficiency and good management, so that things would work out" (Schneider, 1990: 5).³ The victory of Bill Clinton in the 1992 U.S. presidential elections was an outcome of this concept of modernity.

It has some points of contact with the neo-liberal perspective, but is clearly different from it. Actually, although in the United States there is not a social-democratic political party, Clinton's modernity is a social-democratic modernity. Or a social-liberal modernity, in the line of Rosselli and Bobbio.⁴ Clinton and his associates are committed to the market as they are committed to social welfare. They count on the market and the state to coordinate the economy. They know that a real democracy demands not only the assertion of political rights, but also of social rights.

2. The 1977 Populist Democratic Pact

If modernization is the transition process from archaic to modern values and practices, it is this process that remains incomplete and in danger in Brazil today. Since the 1960s, the archaic right identified itself with military bureaucratic authoritarian developmentalism, while the archaic left denoted economic populism. Since the 1980s, a transition from conservative and left

3 - In the United States the term Left applies only to the Marxist or Neo-Marxist Left. The moderate or progressist Left is called "liberal". I prefer to call them "progressive" or "social-democrat", to avoid confusion with the European meaning for liberal and liberalism. The "liberal" in the American sense is a democrat socially reformist who opposes the conservatives - the European and also Latin American "liberals". Galbraith is the utmost "liberal" of the United States. President Frank D. Roosevelt is the prototype of the American "liberal" politician. In order to avoid misunderstanding the Englishmen, who are placed between the United States and Europe, very appropriately began to use the term "neo-liberal" to define today's radical liberals in the European meaning. They may also be called neo-conservative. Schneider gets confused and call "neo-liberals" the "new liberals", ie., the new progressive politicians who appeared in the Democratic Party as from the 1970s, stressing market co-ordination of the economy, in opposition to the "old liberals" in the Roosevelt-Galbraith tradition.

4 - Following the inspiration of Carlo Rosselli (1924), Norberto Bobbio (1984: 100-124, 1990: 148-150) and Michelangelo Bovero (1993: 144-155) have been writing about this attempt to a synthesis - or "a compromise", as Bobbio prefers - between democratic socialism and liberalism.

forms of archaism - from authoritarianism, statism and populism to modernity - is taking place in Brazil in a dramatic and contradictory way, combining an effective democratization process, sizeable improvements in the organization of workers, bold trade liberalization, effective privatization, substantial technological progress, and generalized increase in productivity, with incompetent orthodox and heterodox stabilization programs, inability to solve the fiscal crisis, the resurgence of populism, high rates of inflation, reduction of the investment rate, economic stagnation in per capita terms, and public frustration.

The democratic transition was a transition from a conservative and authoritarian regime to a not less archaic and populist coalition of businessmen, middle class bureaucrats and workers, that, from 1977 to 1987, formed what I use to call the "1977 populist-democratic pact". As it should be expected, this political coalition, that assumed power with President Sarney in 1985, failed to resume the process of modernization and development.

Writing about the Brazilian crisis and the modernization of the Brazilian society, João Paulo dos Reis Velloso (1990: 24) said that the first basic idea "is the option for a democracy that would be buttressed by a new political and social coalition, with a broader basis than the former one. Be the government from the center, the center-left or the left, it will have to incorporate some popular forces to the political coalition behind it, given the accumulated social demands that must be satisfied. Only in this way will we have large political majorities able to support stable governments". When Velloso said that, he was conveying a very general belief that modernization today in Brazil is impossible without incorporating the masses in a broader political pact.

Brazil, since the failure of the Cruzado Plan, has been experiencing a political vacuum. Industrialized countries usually don't require a clear political coalition to be managed. Their societies are homogeneous enough so that a broad social contract, in the lines defined by Hobbes and the eighteenth century political philosophers, is enough. A social contract that defines the limits of civil society and the state. In most developing countries - and certainly in the Latin American ones, however, just a basic social contract would be a too fragile political arrangement. Given their social heterogeneity, class coalitions able to formulate a national project are required to guarantee political stability and a sense of direction for society. In Brazil a political coalition like that has not existed since 1987.

It is possible to analyze Brazilian political history by defining its successive class coalitions or political pacts. Up to 1930, an oligarchical political pact prevailed in Brazil based on the primary-export model. From

1930 to 1964, there was the national-developmental or a populist pact. In this class coalition, the industrial bourgeoisie, the bureaucratic middle class, labour and sectors of the old oligarchy united around import-substitution industrialization. The 1964 authoritarian regime was the outcome of the bureaucratic-capitalist or bureaucratic - authoritarian pact, that put together the bourgeoisie as a whole, the military and the civilian bureaucracy, excluding most of the workers and the democratic sectors of the middle class.

With the crisis of the authoritarian coalition in mid 1970s,⁵ a new political coalition began to be formed: "the 1977 populist-democratic pact". This class coalition was formed when the bourgeoisie lost its fear of the communist threat, saw that the military were no better than the civilians in running the economy, and decided - through a long and uncertain process - to break its ties with the military regime and ally itself with the democratic middle class and the workers. If one wants to be precise about when this political pact emerged, it was in 1977, after the "April package".⁶ It fell apart in early 1987, when the failure of the Cruzado Plan proved that the class coalition in power did not have a real proposal for the modernization of Brazil. It was successful in its major and specific objective - reestablishing democracy in Brazil -, but failed in stabilizing the economy, resuming development and fostering a more equitable income distribution.

It failed because the crisis left behind by the authoritarian regime was extreme - a fiscal crisis of the state and a crisis of the mode of state intervention -, but also because this democratic political coalition was also a populist one. Their leaders believed that import substitution, deficit-expending, an widespread system of state subsidies, and naive wage policies could be effective in promoting growth and distributing income. The "New Republic", set up in Brazil in 1985 as the outcome of the populist-democratic pact, had high hopes and aspirations when it reached power. It said "no" to recession, and was reluctant to recognize that wage increases could provoke inflation, that the public deficit was a serious problem, that the state had

5 - I analyzed the political pacts in Brazil in three books *Development and Crisis in Brazil, 1930-83*; *O Colapso de uma Aliança de Classes*; and *Pactos Políticos*.

6 - In April 1977, President Geisel closed temporarily Congress and adopted a package of authoritarian measures (the "pacote de abril"), over-responding to the fact that Congress did not approve legislation reforming the judicial system. The authoritarianism and gratuitousness of this act provoked national indignation and set off the transition to democracy. From that moment on the political alliance between the bourgeoisie and the civilian and military bureaucracy was broken. The transition to democracy would be a question of time. I analyzed this change in *O Colapso de uma Aliança de Classes* (1978).

grown too large, that the statist, protectionist development strategies were exhausted, and that the state had become immersed in a deep fiscal crisis.

After the failure of the Cruzado Plan, on which all of society's hopes had been pinned up, Brazil has been living in a political vacuum. The great class coalition that characterized the 1977 populist-democratic pact, that brought together the business community, organized labour and intellectuals, ceased to exist, and nothing has taken its place. Modernization, that proved to be unfeasible under this populist coalition, since 1987 has no new political coalition to support it. Yet, political vacuum ensuing the collapse of the 1977 populist-democratic pact smoothed the way for a political out runner, Fernando Collor de Mello, be elected president in the end of 1989 and introduce overdue market-oriented reforms, particularly trade liberalization.

3. Collor's Modernization

President Collor was elected in this vacuum. He was elected without the support of any major political power, exclusively based on a direct rapport with the masses. This fact was viewed by many as "normal" in Brazil. This is a mistake. The election of a president without political roots was only possible in Brazil because the break down of the populist-democratic pact left a political vacuum behind it. Collor's election was not the product of a class coalition, nor did it represent the victory of any political party or political tendency. It was simply the consequence of his ability to reach the people with a morally indignant stand, when the political parties and the social classes were disorganized.

Once in office, the President decided to gain this much-needed support through a frontal, dramatic, attack on inflation. On the other hand, he adopted a bold program of economic reforms led by trade liberalization and privatization.

In the opinion of most left-wing intellectuals these reforms identified the Collor administration with the neo-liberal right. This was a mistaken view. Neo-liberalism is the ideology of the new right. It is a neo-conservative view of society, radically contrary to state intervention in the economy. Neo-liberalism is the old economic liberalism up-dated by the neo-classical views of the Austrian School (Hayek), by the monetarist and the new neoclassical macroeconomics (Friedman and Lucas, respectively), and by the critique of the state carried out by the rational choice school (Buchanan and Olson). Neo-liberalism is what Margaret Thatcher unsuccessfully tried to implement in England for eleven years. Neo-liberalism was what the Reagan administration preached rather than practiced. As neo-liberalism is an utopist view of society, where the state would be minimal, deprived of any economic

and social role, the American neo-liberal experience wrapped up in a curious mixture of conservative and populist policies, that led the economy to fiscal crisis and seriously aggravated the social problems of the United States.⁷

Neo-liberalism is deeply pessimistic and individualistic about the possibilities of social cooperation or of collective action. Its objective is the minimal state. Not only industrial and technological policies make no sense to neo-liberals, but also short-range macroeconomic policies would be fallacious. Market is perfectly self-adjustable, exclusively responding to prices and expectations of economic agents. Moreover, the true neo-liberal condemns social policy itself, since it would inhibit work and individual initiative. As Hirschman (1991) emphasized, this new right is founded on the "perverse effect principle", that was already present in Edmund Burke's conservative social philosophy: the attempt to improve the distribution of income and reach greater social equality would be perverse to the extent that its real effects are opposite to its objectives. For a neo-liberal, the fact that the history of the European social democracies denies this proposition does not matter. The perverse effect principle is a powerful ideological argument against a more effective state action on the social and economic realm.

According to this concept of neo-liberalism, Collor was clearly not a neo-liberal, as are not neo-liberals most of the Latin American chiefs of state that have adopted market-oriented reforms since the late 1980s.⁸ The industrial and technological policy his administration attempted to execute was not neo-liberal by definition. Trying to assign a key role to the market in the coordination of the economy is not neo-liberalism. If the state grew too much, got distorted, lost public credit and went bankrupt, it is just common sense. When the state faces a pressing fiscal crisis, fiscal discipline and privatization of state-owned enterprises are obvious outcomes. Through privatization the state obtains part of the resources it needs to reduce its debt. On the other hand, trade liberalization should have began long ago, when the strategy of import-substitution became exhausted in the early 1960s. Collor was called "neo-liberal" owing to a far too wide definition of the term, that the Left in Latin America insists to utilize.

In Brazil, several forms of the liberal ideology are present among the business class, but neo-liberalism as such is not an ideology effectively adopted by any relevant sector of society. To be conservative in Brazil does

7 - About the new neo-liberal Right, see Nick Bosanquet (1983), Ruth Levitas, ed. (1986), Dunleavy and O'Leary (1987) and Norman Barry (1987).

8 - This is the case of Andrés Perez in Venezuela, de La Madrid and Salinas in Mexico, Fujimori in Peru, Menem in Argentina.

not mean to be against state intervention except for rhetorical purposes. The capitalist-bureaucratic coalition that ruled the country between 1964 and 1984 was authoritarian, conservative and for state intervention. In the late 1980s the neo-liberal rhetoric gained room in the discourse of Brazilian conservative politicians and businessmen, but a corresponding political practice did not emerge. Even among the intellectuals it is hard to find true representatives of this perspective.

Collor was elected under the banner of modernity, that he correctly defined as expressing the superiority of the market over the state in resource allocation and the commitment to fight poverty and social inequality. In his direct, personal relationship with each elector there was a clear populist element. But this fact didn't lead him to adopt populist practices when in office. His stabilization policy failed, but this was not due to his adoption of populist practices out of the fear of turning unpopular. He never denied his personal support to the policies his two economic team proposed.⁹ It was not because fiscal adjustment was not undertaken. It rather failed due to the fact that the inertial character of Brazilian inflation was not correctly appraised¹⁰. His impeachment, in 1992, was not an outcome of resistance to the economic policies he adopted, nor from his personal failure to stabilize the economy. It was rather the consequence of proven corruption charges, that revealed a divided and unstable personality: on some occasions he proved totally unable to distinguish the public sphere from his private interests, on others, he demonstrated a bold and enlightened vision on how to modernize Brazil.

4. The Political Vacuum

The Collor administration ended formally in September 1992, when Fernando Collor de Mello was replaced by vice-president Itamar Franco. Yet, he suffered a first significant blow still in 1990, with the failure of the Collor Plan I (March-May) and of the Eris Plan (May-December). The Collor Plan II (January, 1991) was just a blunder. And the Marcílio Plan (May 1991 - September 1992), although IMF supported, was a non-stabilization plan that, besides reflecting conventional monetarist views about Brazilian inflation, revealed a deep anomaly in the Brazilian society. Its elites are unable to formulate a national project, and adopt an accommodative posture in relation to high inflation. The Itamar Franco administration is facing the same problem. The new president is not proving to have the extraordinary

9 - The first economic team was led by Zélia Cardoso de Mello, between March 1990 and April 1991, and the second, by Marcílio Marques Moreira, between May 1991 and September 1992.

10 - See Bresser-Pereira and Nakano (1990).

leadership qualities that are required today in Brazil to stabilize the economy and fill the political vacuum with a new development project.

Yet, without a new and broader political coalition, that compasses part of the masses, the elites, lacking legitimacy, do not have enough political power to promote the fiscal adjustment, stabilize prices, and define a new strategy of development. The failure to stabilize certainly may be explained by the inefficiency of the stabilization programs. It also may be attributed to the fact that some sectors of society have not yet become totally aware of the gravity of the crisis, or believe that the costs of fiscal adjustment may still be avoided, postponed or paid by others. This is true, but it is rapidly ceasing to be. Today only a few sectors of society profit from inflation, and the social awareness of the crisis is much higher, than was, for instance, in 1987.

Yet, the basic cause behind the perplexity and disarray of the Brazilian elites must be found in the political vacuum, in the fact that a modern democratic political pact did not replace the 1977 populist-democratic coalition. This is why the crisis is worsening; why hyperinflation is not effectively confronted; why authoritarian voices started to be heard again.

Military have no project for Brazil. They cannot assume the role of "saviours", as they did in 1964. In spite of all difficulties, democratic culture advanced in Brazil. As José Álvaro Moisés (1993: 32) observes, "empirical evidence confirms the existence in Brazil of a preliminary 'reservoir' of democratic legitimacy. Despite a growing and intense malaise among citizens about day-to-day workings of politics, adherence to the normative principles of democracy persists among different segments of public opinion". But democracy is far from being consolidated in Brazil. There is in Brazil a limited democracy of half-citizens, where governments lack legitimacy and chronically face a governability crisis. While social differences are not reduced, while society does not turn less heterogeneous, only a development oriented political coalition will be able to strengthen democracy.

Society has been trying to reestablish a broad political pact. An approximation between the business community and labour is taking place at various levels. On the business side, FIESP, the São Paulo State Federation of Industries is more open to dialogue. New organizations, like PNBE (Plano Nacional de Bases Empresariais, a group of young business men) are vigorously fighting for a new political coalition. On the labour side, trade unionism, including CUT (Central Única dos Trabalhadores) itself are becoming less radical and showing a new openness to negotiations. On the bureaucratic and intellectual side, there are attempts to organize around political parties near the center, such as PSDB (Partido da Social Democracia Brasileira), or to move the Workers' Party (PT) to political positions closer to

social-democracy. Populism, statism and nationalism, that the PSDB has criticized since it was created, are now being questioned by the workers and the Left. Collor, with his José Guilherme Merquior inspired proposal of a "social-liberalism", was trying to define a common ground between the liberal Center-right and the social-democratic Center-left.

Yet, all attempts to define a new political pact have not succeed. The reasons are many. First, because the national-developmental and populist sentiments in Brazil are still strong, although clearly in retreat. Sizeable sectors of the working class and of the bureaucratic middle class are attached to an archaic view of development and refuse or have difficulty to embark in a modernization pact. As Lourdes Sola (1993: 158) observed, "as important as the social and political impact of economic reforms are the *intellectual adjustments* that are required from the governmental economic and political elites, where the task of rebuild the state in new basis is necessary".

Second, because people fear that a modern pact will not consider the national interest of Brazil. Leading intellectual personalities, like Celso Furtado, that, after Prebisch, was the more important Brazilian economist defining the national-developmental interpretation of Latin-American, express this view in a compelling way. Reacting to the excessive internationalism that usually accompanies modern, market oriented reforms, Furtado recently observed that the developed countries, through the high indebtedness and high interest rates, are transferring income to themselves and promoting the disorganization of the national state in the developing countries. And adds: "the predominance of the logic of the multinational enterprises in organizing economic activity will necessarily lead to the increase of inter-regional tensions, to the exacerbation of corporative rivalries, and to the formation of poverty enclaves, that will make unviable the country as a national project" (1992: 35).

Third, because the state bureaucracy, whose role in any new political pact will be crucial, lost influence and was put in the defensive in the last 15 years, accused of authoritarianism by the democrats and of statism by the neo-liberals. As Luciano Martins (1993: 12) observes, "the institution that always 'thought' the country's development, be it under authoritarian or democratic regime, was the state. Be this through the circles of its higher bureaucracy, be it through the intelligentsia in some way participant of the state. Or, this is today a faltering element that was present in the previous developmentalist strategies".

Fourth, because the gap between the elites and the people in Brazil is too large. In the next section I will analyze this last and central problem of Brazilian society.

5. Institutions or Class Coalition?

According to Aspásia Camargo, "the Brazilian crisis is in large part the outcome of the high burden that still today we bear for our archaic past... This high burden is defined by the `social debt', that resulted from a slave-owning society's cultural tradition, based on a contempt for productive work and on the hierarchical rigidity of social relations" (1990: 51-52). The "social debt" is another - and well established in Brazil - way of expressing the extreme income concentration prevailing in Brazil.

If there is a consensus in Brazil about the basic character of Brazilian society, this consensus is that Brazil is a dual, extremely heterogeneous society. Sérgio Abranches underlies that "the Brazilian institutional dilemma is defined by the need of finding a system of institutions able to efficiently aggregate and process pressures from an essentially heterogeneous social structure" (1990: 174). The state and the political parties are, theoretically, these institutions. In the same line of thought a large literature has been developing recently (O'Donnell, 1970; Malloy, 1991; Torre, 1991) attributing to weak institutions, particularly to weak political parties, the insufficient consolidation of democracy in Latin America. Malloy observes that the problem of governance has two facets: the first is the task of constitutional engineering, i.e., of institution building, and the second the strategical and tactical need to build electoral and governing coalitions. Yet, his central argument is that in Bolivia, Ecuador and Peru "political parties have not been a central factor within the process of coalition building; and that this fact has weakened the ability of these states to maintain democratic regime forms over sustained periods of time" (1991: 7). Thus, a particular institution, political parties, would have a strategic role in the consolidation of democracy. Ducatenzeiler and Oxhorn (1992: 10) go farther in singling out institutions as the strategic factor in the consolidation of democracy: "The current and historical weakness of political democracy in Latin America is in large part the result of the underdevelopment of civil society and distortions created by the absence of strong institutions which can mediate and regularize power struggles between competing interests".

Yet, to say that the consolidation of democracy depends on the existence of strong political institutions within an organized civil society is as true as obvious. When we make this assertion we are in the realm of definitions, not of causation. A consolidated democracy is a political system where civil society and institutions are strong. Where political parties are representatives, where the constitutional system, where the law and all other state institutions are well organized. When democracy is not consolidated, institutions will be by definition weak and ineffective. Developing countries, where the state is

weak, where democracy is never fully consolidated, will necessarily have weak institutions.

The problem is to know why institutions, including political parties, are weak and democracy not consolidated in developing countries and particularly in Brazil. My suggestion is that the main reason is the extremely heterogeneous, dual character, of societies in developing countries. In Brazil, particularly, this is quite clear. Given the extreme heterogeneity of the Brazilian society, both the political parties and the state lack political legitimacy. One of the main themes that are being discussed in Brazil is how to design more appropriate political institutions. The main political reform - the adoption of the parliamentary system - was defeated in the April 1993 plebiscite. But the political reform agenda is large, including a mixed, German style, electoral system, half proportional, half based on districts; the correction of disproportions in the representation of the federal states in the house of representatives; the limitation the number of political parties; the requirement of party fidelity; in redefinition of the federal system, limiting the role of the central government in local expenditures.

All these institutional changes are necessary. They have strong rational arguments to back them. Their inner motivation, however, is to reduce the acute lack of legitimacy of the governing elite. They intend to increase the representativeness of Brazilian politicians. Yet, some will probably not be enacted. And for sure, they are no panacea, they will not solve the legitimacy problem of Brazilian government nor will consolidate democracy in Brazil, since its basic reason is not institutional but social.¹¹

The short term solution for this lack of legitimacy is not to design institutions - although this undoubtedly helps - but to be able to design a development oriented political coalition. The fiscal crisis, that paralyzes the state, and the need to implement fiscal adjustment and market oriented reforms with strong distributive and ideological implications are obviously an obstacle to such coalition. Workers will resist to liberalization more than industrialists, and industrialists, more than traders and bankers. Capitalists

11 - Herbert (Betinho) de Souza, National Coordinator of the Cizenhip Action against Misery and for Life - a Brazilian government sponsored social program - expressed in a dramatic way the gap between state institutions, particularly political parties, and the people in Brazil: "Political parties live around the power of the state. They play a well known game: they want to win power, and for that reason they reflect the dominant class agenda. They believe that power is in the state and not in society. They only have eyes to a white, employed, rich, sophisticated, car driving, well integrated in the formal market society" (1993: 3).

will resist more to higher taxes and to progressive taxes than the middle class, and the middle class, more than the working class. But, as fiscal adjustment and market oriented reforms are necessary, as there is no other alternative but to implement them, as in a situation of fiscal crisis there is no room for populist policies, sooner or later reforms will be adopted. If these reforms are complemented by a development oriented political coalition, if society reaches some political agreement, the ensuing political legitimacy will represent a kind of political shortcut to the resumption of economic development and to some advance in consolidating democracy. In this moment, new and more adequate institutions will also concur to the consolidation of democracy. If, in a moment of crisis of the state, the main problem, is to build governance capability, Juan Carlos Torre (1990: 3) observes that "the more generalized response to this question has been to propose cooperation strategies between political and social actors... These political pacts or agreements generate governance capability, as they are conducive to a concerted way of selecting and reducing political demands, so as to make them consistent with the political and economic cycle".

The basic problem is to close or reduce the political gap existing between the electoral coalition, that elects the government, and the governing or sustaining coalition, that, in a radically heterogeneous society as the Brazilian one, it are quite apart. In Brazil, today, the crisis of the state is the immediate cause of governability problems; the dual character of the Brazilian society, the mediate one. Lourdes Sola (1991) emphasizes that the implementation of economic reforms and the consolidation of democracy depends on the ability of political actors to come to "a consistent governing coalition", based on consistent (and efficient, I would add) macroeconomic reforms and on the existence a democratic constitutional regime. A governing coalition will be much facilitated if significant sectors of society were able to define a development project, that includes fiscal adjustment and market oriented the reform the state.

6. The Citizenship Contradiction

Political problems in Brazil essentially derive from the heterogeneous character of its society. It is well known that Brazil is one of the countries with highest concentration of income in the world. In a sample of 56 countries, that include Uganda, Philippines and Guatemala, Brazil is the worth in terms of concentration of income. Even countries like Peru, that used to have a more concentrated income, nowadays show a better performance. The ratio income of the first quintile - income of the 5th quintile, that is around 6 in the developed countries, and of 7 in Asian middle income countries, is 24 in Brazil. The poorest 50 per cent get 12 percent of

income, while the richest 10 percent make 48 percent of income. In 1990, 50 percent of the workers had wages up to two minimum wages; in this year the minimum wage corresponded to approximately 60 dollars. Monthly wages of public school teachers in the richest state of Brazil - São Paulo - are just 200 dollars.

The social conditions have been improving in Brazil, but slowly. Comparing 1960 with 1990, we have that the illiteracy rate decreased from 39 percent to 20 percent; life expectancy in the day one is born increased from 52 to 62 years; infant mortality rate (less than one year) decreased from 118 to 85 percent. These figures, however, are still extremely unsatisfactory. Developed countries have around 2 percent illiteracy rate; life expectancy is around 75 years; the infant mortality rate is around 9 percent.

These negative indicators are a consequence both of the low level of productivity or income per capita of Brazil and of the concentration of income. Up to 1980, growth and productivity rates were increasing. From 1960 to 1980 per capita income increased 120 percent; the average yearly rate was 6 percent. Yet, from 1980 to 1992, it remained stagnant; actually it decreased 8 percent. As to the level of concentration of income, it only increased, stressing the perverse or distorted character of the previous modernization process. In 1960 average income of the 10th decile was 34 times larger than the average income of the first decile; in 1990, it was 60 times larger. In this period, while the 9th and the 10th decile increased its income at an average rate of 2.9 and 3.1 percent yearly, the first and the second increased at 1.3 and 1.7 percent, and the third, fourth and fifth deciles, only at 1.1 percent.¹²

According to Romão (1991), the proportion of poor in the population, that was around 40 percent in 1960 and 1970, declined to 24.4 percent in 1980. Yet, with the economic crisis of the 1980s, it rose again, as an increasing number of families crossed the poverty line. In 1988 it had reached the 1970 levels (39,3 percent). In the last five years, this situation probably deteriorated further, given the recession and the continuing income concentration, favouring particularly the financial sector, that high inflation condones. On the other hand, poverty was extremely uneven in regional terms. According to Sônia Rocha (1991), while, in 1989, in the Northeast metropolitan areas it was around 40 percent, reaching 47.2 percent in Recife, it was 20.9 in São Paulo and 13.5 in Curitiba. According to Juarez Brandão Lopes (1993), almost 40 percent of the urban population, corresponding to 41

12 - These figures have as sources: Instituto Brasileiro de Geografia e Estatística (IBGE) and World Bank.

million people, are below the poverty line. Poverty is more accentuated among the children and the non-white. Poverty is characterized by low income, precarious if any public health equipment, housing in "favelas" and slums, illiteracy, larger number of children per family (three to four times more than non-poor families), absence of books, telephone and television sets.¹³

Yet these immense mass of poor, that represent 40 percent of the urban and 45 percent of the rural population, vote. In this intrinsically dual society, they are citizens. They conquered the right to vote, but they have an enormous difficulty in making good use of it, in protecting their own interests. They are objectively, according to the law, citizens, although subjectively most are not, since they are not aware of their political rights and have little or nil capacity to assert them and participate from political life. In a population of 150 million people, there are 85 million electors, but probably less than half of these 85 million are effective citizens. This right to citizenship was a conquest of democracy and is a clear warning to the conservatives that this social ghetto is inconsistent with modernization. But, coupled with the radical dualism of the Brazilian society, this right to vote is a citizenship contradiction, it is a short term source of illegitimacy for every type of government, and the origin of authoritarian beliefs, that, although subdued, are still alive.

The radical social dualism creates terrible political problems. First, it makes easier exploitation, the continuation of extreme income concentration. Second, it sanctions the traditional conservatism and authoritarianism of Brazilian elites. Third, it favours populist policies, particularly in electoral campaigns. Forth, it deprives of political legitimacy the elites, blocking a broad democratic and popular pact that would facilitate governability. As Francisco Weffort observed, this "dual system, rather than a exclusion system, is a domination system" (1992: 25). But, I would add, a domination system that works in an increasingly poor way as it became prey of a basic contradiction: the dominated are or have the right to be citizens.

7. The Vicious-circles

It became a common place in Brazil to say that "the cause of the Brazilian crisis is political". And that the solutions are also "political". There is some

13 - The poverty line in these studies, in terms of monthly dollar income, varies according to the cost of living in each region or city. The poverty line was 54 dollars in the urban North and Center-West, 35 dollars in the urban Northeast, 48 dollars in the urban South-East and 39 dollars in the urban South.

truth in any conventional wisdom like that. It reflects the contradiction that everyday live the Brazilian politicians. They are supposed to support sound, rational policies, that solve the fiscal crisis of the state and reform it, but they are elected by a mass of electors that is unable to guide their action in this direction. In consequence, they often turn hostage of special groups of business men, bureaucrats and union leaders who lobby in the Congress. If electors were well informed, if political culture or political education in Brazil had a different level, similar to the one existing in the consolidated democracies, Congress, the Executive and the Judiciary would function more efficient and effectively. Populism and the defense of special interest would have less room. Democracy would not be "delegated" (O'Donnell, 1990) or "regulatory" (Weffort, 1989, 1992).

All this is obvious, but to say that the main cause of the Brazilian crisis is "political" either means nothing because it is a too general affirmation, or puts us in an insurmountable political vicious circle: in this situation democratic economic and political development becomes impossible. Besides, it either reveals a technocratic bias of expecting too much of the state, or an authoritarian belief that only an enlightened prince can solve the Brazilian problems.

Actually, if this "political" explanation was true, economic and political development would have been impossible in the context of democracy in Brazil. The periods in which Brazil developed while prevailed a democratic regime would not have existed. I will not discuss this theme here. In countries where primitive capital accumulation was not yet achieved and where a capitalist system was not consolidated, democracy is an improbable political regime. But once this happened, once the rate of investment is already sizeable and a large capitalist class is well established, once this bourgeoisie is able to capture the economic surplus through the market mechanisms instead of having to recur to force (as pre-capitalist and mercantilist dominant classes do), democracy is viable. Viable and by far the best political regime. Brazil already reached this level.

When there is an economic crisis, we have to look for the new historical facts that gave origin to it. Since 1987 I have been saying that the basic cause of the Brazilian crisis is the crisis of the state.¹⁴ Actually, this hypothesis is part of what I propose to call the "economic vicious circle" of the Brazilian crisis. Besides it, there is also a "social vicious circle". Together they offer an explanation for the crisis and the clue for the reforms that will solve it.

14 - See Bresser-Pereira (1987, 1990, 1993a).

The economic vicious circle may be described starting from the exhaustion of the import substitution strategy, the debt crisis and the adoption of populist policies, that lead to a fiscal crisis of the state. The fiscal crisis generates high inflation, that imposes a high interest rate, that lowers the investment rate, bringing the economy to slow-down and finally to stagnation, that reduces tax revenues, further diminishes public savings, increases the public deficit and the public debt, and - closing the circle - aggravating the fiscal crisis of the state.

We may describe the social vicious circle starting from the citizenship contradiction, i.e., from the existence of a society radically heterogeneous, where there is a high degree of poverty and illiteracy, but where a structural transformation took place in the last 50 years. This historical new fact was the enormous increase in formal citizenship, was millions acquiring the right to vote. From this citizenship contradiction evolve an intrinsic lack of legitimacy of the elites, that determines the difficulty of celebration of a political pact, that further deepens the legitimacy crisis of the government. The issuing governability crisis - that is also a consequence of the fiscal crisis - paralyzes the state, that is constrained to act in benefit of private, corporatist and regionalist interests, instead of promoting economic growth and income distribution. In this way, modernization is stalled; social dualism and the citizenship contradiction are maintained. The vicious circle is closed.

These vicious circles are not insurmountable. In both circles we may find a "weaker ring". Once this ring is broken, the whole vicious circle may be broken. In the economic vicious circle, the weaker ring - strong as it may be - is high inflation. In the citizenship contradiction or in the political vicious circle, I am suggesting that the weaker ring is the achievement of a development oriented political pact.

In the medium run, there is no doubt that it is in the extension of education to everybody that remains the basic solution to this contradiction. Education is directly essential to economic development, to distribution of income and to political culture. But education itself is constrained by social heterogeneity. As José Márcio Camargo (1993) observed, the failure of Brazil to educate is less related to failures of the educational system and more to extreme poverty. The high failure rate and the large evasion rate of grammar school students may have directly educational causes, but its main cause is the fact that children have to work very early. In 1988, 30 percent of the children between 10 and 14 years in families with per capita income below 1/4 of the minimum wage worked. More than 50 percent of these children worked more than 40 hours per week, effectively contributing to the family

income.¹⁵ The only way to transform formal citizenship in real citizenship is education and economic development, combined with institutional improvements. Yet, in the short run a development project shared by significant sectors of society may be a shortcut.

8. The Possible Political Pact

Obviously it is not easy to control inflation, but it is easier to do that than to solve the other problems that are present in the economic vicious circle. Similarly it is not easy to define a political pact among capitalists, bureaucrats and workers in Brazil, but it is easier than directly solve the citizenship contradiction. The immediate solution to the legitimacy crisis that is behind the political vicious circle or the citizenship contradiction is a political pact. This political pact would have to have as participants the political elites that represent the three basic social classes that present today in Brazil: the capitalist class, the working class, and, in the middle, the bureaucratic or technobureaucratic class.

I am not speaking of a social agreement, that would put together business and union leaders, with the intermediation of the government. A social agreement like this is probably required to stabilize the economy, but is a much more specific and short term kind of agreement than a political pact. By political pact I mean a much looser and informal agreement, a class coalition, where the political representatives have a crucial role. I mean a political pact as, previously, we had the populist pact between 1930 and 1960, the authoritarian capitalist-bureaucratic pact between 1964 and 1977, and the populist-democratic pact between 1977 and 1987. A political pact that have as common objective a strategy of economic development, or, more broadly, of modernization.

Let me call this political pact a "modernization pact". If it is celebrated, its core will probably be a mixture of European social-democracy with pragmatic East-Asian economic strategy, in which a financially recovered state will have a major role in complementing the market in the task of coordinating the economy and promoting welfare.

15 - This problem could be solved or circumvented through a "minimum income social program", based on the idea of the negative income tax, as Senator Eduardo Mattarazzo Suplicy proposed in Congress (See Suplicy and Cury, 1993). The effectiveness of propositions like that, however, is limited while the fiscal crisis to the state is not tackled.

Among the obstacles to a class coalition the first is that a development oriented political pact only fully defines itself when economic development is already taking place. There is here a classical egg-and-chicken problem. But one may already spot signs that new paradigmatic moment of interpretation of Latin America is beginning to be defined - the crisis of the state approach - because there are signs that the 1980s' crisis is receding, that economic development is being gradually, tentatively, being resumed.

But, if there are obstacles, there are also positive factors that favour a new political pact. The Brazilian social structure underwent deep transformations in the last thirty years. As Wanderley Guilherme dos Santos (1985) notes, the four major social actors in Brazil - entrepreneurs, workers, rural workers and the complex middle class - are today very different than what they were before 1964. Entrepreneurs are today represented by a myriad of parallel associations to the official corporative system. The same arrived to workers. Rural workers underwent an enormous unionization process. The middle class - that I would rather call the bureaucratic or salaried middle class (the capitalist or traditional middle class corresponds to the lower stratum of the capitalist class) - increased, was proletarianized and increasingly unionized. In recent study, Wanderley Guilherme dos Santos (1993) noticed the impressive increase in the number of interest associations in Brazil. This extreme fragmentation is a basic "reason of the disorder", since it turns difficult and complex political representation, but it also demonstrates the vitality of civil society.

The capitalist class, as the dominant class, is ready to participate of a new political pact. It is not afraid of communism or subversion. And recent experience, since transition to democracy was achieved, in 1985, demonstrated that it does not have any chance of politically running the country alone. It either participates of a class coalition, where it will necessarily have a leading but limited role, or it will not lead. In a political vacuum, only special interest groups, particularisms, corporativisms of all sort will prevail, as it happens today. Yet, as Diniz and Boschi (1992) verified in a survey realized in 1991, industrial entrepreneurs are pessimistic as to the possibility of a political pact, given the weakness of government and the opposition of workers, and confounded themselves as to the content of a pact. They adopt a neo-liberal rethoric but express a natural resistance to some market oriented reforms, particularly trade liberalization.

The working class is today better prepared to participate from a political pact than before. It now counts with a political party, the Workers' Party (PT), with three central unions: CUT (Central Única dos Trabalhadores), Força Sindical e CGT (Confederação Geral dos Trabalhadores), and with an enormous quantity of civil associations. On the other hand, it became more

realistic or less demanding that it was immediately after the transition to democracy. In the first years after the new democratic regime was empowered, the representatives of the working class felt creditors of an enormous social debt, identified with actual and presumed "salary losses" and believed that to achieve their demands depended only of political and workers' organization. Eight years later, as inflation was not controlled and growth not resumed, they lost this illusion. They rightfully continue to protest against low wages and poverty, but they know that the economic crisis is more serious that they thought, and that wage increases and income distribution will only possible if stabilization is achieved and growth resumed. On the other hand, through the central unions they increased their technical capacity to discuss the national problems. Before 1980s they were only capable of discuss and demand wages. They have little or no capacity to discuss inflation, stabilization, fiscal adjustment, and development strategies. In the last fifteen years this situation positively changed. On the other hand, their disposition to participate of social and political agreements, that was almost none still in 1985-1986, is today much more inclined to it. The appearance of the "unionism of outcomes" within the Força Sindical is only one indication of this fact. The changes that occurred in CUT and in the Workers' Party are also quite clear.

The problem of the bureaucracy or salaried middle class is more complex. First, because people, including intellectuals and politicians, usually insist in ignoring that this class exists. I will not repeat my arguments on this subject (see Bresser-Pereira 1977, 1978, 1981). Second, because this emergent class, that usually uses the strategy of disguising or negating itself, has been doing this more actively since the middle of the 1970s, when one of its sectors - the upper state bureaucracy - fell under the attack of the democratic political forces that fought the authoritarian regime. Third, because the crisis of the state meant to the bureaucracy increased instability, disorganization, salary and prestige losses. Thus, under political attack and dismantled by the crisis of the state apparatus, the state bureaucracy has today difficulty in participating from a new political coalition.

This last fact implies a neo-liberal contradiction comparable to the classical populist contradiction. To promote growth populists called for active state intervention, but weakened the state supporting chronic budget deficits; while neo-liberals, to achieve stabilization and an efficient allocation of resources, fight the state bureaucracy, when only a strong state bureaucracy

can achieve within the state fiscal adjustment and promote the required market-oriented reforms, that are essentially reforms of the state.¹⁶

The bureaucratic middle class is a large and complex social class. As the bourgeoisie or capitalist class is defined by private property of means of production, that is, by capital, the bureaucratic middle class is defined by the collective property or control of bureaucratic organizations, be them private, public or state organizations. While capitalists make profits, the bureaucratic or "new" middle class receives salaries, and the workers, wages. This class has been rising in the last hundred years all over the world, basically as an associate to the capitalist class. In one moment, in Soviet Union and the communist countries, it tried to fight and replace the bourgeoisie, but eventually failed. In Brazil it is in the defensive since the 1970s, not only because of its compromise with the authoritarian regime, but also because the crisis of the state and the neo-conservative wave were powerful factors in weakening it.

Yet we now that in contemporary, market oriented but bureaucratic capitalism, is impossible to have an effective class coalition without the participation of the bureaucratic middle class, particularly of the state upper bureaucracy, that in Brazil had a key role in the development of the country between 1930 and 1980.¹⁷ The state bureaucracy is supposed to participate form a political pact in the realm of a fiscally recovered state, the private bureaucracy, the public bureaucracy, through the universities and all non-profit organizations, the private bureaucracy through the large business and consulting organizations.

Which will be the content of such political pact? I believe that will be some kind of synthesis or compromise between the non populist aspects of the national-developmental interpretations and the non-radical aspects of the neo-liberal critique. It will start from the assumption that the basic cause of the crisis is the crisis of the state, that paralyzed it. Thus, the first assignment is to recuperate the state. To recuperate the finances of the state, to recuperate the personnel of the state, to recuperate the organization of the state. For that, economic reforms will have to be implemented, and these reforms will be (or already have been) market oriented reforms. Privatization,

16 - On the "neo-liberal paradox" see Haggard and Kaufman (1991) and Sola (1993).

17 - For an analysis of the Brazilian state bureaucracy see, among others, Luciano Martins (1976, 1985), Sérgio Abranches (1978), Edson de Oliveira Nunes (1984) and Ben Ross Schneider (1991).

liberalization, deregulation are reforms of the state. They transform state action. Their rationale is not only to enhance market coordination of the economy but also to recover the finances of the state and to assure governance. The second job will be to define a development strategy, that will probably be a mixture of European social-democracy, welfare oriented, and East-Asian pragmatism, industrial and technological policy oriented. It will be a pact that refuses narrow nationalism, but adopts a consistent international policy based on the national interest - an interest that has to be defined case by case.

If the state technobureaucracy recovers part of its prestige and is able to participate of a new political pact, a problem will immediately arise: will this technocracy be able to pragmatically adopt a mixture of a social-democratic and East-Asian approach to the economic problems? In the past it partially was. The oriental technobureaucracy certainly has been. But Latin American including the Brazilian technocracy, particularly the economists with Ph.D. in the United States, were strongly influenced by neo-conservative ideas that dominate American universities. Thus, as observes James Malloy (1991: 27), "we may be witnessing a new kind of ideological division within neo-liberal coalitions: one that sets off abstract theoretical constructions of market capitalism fashioned by macro economic technocrats from understandings of capitalism forged in the concrete experience of firms and economic sectors... The central contradiction emerges from the fact that technocrats attached to governments design programs around concerns with aggregate outcomes (GNP etc) of a market based economic logic and not the fate of any given firm or group". This danger no doubt exists. In fact, however, the state bureaucracy is strongly influenced by the ideological ambience, that is mostly influenced by the dominant views of the bourgeoisie. Given the ideological hegemony of this class, if it turns to neo-liberalism, bureaucrats will tend to do the same. As a reaction against neo-liberalism is already evident in the world, including in Brazil, it is reasonable to expect that the state upper bureaucracy, that is essentially flexible in ideological terms, be a strategic partner in the required development oriented political pact I have been discussing in this paper.

9. Conclusion

In summary, Brazil and Latin America confronted in the 1980s the worst economic crisis of their history. Its basic cause was not chronic insufficiency of demand, but the crisis of the state - a state that had performed a leading role in promoting economic growth. The crisis of the state is defined by a fiscal crisis and by a crisis of the mode of intervention: the import

substitution strategy. With the crisis the state was paralyzed. Instead of being a tool of economic development, turned into an obstacle to it.

The ensuing economic stagnation, defined by negative growth of per capita income, implied the modernization process was put to a halt. Only one aspect of modernity advanced: democratization. Many Latin American countries, including Brazil, made their transition to democracy. Yet, the other two elements of a modern society - economic growth and distribution of income - were absent. And the new democracies suffered an essential evil: the lack of legitimacy of their governments. This lack of legitimacy derives from the radically heterogeneous character of the Brazilian society. In a dual society like that, where 40 percent of the population is below the poverty line, a Hobbesian social contract is not enough to link together the society and to assure legitimacy to their governments. Besides, it is necessary a development oriented informal political pact. Brazil had a populist, national-developmental pact between the 1930s and the 1950s. It was replaced by a development oriented authoritarian and excludent capitalist-bureaucratic pact between 1964 and 1977. From 1977 to 1987, we had a democracy oriented populist-democratic pact. Since the failure of the Cruzado Plan, we have a political vacuum in Brazil.

Yet, as growth is being resumed in Latin America and will be soon resumed in Brazil, once stabilization is achieved, the consolidation of democracy and the resumption of sustained economic development will depend on the definition of a new broad and informal development-oriented political pact - a modernization pact - that, putting together the capitalist, the bureaucratic and the working class, besides the multinationals, will correspond to a crisis of the state, European social democratic and East-Asian pragmatic interpretation of Latin America, as, in the 1950s, the national-bourgeois pact corresponded to the national-developmental interpretation and, in the 1970s, the bureaucratic-capitalist authoritarian regime, i.e., the alliance between local capitalists, the state bureaucracy and the multinationals, corresponded to the new-dependency approach. New pacts and new interpretations emerged out of crisis - of the World War II crisis and of the crisis of the 1960s. The crisis of the 1980s will also be overcome and produce its own interpretation and development strategy.

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