

Amadeo, Edward

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DEPARTAMENTO DE ECONOMIA

PUC-RIO

TEXTO PARA DISCUSSÃO
N.º 310

AN ECONOMIST'S POLITICAL VIEW OF DEMOCRATIZATION IN BRAZIL¹

EDWARD J. AMADEO

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¹I benefit from conversations on related issues with José Márcio Camargo, Cláudio Moura Castro, Gustavo Franco, Hans Mathieu and Kurt Weyland. The work of Weyland was particularly important for the development of my arguments.

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- Introduction;
- Part I: I.1 The macroeconomic background, I.2 The distribution of income, I.3 The structure of social expenditures, I.4 The educational system;
- Part II: II.1 Summary of Part I, II.2 Fragmentation and Crisis, II.3 Inside the educational system; Conclusion

Abstract:

The military period in Brazil (1964-84) was marked by economic growth and an advancement of industrialization. Trickle down effects led to an alleviation of poverty at least until the late 1970's. However, the military government showed deep disregard for distributive and social policies. As a consequence there was a deterioration of distributive inequality. There was great optimism in the outset of the post-military period with the adoption of redistributive policies and the democratization of the state. However, recalcitrant clientelist and corporatist forces were able to partially block universal initiatives. The crisis of democratic Brazil is the result of a conflict between particularist and encompassing (or universal) forces with reflections on demands over the distribution of public resources and government initiatives. The crisis in Brazil is neither a crisis of the state itself nor a purely economic crisis. It is rather the crisis of an increasingly participatory democracy in a brutally heterogeneous society.

Resumo:

O período militar no Brasil (1964-84) foi marcado pelo crescimento econômico e o avanço da industrialização. Efeitos do tipo trickle down permitiram o alívio da pobreza pelo menos até fins dos anos 1970. Entretanto, o governo militar mostrou profundo descaso com as políticas distributivas e sociais. Como consequência, houve uma deterioração da desigualdade distributiva. Havia grande otimismo no início do período pós-militar com a adoção de políticas redistributivas e com a democratização do estado. Entretanto, forças clientelistas e corporativistas recalcitrantes foram capazes de bloquear iniciativas universalistas. A crise do Brasil democrático é o resultado de um conflito entre forças particularistas e abrangentes com reflexos na distribuição de recursos públicos e iniciativas governamentais. A crise no Brasil não é nem uma crise do estado propriamente, nem uma crise puramente econômica. É a crise de uma sociedade crescentemente democrática em uma sociedade brutalmente heterogênea.

Introduction

The current economic and social crisis in Brazil cannot be dissociated from the legacies of the military period (1964-1984). The 'miraculous' economic performance of the late 1960's and early 1970's and the debt-cum-growth strategy of the late 70's did have trickle down effects. In the two decades, and specially in the 1970's, the level of poverty fell and all income groups benefited from economic growth. However, the military governments showed disregard for distributive policies. This is true not only regarding the distribution of income --strongly affected by the wage policies of the period-- but also regarding the structure of social expenditures, subsidies and transfers which were quite regressive.

From a political point of view, the military regime in Brazil was peculiar for although political manifestations were restricted and the left was repressed, the Congress remained open most of the time. Only two parties were legal: the Aliança Renovadora Nacional (ARENA) supported the government, whereas the Movimento Democrático Brasileiro (MDB), albeit certain limitations, increasingly opposed the government initiatives. The opposition party was an important instrument in channeling political dissatisfaction.

Since the mid-70's, the signs of economic success weakened and the MDB started challenging the government. Election results showed the growth of the opposition to the military regime. There was always the threat of a deepening of political repression but during the presidency of General Geisel (1974-1979), a very gradual and controlled process of democratization was launched. When General Figueiredo took power in 1979 there was an explicit commitment with

the opening of the polity. In 1985, a civilian president, Mr. José Sarney, was elected through indirect election in the Congress. The next president, Mr. Fernando Collor de Mello, was directly elected in 1989.

The economic and social legacy of the military governments had positive and negative aspects. On the one hand, the growth strategy after the oil shocks was an important step towards the 'completion' of the industrialization process and certainly contributed to the external adjustment of the economy (see Barros de Castro, 1986). However, the growth of the external debt as well as the inflationary impact of the attempts to devalue the currency carried the seeds of the economic crisis of the 1980's. The transition to a democratic regime coincided with the emergence of major macroeconomic imbalances in the domestic front.

The structure of capital-labor relations and collective bargaining did not contribute to reduce macroeconomic imbalances. Quite the contrary. In the 1980's the labor union movement developed a remarkable organizational capability with important consequences for the growth of its bargaining power. Firms were highly protected against foreign competition and employers showed little resistance to wage demands since they could mark-up cost increases. The consequence of the growing bargaining power of unions in a highly protected economy was obviously the acceleration of inflationary pressures.

As for the social performance of the military period, there were considerable improvements in the alleviation of poverty and minor improvements in the distribution of income during the 1970's. But as mentioned already, the military governments showed deep disregard for redistributive and social policies. As a result of the social heterogeneity

of the Brazilian society, the costs of the macroeconomic crisis during the 80's and early 90's were unequally shared by different social groups.² Over the 1980's there was an increase in poverty and a sharp regression in the distributive structure.

There was a great degree optimism concerning the capacity of the democratic governments to improve the social conditions and to alter the distributive structure. However, not only as a result of the macroeconomic circumstances but also due to the nature of the political process based on which the democratization of the State took place, redistributive policies have faced severe restrictions. Indeed, ten years after democratization, the signs of improvement in the social and distributive figures are far from positive.

State corporatism and clientelism have been ingrained maladies of the political process in Brazil for decades. It did not regress during the military regime. It was only adapted to a closed system in which the access to public resources became restricted to a particular set of social actors. With the democratization, the dispute for public resources became more intense. However, the system of interest intermediation between society and the state had long been dominated by very restricted channels to which only privileged groups had access. As a result, it has been very difficult to establish, and specially to implement, redistributive programs. Besides the constraints imposed on the establishment of more universal and redistributive policies, corporatism and clientelism also tend to create obstacles to fiscal reforms. One of the fundamental elements of the macroeconomic crisis in Brazil is the fiscal deficit of the central government. The reduction

². See Amadeo et al (1993) for an analysis of the impact of the crisis on the labor market and the sharing of the costs among different labor groups.

of such deficit has been difficult in face of the opposition to reduce expenditures and the difficulties to increase the tax burden and decrease tax evasion. These are all political and societal problems which permeate the Brazilian crisis and cannot be overlooked in an analysis of the social and economic crisis associated with the democratization process.

Organization of the paper

The previous paragraphs set the agenda for the analysis and provide an overview of the issues involved in the transition to democracy in Brazil. As it seems obvious, the social and economic crisis in the post-authoritarian period are associated with ingrained political and societal structures as well as with very severe macroeconomic constraints. As for the latter, they resulted from exogenous factors -- among which the debt crisis is prominent. Other ingredients such as the distributive conflict between capital and labor and the difficulties to establish a compact to reduce the deficit and introduce redistributive policies were, so to speak, added in the post-military period.

The paper expands on the points and theses discussed in this introduction. In the first part it presents the "facts" associated with the economic and social heritage of the military regime and the developments in the post-military period, emphasizing the macroeconomic crisis, the evolution of the distribution of income, the structure of social expenditures and of the educational system.

The second part provides an economist's political view of democratization. I emphasize that it is an economist's view not because this implies anything special but simply that, from the point of

view of a trained political scientist, the paper might very well seem incomplete, trivial or wrong. However, notwithstanding these caveats, the point is that it seemed impossible to attempt an analysis of the issue discussing it in purely economic terms. Accordingly, the second part of the paper is dedicated to a more speculative and interpretative effort to understand the societal and political aspects of the democratization process and the restrictions they impose on the improvement of the macroeconomic performance and on the introduction of more universal and redistributive policies. After a discussion of the societal and political ingredients of the crisis, we focus the back stage of the educational drama by identifying its main characters, their attitudes and the political scenario in which they play their respective roles.

Why the emphasis on education? Basically for two reasons. The first one is that the poor education standards of the Brazilian population is a central aspect of the unequal distribution of income and wealth, and a fundamental hindrance to economic development in an intensely competitive international environment. The other reason is more pragmatic: in the second part of the paper, after a general discussion of the societal causes of the Brazilian crisis, the aim is to restrict the analysis to the politics of the educational system in order to illustrate some of the notions developed before with emphasis on the conflict between particularistic and universal demands on public resources. The educational system is taken as a 'case study' for its importance and for the availability of information.

Part I: The economic and social facts

I.1 The Macroeconomic Background

The macroeconomic performance of the Brazilian economy has been strongly affected by the restrictions imposed on policy alternatives by the oil shocks and the interest rate shock of the early 1980's. Such restrictions implied a greater stringency for the trade-offs between the solutions for external and domestic macroeconomic goals.

\³

However successful the external adjustment has been in Brazil, important negative sequels developed in the 1980's, that is during the transition to democracy. Among these, the most prominent are a significant reduction in the capacity of the government to continue investing in infrastructure and the provision of social goods and the acceleration of inflation. The latter resulted from attempts to devalue the cruzeiro in an environment of gradual advancement of indexation schemes. Over the 1980's the deterioration of the fiscal situation and the increase in the volatility of inflation have given rise to growing uncertainty and, as a consequence, the stagnation of economic activity.

The capacity of the government to reestablish fiscal balance, reduce inflation and recover "animal spirits" has declined continuously since the mid-80's. The series of unsuccessful heterodox stabilization programs based on price freezes led to a gradual reduction in the coordinating capability of the government. The clientelist nature of the

³. Tables 1 and 2 present the figures mentioned in the following paragraphs.

State in Brazil has also contributed to a decline in the credibility of the government giving rise to an intensification of the derangement of the social relations. These factors together explain the difficulties in establishing an agenda for the post-democratization period.

The democratization process led, as expected, to a spectacular spread of redistributive demands --in particular on the part of the most organized groups which, as a result of the political repression, had remained silent during the military regime. The distribute conflict between capital and organized labor became clearly more intense in the 1980's with significant effects on the path of inflation and the outcome of stabilization attempts.

During the 1970's the Brazilian economy grew at an average rate of 7% per year. However, the environment based on which such performance occurred changed dramatically towards the end of the decade, and certainly worsened in the early 1980's. Adverse terms of trade shocks in 1974 and 1978-79 led to a fragile balance of payment situation considerably worsened in the early 1980's by the surge of international interest rates and the strategy of the Brazilian government to keep up with a bold investment program.

TABLE I
NATIONAL ACCOUNTS

YEAR	GROWTH RATE(1) (%)	GROWTH RATE OF GDP (1) PER (%) CAPITA	IMPORTS % OF GDP(2)	EXPORTS % OF GDP(2)	INVESTMENT % OF GDP (1)	EXT. DEBT NET (2) US\$Bi	INTEREST ON EXT. DEBT(2) US\$Mi	PUBLIC SAVINGS % OF GDP(1)	PRIVATE SAVINGS % OF GDP(1)	AGGREGATE SAVINGS % OF GDP(1)
1970	-	-	7.4	7.0	18.83	4.11	234.00	8.12	11.11	20.54
1971	11.410	8.712	8.2	6.5	19.91	4.90	302.00	7.57	11.03	21.26
1972	11.948	9.281	8.9	7.3	20.33	5.34	359.00	8.69	9.98	21.21
1973	13.943	11.260	9.0	7.8	20.37	6.16	514.00	8.70	11.34	22.04
1974	8.254	5.724	13.3	7.7	21.84	11.90	652.40	6.91	10.95	24.31
1975	5.121	2.673	11.0	7.2	23.33	17.13	1498.00	6.34	14.20	25.70
1976	10.172	7.616	9.4	7.0	22.41	19.44	1809.50	7.35	11.78	23.03
1977	4.928	2.510	7.9	7.2	21.32	24.78	2103.50	7.60	12.15	22.03
1978	4.928	2.526	7.9	6.7	22.26	31.62	2696.40	5.06	14.49	23.03
1979	6.767	4.340	9.3	7.2	23.35	40.22	4185.50	3.47	14.85	23.13
1980	9.108	6.650	11.3	9.1	22.90	46.94	6311.10	4.67	13.22	23.34
1981	-4.393	-6.537	9.8	9.4	22.94	53.90	9161.00	4.28	14.36	23.08
1982	0.574	-1.669	8.3	7.6	21.44	66.20	11353.30	1.40	13.90	21.09
1983	-3.410	-5.545	9.0	11.4	18.13	76.76	9555.40	0.46	12.86	16.68
1984	5.278	2.982	7.9	13.5	16.89	79.10	10202.70	0.26	15.50	15.74
1985	7.946	5.633	7.1	12.2	16.95	84.25	9659.40	-0.22	19.31	19.20
1986	7.583	5.308	6.4	8.8	19.09	95.00	9327.00	2.78	14.35	19.09
1987	3.620	1.453	6.2	9.5	22.30	100.06	8792.20	2.72	19.10	22.30
1988	-0.082	-2.141	5.7	10.9	22.81	93.41	9831.90	1.80	22.29	22.81
1989	3.297	1.212	5.0	8.3	24.86	89.61	9632.90	-1.31	26.40	24.86
1990	-4.037	-5.928	5.5	7.2	21.67	86.57	9009.00	-	21.18	21.67

SOURCES: (1) IBGE - National Account Department
(2) BACEN (Central Bank) Bulletins

TABLE 2
Interest rate, Inflation and Relative Prices

YEAR	REAL EXCHANGE RATE (*) (1)	INFLATION		INTEREST RATE (**) (4)	TERMS OF TRADE (4)
		IPA-DI (2)	IPC-FIPE (3)		
1970	86.48	18.50	-	-	100.00
1971	84.85	21.40	-	-	92.82
1972	85.15	15.90	-	-	98.37
1973	85.54	15.50	-	-	107.03
1974	87.25	35.40	-	17.32	87.98
1975	89.28	29.30	-	21.84	85.17
1976	87.50	44.90	38.01	41.09	96.32
1977	87.50	35.50	41.18	41.91	112.77
1978	86.73	43.00	39.93	46.44	96.96
1979	93.69	80.10	67.14	42.58	88.98
1980	100.00	121.40	84.77	46.44	73.57
1981	90.45	94.30	90.86	89.26	62.58
1982	91.67	97.70	94.63	119.48	60.87
1983	112.62	234.00	164.06	200.09	60.10
1984	111.00	230.30	178.58	255.56	64.95
1985	114.61	225.70	228.21	276.85	65.09
1986	102.65	62.60	68.08	68.81	97.92
1987	96.61	407.20	367.12	358.00	80.42
1988	84.42	1050.00	900.78	1067.91	80.78
1989	68.56	1748.80	1635.85	2617.93	73.70
1990	60.37	1449.52	1639.08	1412.06	70.21

(*) (CR\$/US\$) * (US Price/ Brazil's Price)

(**) OVERNIGHT INTEREST RATE (ANNUAL)

Sources

(1) Carneiro & Werneck

(2) FGV - Getulio Vargas Foundation

(3) FIPE - University of Sao Paulo

(4) BACEN (Central Bank) Bulletin

In the early 1980's, the Mexican moratorium led the private banks to interrupt the flow of voluntary funds to highly indebted countries which obviously meant a drastic change of regime for the Brazilian strategy.⁴ The recession of 1981-1983, the import substitution process of the late 1970's and an aggressive program of incentives to increase exports led to a strong trade balance position from 1984 onwards. This was certainly the positive side of the adjustment.

The increase in the external debt resulted, on the one hand, from the borrowing of state enterprises⁵ and on the other, from the absorption of private debt by the Central Bank.⁶ Even more important than the amount of registered public debt and private debt absorbed by the Central Bank is the so-called "internal transfer problem" linking the service of the external debt to the growth of the domestic government debt. In order to service the external debt the government has to buy hard currency from the export sector thus leading to an increase of either the supply of money or the issuing of public debt. Hence, the increase in the government domestic debt is directly affected by the servicing of the external debt.

The other causes for the fiscal difficulties of the Brazilian

⁴ Foreign borrowing was an important factor in the deepening of the import substitution process in the 1970's and early 80's. The surge of the international interest rates led to an increase of 100% of the external debt in five years. The debt went from US \$54 billion in 1980 to US \$102 billion in 1986 (Table 1). Interests on the debt went from an average of US \$ 3 billion in the second half of the 70's to US \$9 billion in the second half of the 80's. (Table 1).

⁵ The state enterprises played an important role in the adjustment effort of the late 1970's, and financed part of their investments with external funds.

⁶ The decision to absorb the private external debt was intended to protect private borrowers from the exchange rate and interest rate shocks. In reducing the risk of the private borrowers, the government implicitly socialized the debt.

government are in some sense associated with the nature of the political process and the particular type of relationship established between the State and the society. The structure of subsidies for instance was in many cases dictated by ad-hoc criteria or political kinship. The reduction in indirect taxation is universally seen as an instrument to reduce distributive inequities if replaced by more direct taxation. The increase in direct taxation however hurts the interests of economic groups with strong political representation in Congress, and this is probably the reason why it has been so difficult to enlarge the tax base in Brazil. Finally, the number of civil servants swelled in the first years of democratization and there are clear evidences that clientelist practices (nepotism and favoritism for example) have dominated the recruitment process in the public sector.

All these elements were present during the military period and did have important distributive effects. However, since the political system was closed, the macroeconomic effects were somehow restricted. With democratization, the demand for public resources flourished and clientelist practices became pervasive.

1.2 Income distribution

During the military period, rapid economic growth together with the lack of a redistributive strategy resulted in an increase in the level of income of all income groups and a deterioration of the degree of distributive inequality. The data reported by Barros & Mendonça (1993) gives rise to the following conclusions:

(i) In the 1960's the income of all income deciles increased --the average annual rate of growth of income was 2.2%-- but there was an increase in inequality with the poorer groups experiencing a smaller

increase in income.

(ii) In the 1970's the annual average rate of growth of income was 7% and distribution did not suffer major changes.

(iii) Combining the two decades --which roughly correspond to the military period-- the conclusion is that the incomes of all groups increased but there was a deterioration in distribution. The shares in total income of all groups, except for the two highest deciles, decreased between 1960 and 1980. The share of the ninth and tenth deciles in total income grew from 54.4% to 63.3%.

(iv) In the 1980's the average annual rate of increase of income was -1.5%. The recession of 1981-83 and the inflationary crisis of the second half of the decade was associated with a sharp worsening of inequality. Whereas the annual rate of decrease in income of the three highest deciles was around 1%, the same figure for the three lower deciles was 4%.

The macroeconomic crisis was certainly the primary cause of stagnation in the 1980's. However, the deterioration in distribution is also the result of a lack of policies in the previous decades to enhance the capacity of the poorer to cope with the crisis. In particular, the failure to establish a social infrastructure for the poor, based on efficient social programs, should be seen as an important cause of the unequal effects of the economic crisis. We turn to these issues in the following two sections.

1.3 Social performance and social expenditures

Notwithstanding the growth performance of the Brazilian economy in the 1960's and 1970's, the social indicators presented in Table 3 provide ample evidence that Brazil has one of the poorest

social standards amongst middle income countries. Compared to the Latin American neighbors (Argentina and Chile), or small Central American countries (Cuba and Costa Rica) or to newly industrialized countries such as Korea, Brazil had the lowest levels of life expectancy and adult literacy, and the highest levels of infant mortality in 1985. It had also the worse income distribution profile. These figures reveal the limits of the trickle down strategy of the military period.

Albeit the poor social performance, the predominant view is that the volume of social expenditure as a share of GDP or total government expenditure is not small in Brazil. A recent report by the World Bank confirms such view by noting that "Brazil's poor social welfare performance does not stem from lower social spending than in other middle-income developing countries. On the contrary, Brazil for several decades has devoted a comparable or higher share of central government expenditure and national product to social sectors than have countries such as Korea and Mexico." (World Bank, 1988, p. 2)

TABLE 3
SOCIAL AND ECONOMIC INDICATORS
BRAZIL COMPARED TO MIDDLE AND HIGH INCOME COUNTRIES

	HUMAN DEVELOPMENT INDEX (Max-1.00) 1988	LIFE EXPECTANCY AT BIRTH (YEARS) 1987	ADULT LITERACY RATE (%) 1985	INFANT MORTALITY RATE (per 1000 of live births) 1988	UNDER FIVE MORTALITY RATE (per 1000 of live births) 1988	INCOME SHARE OF LOWEST 40% 1975-86	RATIO OF HIGHEST 20% TO LOWEST 20% 1975-86	GINI COEFFICIENT 1986
Brazil	0.784	65	78	62	85	7	33.7	0.57
Argentina	0.910	71	96	32	37	14	11.3	-
Chile	0.931	72	98	19	26	-	-	0.46
Costa Rica	0.916	75	93	18	22	12	-	0.42
Cuba	0.877	74	96	15	13	-	-	-
Korea	0.789	70	90	24	33	-	-	-
Portugal	0.899	74	85	14	17	15	9.4	-
Austrália	0.978	76	99	09	10	15	8.7	-
Espanha	0.965	77	95	09	12	19	5.8	-
Itália	0.966	76	97	10	11	17	7.1	-

Source: UNDP (1990)

The poorness of the social record stems from an inefficient use of the resources. The most important cause for this is the mistargeting of the resources or the fact that the resources in general do not reach the poor. The fact that almost 50% of federal social expenditures in 1986 went to social security payments --which certainly do not benefit the poorest-- is an evidence of this. The inefficiency of the programs and the burden of administrative costs due to a widespread lack of qualification of civil servants is also an important factor.

After the Constitution of 1988, the share of the federal government in social expenditures fell considerably. State and local governments became responsible for the provision of most of the social services, except for social security and higher education. The decentralization of these services can be seen as an important move towards a greater targeting and efficiency of the programs if we assume that the proximity with the clients reduces the possibility of clientelist uses of the resources and of bureaucratic waste.

1.4 Asymmetries in the Brazilian Educational System

Brazil is a country plagued by economic and social inequality. The educational system could play an important role in reducing the degree of inequality. However, all evidences lead to the conclusion that, on the contrary, important asymmetries in the educational system have increased rather than helped to reduce social and economic inequality. The asymmetries in the educational system were very significant at the end of the military period. The official discourse over the democratization process in the 1980's, has emphasized the importance of education in this connection. However, the fiscal crisis at all levels

of the government together with a long tradition of clientelist and corporatist State/society relation have created obstacles for deeper reforms of the educational system.

There are different dimensions which we could explore in order to describe the structure and asymmetries of the educational system in Brazil. Here we will focus on the distributive asymmetries.

Table 4 is a starting point for the analysis for it relates the distribution of income and the levels of education. It shows very clearly that in 1983, the majority of the students attending primary public schools were at the bottom of the distributive pyramid (approximately 80% come from families earning less than 5 minimum wages), and that the share of poor students falls dramatically as we move towards secondary and, most particularly, higher education. The percentage of students whose families earn less than five minimum wages attending secondary and higher education is, respectively, 50% and less than 24%. This situation did not change during the 1980's.

TABLE 4
INCOME DISTRIBUTION AND ENROLLMENT SHARES, 1982
 (for children age 7 and above attending school)

INCOME CLASSIFICATION	DISTRIBUTION OF STUDENTS BY INCOME GROUP IN PUBLIC EDUCATION (%)		
	PRIMARY	SECONDARY	HIGHER
1 minimum wage	15.3	3.4	1.1
1-2 minimum wages	24.6	10.2	4.5
2-5 minimum wages	38.5	38.0	18.0
5-10 minimum wages	15.3	31.0	26.1
10 minimum wages	4.9	16.2	48.3

Source: Anuário Estatístico do Brasil, 1983.

Table 5
Distribution of public expenditure on education
 according to educational and government level -- 1988

	Primary	Secondary	Post-secondary	Total
Federal	0,09	0.04	0.31	0.43
State	0.32	0.05	0.08	0.44
Municipal	0.12	0.00	0.00	0.12
Total	0.52	0.09	0.39	1.00

Source: Amadeo et al (1993), p. 33.

Table 5 provides the distribution of public expenditures according to the education and government levels in 1990. It shows that only 52% of total public expenditures in education is directed to primary education (which accounts for 88% of total enrollments) whereas 39% is directed to post-secondary education (which accounts for 3% of the enrollments). Information on the structure of expenditures of the Ministry of Education, which in 1990 accounted for 43% of total public expenditures in education, shows that between 1980 and 1989, after an increase in the share of funds directed to primary education (from 7% in 1980 to 33% in 1986), it went down to less than 20% in 1988-89. Meanwhile, the share of higher education was 65% in 1980, fell to 50% in 1986, and went to 70% in 1989. In the states, the share of primary education falls after 1986 while the share of higher education increases.

TABLE 6
**PERCENTAGE OF FAILURES, REPEATERS AND GRADUATES
 BY TYPE OF SCHOOL, BRAZIL
 (1987)**

	FAILURES		REPEATERS		GRADUATES	
	PUBLIC	PRIVATE	PUBLIC	PRIVATE	PUBLIC	PRIVATE
1970	19.15	12.44		0.00		
1975	13.65	7.89	6.28	2.70	16.47	22.14
1980	20.48	10.41	10.43	4.08	15.85	23.06
1983	21.72	11.60	12.23	5.71	16.38	25.91
1985	19.20	9.93	12.82	7.31	15.96	26.01
1986	19.31	11.17	13.05	7.40	16.34	24.91

Source: Issues in Secondary Education

The difference in quality between public and private secondary schools is evident from Table 6 which reports on the percentage of failures, repeaters and graduates by type of school in 1987. The percentage of failures and repeaters in public schools is almost twice the same figures in the case of private schools. The percentage of graduates is 50% greater in private schools. If we recall that the majority of students attending public schools are also the poorest, we can infer that the educational system reinforces distributive inequities. The majority of students coming from the richer families attend private primary and secondary schools which have much better quality than the public schools. The poor, when they reach the higher education level, go to private colleges which are in general of relatively mediocre standard.

Assuming that there exists a positive correlation between the performance of teachers and their salaries, the figures presented in the last paragraph can at least in part be explained by the disparities in salary levels amongst teachers in secondary schools. A study by the World Bank shows that more than three quarters of teachers in secondary public schools earned less than two minimum wages per month (or US \$ 120) in 1988. In private schools, more than 60% earned more than four minimum wages.

Based on the above information, we are led to the following conclusions concerning the structure of the educational system established during the military period and **maintained more or less intact** by the democratic governments in the 1980's:

1. Poor students are the majority in primary and secondary public schools, have greater levels of drop-out, repetition, and failures compared to richer students attending private schools, and rarely

attend public universities.

2. Enrollments in post-secondary public institutions as a percentage of total enrollments is insignificant but public expenditures in post-secondary education accounts for more than one third of total public expenditures.

3. Teachers are better paid in private schools which probably accounts for the better performance of students attending these schools.

Distributive inequities would be reduced if primary and secondary public schools had better quality, the rate of enrollment was greater, and the rate of drop out much smaller. This, however, would require a drastic change in the structure of public expenditures in education in Brazil.

Part II. Societal and Political Aspects of Democratization

II.1 Summary and preliminary conclusions

The facts displayed in the first Part can be summarized as follows:

1. The transition to democracy coincided with a major macroeconomic crisis. The seeds of the crisis were laid down in the final years of the military period but other elements added in the post-authoritarian period cannot be overlooked. The debt crisis, the socialization of the debt, the internal transfer problem and the regressive tax structure (part of the military heritage) were at the root of the fiscal crisis. Democratization 'added' to these initial conditions the growth of demands on public resources intensified after the Constitution of 1988 with the introduction of encompassing social rights.

2. Democratization was also accompanied by the growth of an autonomous and very militant union movement. The growth of the bargaining power of unions in the context of a very protected industry gave rise to significant inflationary pressures.

3. The trickle down 'strategy' of the military period had very timid effects. Both the wage policies and the lack of aggressive and encompassing social policies during the military period sharpened distributive heterogeneity. As shown in the analysis of the social expenditures and the educational system in Part I, there were not any significant changes in the post-authoritarian period. Weyland (1991),

studying in great detail the social security and tax policies in the first democratic administration, concludes that in these areas there were not important steps in the introduction of more universalist and redistributive policies.

In the following section (II.2) an attempt is made to look at these facts from a political perspective emphasizing the forms of social representation, the relation between society and the state and the workings of state bureaucracies. Section II.3 looks at the politics of the educational system.

II.2 Social fragmentation and crisis

There is a lack of social cohesion in the Brazilian society. By social cohesion we mean the existence of a set of rather consensual **principles** guiding the attitude of individuals, social and political institutions and government agencies. The existence of strong conventions and the adherence to the laws constitute a good proxy to the 'degree' of social cohesion. This is a partial, imperfect and loose definition but probably a useful one. Democracies in Western rich countries are based on the existence of homogeneous societies in which all individuals have the same basic economic and political rights. Homogeneity in an environment of (moderate) growth is probably the source of social cohesion in these societies.

The welfare state certainly contributed to make these societies more homogeneous from an economic point of view. However, the introduction of the welfare state itself was the result of a social compact according to which the economic elites or the dominant groups were forced, or saw good reasons to support, distributive

schemes in order to guarantee political stability. Hence, the interplay of conflictive forces in the political market were important ingredients in the establishment of homogeneous societies with more or less strong social cohesion.

The Brazilian society is economically heterogeneous. There were periods of greater social inclusion (like in the Goulart government) but they were rare. Furthermore, the state in Brazil never had an explicit social or egalitarian approach. The rule has always been to focus on growth and to let trickle down effects play the role of social promoters.

These facts cannot be dissociated from the specific forms of relationship between society and the state in Brazil. These forms are characterized by the access to public resources based on privileged relations between **narrowly based** economic groups, on the one hand, and politicians and state bureaucrats, on the other. In such form of relationship, broadly based social representation does not exist. Not only the forms of representation of social and economic groups (unions and employers associations for instance) is narrowly based but the state institutions (parties, in particular) lack pervasive social support and a long-term agenda. These are forms characteristic of closed, albeit democratic, political systems.

Clientelism and corporatism are the characteristic forms of relationship between society and the state in the Brazilian closed political system. Weyland (1991, pp. 80-84) makes an effort to conceptualize these forms of relationship. He associates the origin of state corporatism with the process of "late-late industrialization" in which the state promoted and directed growth "fostering the emergence of private business sectors which could undertake industrial

ventures". Segments of the labor force also participated in this development effort. Such effort was based on the selection of particular sectors according to the logic of the import substitution strategy, and within the sectors, the designation of certain business groups to advance industrialization. Inevitably this scheme implied the creation of direct links between the sectoral representatives and government agencies. Weyland notes that "this state-corporatism organized societal categories along narrow, functionally defined sectoral or segmental lines into non-competitive non-voluntary associations which were supervised and controlled by the state" (p. 81). Notice that this type of relationship has been the rule since at least the 1950's, and is therefore a deeply rooted characteristic of the ties between the state and economic groups in Brazil.

Clientelism, on the other hand, is the political face of the narrowly based Brazilian system of state-society relation. It is a "pyramidal system of personal relations between individuals of different status, which is based on the unequal, but reciprocal exchange of particularist benefits and protection for obedience and support" (Weyland, p. 82). Clientelism is the name of the game in which politicians exchange votes for small benefits specially with the poor in Brazil.

The narrowly based system of relation between the state and society was intensified during the military period. Cardoso (1993) refers to the creation of "bureaucratic rings" involving sectors of the business elites and agencies of the administration. As noted by Cardoso, in their interaction with the bureaucracy and the politicians, the members of the dominant classes most of the time did not represent social or business groups but simply themselves *quae personae*. This, of course, is the limit case of narrowly based interest

representation. The bureaucratic rings were the instruments of the "privatization" in Brazil during the military period.

Clientelism and state corporatism are ingrained forms of interest representation and political exchange in Brazil. The military regime exacerbated these forms by anchoring its relation with society through the bureaucratic rings. The opening of the political system was obviously constrained by the past experience. With the end of the military regime, other social groups --specially the organized urban groups-- became important actors in the dispute over public resources and benefices from the state. There was an increase in universal and distributive demands exemplified by the encompassing social rights introduced in the new Constitution of 1988. There was an increase in the representation of program-oriented political parties in the Congress. But still, the level of fragmentation of the society and the state is remarkably high.

Werneck (1993) refers to "wretched statecraft" to characterize a situation in which the decay of the state apparatus has reached a point in which it has lost all the coordinating capabilities. Statecraft is defined as "the art of conducting state affairs" (p. 7) and can be measured by the skills and judgements of the technostructure. In the case of Brazil, Werneck notes that "there seems to be a vicious circle at work in which government failures generated by bad statecraft leads to a deterioration of the economic problems which in turn feeds back into even worse statecraft."(p. 7). Poor statecraft has led to disastrous results fueling neo-liberal demands for a "downsizing" of the state. Such demands assume that the size of the state is the relevant issue. However, as argued below, it seems that the critical issue is rather the size of the state with the characteristics of the state

in Brazil.

In discussing the difficulties faced by governments in developing countries to implement adjustment policies, Frischtak (1993) notes that "the central problem of the state, and of the governance capacity it encompasses or expresses, is the problem of **capture of the state** by powerful interest groups. That is to say, the most important challenge facing any state is its survival, and the primordial condition of state's survival ... is that of maintaining a minimal degree of autonomy from the competing pressures of society". (p. 15, emphasis added) Governance depends on the capacity of the state to avoid being captured by powerful economic interests which substantially reduces its "ability to project a culturally bound vision of ... society" (Frischtak, p. 25).

Both the lack of statecraft and governance are certainly important dimensions of the crisis in Brazil. But what seems to be particularly relevant in the case of the **newly democratic heterogeneous societies** such as Brazil is the conflict between **particularist** and **universal** demands. This is the conflict between the past and the present in Brazil. The past is characterized by a development strategy based on an exceptionally segmented and excludent access to public resources. The present is characterized by demands to broaden the access to public resources. The social matrix involved in the dispute between segmented and universal demands is very complicated. Not only the business elites and the upper middle class would have to soften their demands upon public resources but also segments of the urban middle classes including salaried state employees would have to waive certain privileges in favor of more universal and encompassing initiatives.

The macroeconomic crisis and the intense dispute for public resources have led to a gradual disorganization of the state in Brazil. In certain junctures of the recent past the situation has reached chaotic levels. The state cannot accommodate clientelist, corporatist and universal demands at the same time, and the conflict between these types of demands is at the root of the fiscal crisis. It is the conflict between "states" of different types, with inconsistent goals **given** the budget constraints, which has led to an overloaded and unattainable agenda and an incompatible fiscal equation in the post-authoritarian period.

Werneck (1993, p. 8) notes that if the rate of growth of GDP in Brazil during the 1980's and the first half of the 90's kept the same pace of the previous four decades, the income per capita in 1995 would be around US\$ 6,300 instead of the US\$ 2,800 which will probably be observed then. These figures provide an idea of the historical change in expectations in the last decade. The high degree of social mobility through trickle down effects in an economy growing 7% a year for four decades tends to demobilize political opposition to the enthroned elites. The abrupt change in expectations, however, leads to abrupt changes in attitudes. There are two types of possible responses to the lack of perspectives: either an "exit" response characterized by open disrespect to the established order (or a non-recognition of the state) or a "voice" response characterized for a greater demand for political and economic participation. The latter response is what gives rise to the crowding-out of clientelist and corporatist demands.

The exit response assumes different forms. A light form is tax evasion. The heavy response is the growing disrespect for the

established order in the form of illegal and violent actions such as drug traffic, kidnapping, etc. characteristic of the suburban areas of the large cities in Latin America. In discussing the democratization of Brazil, Peru and Argentina, O'Donnell (1993) provides a vivid picture of the process of societal decay in those countries. He notes that in "many emerging democracies, the effectiveness of a national order embodied in the law and the authority of the state fades away as soon as we leave the national urban centers" (p. 6). O'Donnell then associates the lack of effectiveness of the law and authority with the development of personalist, familist, clientelist relations, to the fragmentation of society in feuds, and to the invasion of the state by particularist interest representatives. He argues that the state that results from this process is representative and is "consistent with the reality of countries whose patterns of political representation further heterogeneous them. The problem is that this representativeness entails the introjection of authoritarianism-- understood here as the denial of the publicness and of the effective legality of a democratic state and, hence, of citizenship--- at the very center of political power of these countries"(p. 9).\⁷

In line with the points being raised here, Santos (1993) shows the simultaneous processes of formation of a 'poliarchic' state and of an increasingly 'Hobbesian natural state of society' in Brasil. The former is associated with the increase in political participation. The latter results from a rapid process of "social transformation" and is characterized by the "inexistence of universally accepted general

⁷ Maybe it was not the goal of O'Donnell to discuss the economic and political origins of the process of societal decay which he describes. But it is a pity that such analysis is lacking in the text.

norms". (p. 109) Santos also refers to the fragmentation of society associated with the uncertainty characteristic of periods of rapid transformation.

In discussing the growth of unlawful activities or the lack of stateness it is worth recalling Weber's views on the obedience to the laws. He notes that "the inclination to forego economic opportunity simply in order to act legally is obviously slight, unless circumvention of the formal law is strongly disapproved by a powerful convention"(p. 335). Conventions, in turn, are strongly associated with social cohesion, or the level of agreement on the principles building the agents' attitudes, and are "said to exist whenever a certain conduct is sought to be induced without ... any coercion... and without any direct reaction other than the expression of approval or disapproval on the part of those persons who constitute the environment of the actor"(p. 319). Economic and social disaggregation destroys the system of conventions and therefore reduces the adherence to the laws. In such circumstances, state coercion might be an inefficient instrument to induce compliance with the laws. The recent experience in many Latin American societies ratifies such view.

We have come full circle. The thesis defended here is that what warranted the survival of the narrowly based political system in Brazil in the 1960's and 70's was economic growth (and social mobility) and the repression of opposition forces. The opening of the polity together with the weakening of economic dynamism led to a fundamental conflict between the old clientelistic and the new universal demands for public funds and government initiatives. Amongst the effects of such conflict are the reduction of the coordinating power of the state (loss of statecraft and governance), and the spread of "unlawful"

activities of different natures (lack of stateness). However, the personalist, familist and clientelist relations established around these unlawful feuds, invade the state thus enhancing the particularist nature of the government initiatives. The end result is the furthering of the fragmented interest representation system and of the state and the weakening of broad based or encompassing forces.

II.3 Inside the educational system

The previous section deals with societal and political developments in a macrocosmic context and discusses the effects of fragmentation on state initiatives. These are issues which cannot be overlooked except in very simplistic analyses of the transition to democracy in Brazil. A summary of the section would say that where universal forces are weak, government initiatives are forcefully affected by the power correlation between more or less narrowly based interest groups within the state.

In the present section we look at a particular area where government initiatives in the distribution of public resources is crucial, namely, education. The discussion is staged in the context of government budget cuts resulting from the necessities imposed by macroeconomic constraints --the typical situation faced by governments in Latin America in the 1980's. The questions posed are: "Who will pay for the adjustment, or who will lose with the cuts?" and "to what extent universal initiatives based on equity principles will survive the attack of particularist forces?"⁸ The section starts with a discussion of the capacity of response in face of budget cuts of

⁸ What follows draws freely from Amadeo et al (1990).

different actors in a general context, then looks at the specific case of education in Brazil and finally looks at the role of bureaucracies in determining the directions taken by government initiatives.

As noted in section 1.3, the fundamental asymmetries in the Brazilian educational system are associated with the distributive profile of students and the distribution of public resources amongst different levels of education. In face of these asymmetries we will take the protection of primary and secondary public education against budget cuts, and the increase in the absolute level of funds directed to these two levels of education, as typical examples of universalist initiatives, or initiatives to increase equity. We will argue that the action of pressure groups and the workings of bureaucracies may have an important role in determining the distribution of funds.

Each group affected by cuts in government expenditure has a different capacity of response or resistance depending on three aspects to which we could refer as the command over resources, the degree of organization, and the attitude of the group in face of the political process. The typical case of command over resources refers to capital or material wealth. The richer the individual or the group the greater will be its possibility of effectively reacting to the losses imposed by a change in the 'state of nature'. But there are other types of resources an agent could command. One is the access to information due to privileged relations, educational background, or social extraction. The other is social prestige which depends on a series of cultural factors.

Agents with similar interests may be organized in groups, and depending on the coherence of their goals and the costs of the means to come together with a solid strategy, fight effectively against decisions which might deteriorate the quality of their lives. The

coherence of interests and the costs of organizing members in critical moments are the internal factors which determine the degree of effectiveness of the organization.

The strategy followed by each individual group varies in accordance with its command over resources and with the degree of organization. Not all the types of strategies are available to all individuals or groups which is obviously an important factor in analyzing the diversity of responses. In order to be economical in the usage of concepts, we may use Hirshman's notions of 'exit' and 'voice' as a way to differentiate the strategies. In face of a deterioration in the quality of a good or service, Hirshman (1970) argues that individuals may either choose an alternative (substitute) source of the good or service in case --this is the exit strategy-- or may try to induce a reversal of the trend by voicing its dissatisfaction.⁹

We may now combine the three aspects of the capacity to respond of individuals or groups to adverse situations (command over resources, organization and strategy) as in the following table.

⁹ The following passage clarifies the two notions:

"To resort to voice, rather than exit, is for the customer or member to make an attempt at changing the practices, policies, and outputs of the firm from which one buys or of the organization to which one belongs. Voice is here defined as any attempt at all to change, rather than to scape from, an objectionable state of affairs, whether through individual or collective petition to the management directly in charge, through appeal to a higher authority with the intention of forcing a change in management, or through various types of actions and protests, including those that are meant to mobilize public opinion." (p. 30)

Capacity to Respond to Adverse Situations

		Degree of Organization	
		High	Low
Command over Resources	! Large	Exit/voice	Exit
	! Small	Voice	(Passivity)

Exit is a 'market response' (Hirshman, p. 15), that is, the individual or group, prefers to go to another producer of the good or service even if this decision involves a greater financial cost which implies the necessity of some command over material resources. Voice, on the other hand, is a 'political response' **par excellence** and therefore requires some organization.

The property of resources may be of great help in engaging in a voice strategy. However, depending on the situation or costs involved in voicing, an organized group with large command over resources may chose to exit. Hence, an organized group with resources may either exit or voice. This is the only group for whom both strategies are feasible. An organized group without resources has the possibility of voicing its dissatisfaction. This is probably the reason why those agents who do not have the resources organize more frequently than those who do have resources.¹⁰ Hence, for the poor who are the ones who suffer most intensely from the effects of budget cuts in social expenditures, organization is an essential weapon. Those who are

¹⁰ Workers have more incentives to organize than employers; blue collar workers have more incentives to organize than white collar workers, etc.

dispossessed of resources and are not organized do not have another alternative but to passively accept the effects of the change in the state of nature.

Probably the most perverse distributive effect of budget cuts in education is the deterioration of basic public education. The reason for such outcome is associated with the fact that, in general, the degree of organization of the consumers (families) is very low due to their low command over resources. In face of a deterioration in the quality of the service, those who command financial resources (rich families) tend to exit the public system . The poor families do not have another recourse but to accept passively the effects. In Brazil public universities offer better education than most private institutions. Hence, exit is not an alternative. This provides an incentive for organization and voice, and may be the reason why university students are relatively more organized.

As for the suppliers (teachers and administrative staff), in many cases their action is ineffective or they have a passive attitude for their degree of organization tends to be low and their command over resources is small. In the city of Rio de Janeiro, primary and secondary school teachers can go on strike for months without any practical consequences: the relatively richer families do not send their children to public schools thus reducing significantly the loudness of the teachers' voice.

Bureaucracies also have an enormous influence on the direction of budget cuts. They have their own ideas of the kind of services their constituents need and they may disagree with those of their bosses or even with those of the ultimate customers of their services. Here we may have different situations. High level bureaucrats expected to

deliver services to remote and passive clienteles may indeed have agendas that significantly differ from what the recipients would want. There may be a matter of sheer ignorance but often it may be a deliberate policy. With more present and participative clienteles, closer relationship tends to develop between the bureaucrats and their constituencies. In fact, the relationship may be symbiotic and bureaucrats operate in close collaboration with its constituents in order to protect their budgets. Bureaucrats may warn its "customers" that they should protest and finetune the timing and the mode of the manifestation.

The next question is to ask what makes for strong organizations inside public bureaucracies and how they act differently from others. The first mechanism that comes to mind is the existence of a high degree of endogeneity between constituencies and the groups that represent them. Primary schools very often are represented in national governments by primary school teachers. University departments in ministries have very often nothing but university professors in their staff. Research coordinations are full of scientists. Unavoidably, scientists are better fund raisers than primary school teachers. Higher education institutions are also more keenly aware of the need to send their best and more aggressive staff to work at the central ministries. The end result is that better organized, better staffed groups end up better represented inside the ministries. In fact, these institutions very deliberately think that sending good people to central bureaucracies is an effective way to protect their interests. And for all we know, they may be dead right.

Both the forces of political pressures and the workings of bureaucracies explain the asymmetric distribution of budget cuts in

education. In the case of Brazil they seem to be important forces in explaining the difficulties in adopting more universal principles both in decisions affecting the educational system as in other areas in the post-military period.

Conclusions

The economic crisis in Brazil coincided with the transition to democracy. However, the crisis is not a direct consequence neither of the military regime nor of the process of democratization itself. It is, on the one hand, the result of the debt crisis which, in a sense, was externally determined. On the other hand, and certainly much more important, the crisis results from the nature of the relation between the state and social groups in Brazil. It is not really a problem of mismanagement although in recent years the lack of "statecraft" may be hold responsible for part of the crisis. Neither it is a crisis of the state itself. It is rather a societal crisis with strong interference on the workings of the government and other state institutions.

What do we mean by a societal crisis rather than a crisis of the state itself? In Brazil, as in other Latin American countries, it has become part of the common wisdom that the state is the cause of the crisis. The state is too big and too inefficient. Our point is that the state is not too big in face of the redistribution of income required to reduce the degree of heterogeneity and in order to increase the level of social cohesion. The "market" is unable to perform such task. The state might be inefficient not because of the lack of managerial competence of civil servants --after all the state in Brazil was known for being very efficient until the late 1970's-- but because of a lack of consistent objectives, given the means at its disposal.

The critical issue is that there is an inconsistency between the level of demands for public resources and the budget constraint faced by the government in Brazil. It is important to increase the tax burden to relax the budget constraint. But it is important to understand that a

fundamental conflict exists between the clientelist and sectorally oriented use of public funds and the universal demands required to promote the redistribution of income.

If democracy should be responsible for the crisis in Brazil, it is not because democracies are inconsistent with good economic performance. The history of advanced OECD countries is the best counter-example in this respect. It might be that democracies are somewhat incompatible with good economic performance in heterogeneous societies. Recall that not only in Latin America but also in Spain and Portugal in the 1970's, democracy seemed "unfit". The reason might be that in democracies the conflicts between particularist and universalist demands become effective.

The crisis in Brazil is neither a crisis of the state itself nor a purely economic crisis. It is rather the crisis of an increasingly participatory democracy in a brutally heterogeneous society.

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