

## SOCIAL SECURITY REFORM BY THE CARDOSO GOVERNMENT OF BRAZIL: CHALLENGES AND LIMITATIONS OF REFORM TEN YEARS AFTER “DEMOCRATIZATION”

AKIKO KOYASU

This article has two purposes. The first is to analyze politically why the Cardoso government’s social security reform could not be completed. Though democratic political systems (election and political party systems) were reintroduced after the re-democratization in 1985, Brazil continued to suffer from elements of its traditional political culture such as corporatism, clientelism, nepotism, etc. These were the stumbling blocks for Cardoso’s reform. The second purpose is to deepen understanding of Brazilian democracy by casting light on the behavior of political actors (the government, congress, and political parties) over social security reform issues under the Cardoso and Lula governments.

### I. INTRODUCTION

**N**EARLY eighteen years have passed since Brazil was re-democratized. In January 2003, Brazil came under its first left-wing government since re-democratization in 1985, as Luiz Inácio Lula da Silva, a civilian leader from the Workers’ Party (PT), assumed the presidency. Lula’s PT was founded in 1980, during the second half of the period of military regime (1964–85). With the support of the trade union movement, the party was an important wing of the struggle for democratization in Brazil. Following its foundation, the PT gradually grew in power by winning a series of local (*município*) elections, capturing mayoral posts in six state capitals including São Paulo and Porto Alegre.

Since 1985, Brazil has had as president José Sarney, Fernando Collor de Melo, Itamar Franco, Fernando Henrique Cardoso (serving two consecutive terms), and Lula, all civilian presidents pledged to safeguard and sustain Brazil’s democracy.<sup>1</sup>

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The views expressed in the article are solely those of the author and should not be taken as representing the views of any of the Board of Editors, the Institute of Developing Economies, or the Japan External Trade Organization.

<sup>1</sup> Here we are discussing democracy with Robert Dahl’s polyarchy in mind. Democracy exists where both inclusiveness and public protestation have reached an advanced level.

All federal and local elections held in that period honored democratic procedures. The fact that there are now more than thirty political parties attests to the presence of a multiparty system in the country.

While political democratization has certainly taken root in Brazil, structural reforms remain a major political task still to be carried out. By structural reforms, we refer to political reform, tax reform, social security reform, and administrative reform, among others. The Collor government (1990–92) took some initial steps toward the needed reforms, but it was the Cardoso government (1995–2002) that initiated full-fledged reforms. Cardoso focused on social security, but failed to come up with satisfactory results. These uncompleted tasks have been left to the Lula government. (The Brazilian congress finally enacted social security reform at the end of 2003.)

Why did the Cardoso government fail to fully achieve the reform of social security? This article examines the reasons (backgrounds) for this failure from a political perspective. The major reason, we argue, is that Brazil's social security reform, instead of being simply an enrichment of social security as a system, must be examined in the context of the characteristics of Brazilian democracy, since it required complete procedures for revising the 1988 constitution (which is now in force). In March 1995, immediately after he came to power, Cardoso presented to the congress a constitutional amendment on social security reform, but it was only in December 1998 that he obtained the congress's consent for a curtailed reform. The deliberations in congress dragged on for over three years and eight months, and only partial reform was approved. This may well be evidence that Brazil's political parties and election systems remained immature, even ten years after democratization. While the Cardoso government was a coalition government, the partner parties did not necessarily observe the official party decisions, but allowed their individual members to act in their own respective self-interests. This being the case, it would be appropriate and effective to analyze the Cardoso government's behavior on this issue from the point of view of politics, or in other words, in the context of the traits of Brazil's democratization and democratic systems.

To clarify the causes of the failure of reform, Takahashi (2001) conducted studies on the Cardoso government's social security reform project, casting light on the workings of two systems—the political party system and corporatism—as mechanisms traditionally linked with social security. Fleischer (1998) and Panizza (2000) analyze the Cardoso government's failure in reform efforts in general, including that of social security. Comparing the Cardoso government with the Menem government of Argentina, Panizza points out that G. O'Donnell's model of delegative democracy<sup>2</sup> does not apply to the Cardoso government, and argues that though

<sup>2</sup> A style of democracy under which any president having won an election can willfully exercise his or her own political style. O'Donnell used this term to distinguish Latin American political regimes from representative democracy in advanced industrial countries. Osonoi (1997) observes that

democratization did enhance the role of the legislature in Brazil, political reform did not follow suit, leaving the old mode of political parties intact, and thus serving as a serious obstacle to the congress debate on reform proposals.

Studies on democratization are legion. Among them, Power's analysis (1997) focuses on the institutional aspects and political actors. He argues that while four democratic institutions (the presidential system, election system, political party system, and legislature) began to function again after 1985, democracy has failed to take root since none of these institutions became sufficiently mature. Weyland (1997) is slightly more optimistic in his analysis of the relationships between democratization and political institutions. He observes that though at the beginning of democratization clientelistic politicians and organizations with vested interests enjoyed ascendancy, undermining the position of the government, in the subsequent period the government was reinstated as society failed to resolve economic and corruption issues. In other word, the state temporarily lost its autonomy after democratization, but then regained its capacity and proceeded to carry out state reform.

These studies make it clear that the mode of being of political institutions and democracy had an impact on structural reform, including that of social security. After 1985, the political party and electoral systems were reintroduced as new democratic institutions. It is often said that the obstacles to Cardoso's reform were Brazil's historical tradition of political culture (corporatism, clientelism, and nepotism).<sup>3</sup> More importantly, this political culture survived democratization and led to the failure of social security reform. With this in view, this article will elucidate the political circumstances in which the Cardoso-led Brazilian Social Democracy Party (PSDB) government tried to carry out its reform of social security.

This paper consists of the following sections. Before shifting to the Cardoso government, Section II examines the traits and characteristics of the successive civilian governments in the post-1985 period. We note the fact that all three civilian governments suffered from legitimacy problems, and that in spite of the establishment of democratic institutions, democracy was still at an immature stage. On this basis, we describe the characteristics of the Cardoso coalition government and the process of constitutional amendments involving social security issues. In the third section, we look back at the history of the social security system in Brazil, examining the necessity of reform, and then analyze the problems of Brazil's social security systems. In the fourth section, we compare Cardoso's social security reform efforts with those of the Lula government.

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under delegative democracy, the president "transcends political parties and organized interests, embodies what are considered to be the people's interests, and stands face-to-face with the people" (p. 42).

<sup>3</sup> Weyland (1996) argues in *Democracy without Equity* that in spite of democratization, Brazil failed to achieve a redistributive and equitable society, as a result of the fragmentation of politics into various systems.

## II. POLITICAL ENVIRONMENT SURROUNDING THE CARDOSO GOVERNMENT

### A. *The Decade before Cardoso*

#### 1. *From Sarney to Itamar Franco—governments of dubious legitimacy*

The three governments prior to the Cardoso administration suffered from the same problem: poor legitimacy.<sup>4</sup> José Sarney served as the top leader of the ruling party under the military regime.<sup>5</sup> He was elected vice president, but rose to the presidency after president-elect Tancredo Neves was hospitalized twelve hours before taking the oath of office, and then subsequently died. The Sarney government also failed to remove the economic instability. Its economic stabilization policies, centering on price freeze and fixed exchange rates, were generally little more than a reckless shock therapy, and were unhelpful either in diminishing external debts or quenching inflation.

What the Sarney government did by way of consolidation of democratic systems amounted to the preservation of democracy in legal terms, or in other words, the establishment of a democratic constitution. A National Constituent Assembly, composed of all the members of the Chamber and Senate, was called in February 1987. After twenty months of deliberations ending in September 1988, the assembly adopted and promulgated a new constitution in October of the same year. The assembly examined the final draft from June to September 1988, and as many as 1,021 roll-call votes were taken during that time (Power 1997, p. 4).

In the runoff presidential election of 1989, Collor, aged twenty-nine at the time, and from the northeastern state of Alagoas, defeated rival Lula of the PT to become the second post-democratization president. The 1989 presidential election was also the first direct ballot for the presidency since 1960. It was carried out under the 1988 constitution. Collor's campaign slogans were the moralization of politics and termination of inflation. Backed by the legitimacy he acquired from being directly elected by the people, Collor set out to rehabilitate the economy, which had deteriorated under the Sarney government. To this end, he announced the Collor Plan, a bold heterodox economic package aimed at a price freeze. The Collor government wanted to achieve a shift from the previous governments' import-substitution industrialization strategies to economic liberalization. This represented a change in

<sup>4</sup> In the ten years before Cardoso, the following presidents reigned: José Sarney (March 1985–March 1990), Fernando Collor de Melo (March 1990, suspended in October 1992, resigned December 1992), and Itamar Franco (October 1992–December 1994).

<sup>5</sup> Sarney left the Democratic Social Party (PDS), a ruling coalition partner during the second half of the military regime, to found a new party, Liberal Front Party (PFL). In partnership with Tancredo Neves of the Brazilian Democratic Movement Party (PMDB), he ran in the 1985 presidential election as the vice-presidential candidate.

the role of the state in development strategies. The Collor government set out to implement the structural reforms necessitated by this change in the role of the state. This government planned to carry out large-scale public employee cuts<sup>6</sup> and privatize state-owned enterprises.

The style of political management of the Collor government can be categorized as fitting O'Donnell's delegative democracy model.<sup>7</sup> Collor secured overwhelming support from voters who were disgruntled with his predecessor, Sarney, a weighty politician from the military regime. Considering his great public support, Collor felt that he had large discretionary powers to make and implement his policies. In fact, in the early years of his reign he avoided contacts with the circle of the established political elite or clientelistic politicians, and endeavored to honor his election promise of ethical politics, or political democratization. Nevertheless, he later began to provide his supporters and relatives with various favors, including appointments to high government posts. In the end, he was suspected of involvement in fraud committed by his treasurer<sup>8</sup> and forced to resign. His state reform was left unfinished.

Itamar Franco, Collor's vice president, succeeded him but served as president only in Collor's remaining term of office. Ultimately, Franco lacked the full public credentials as president. In addition, during the last year of his office, the congress essentially halted its activities in preparation for the presidential election.

## 2. *Political institutions (election system and political parties)*

As pointed out earlier, the attention of Brazilian society after 1985 was focused on the legal institutionalization of democratic systems. The 1988 constitution was promulgated, reflecting this concern, and there were vigorous efforts to organize a full set of political institutions including election systems and political parties.

The electoral system was revised in May 1985 through an amendment of the 1967 constitution (which had been promulgated under the military regime). It was decided then that direct elections would be held at all levels: federal, states, and communities (*municípios*). Also, illiterate citizens were granted suffrage. Later, the 1988 constitution gave suffrage to all citizens over the age of sixteen (though it was optional for the illiterate, those aged sixteen and seventeen, and those aged over seventy). Under this new system, presidential elections were held in 1989, 1994, 1998, and 2002, and general elections and elections for governors and state legislatures were conducted in 1986, 1990, 1994, 1998, and 2002. In addition, *município*

<sup>6</sup> According to Fleischer (1998), the original government plan was to reduce the number of public employees from 900,000 to 400,000.

<sup>7</sup> Weyland (1997) calls President Collor's structural reform "reform by imposition" (pp. 11–15).

<sup>8</sup> The president's younger brother exposed surreptitious ties between drug dealers' funds and the president's treasurer.

elections were held nationwide in 1988, 1992, 1996, and 2000. All were direct elections.

Under this presidential election system, the candidate winning the majority of the votes cast is elected president. If none obtains a majority, the first- and second-place candidates face each other in a runoff. In the 1994 and 1998 elections, Cardoso won the majority in the first election, but in the two other presidential elections, a second vote had to be taken.

For senators, the system follows the first-past-the-post rule, meaning that a candidate winning the majority of votes is elected. Deputies are elected under an open-list proportional representation system. While the proportional representation system is generally a system of allocating seats to political parties in accordance with the number of votes garnered (Horie and Okazawa 1997, p. 202), the Brazilian system does not set a predetermined rank of names on the party list. Under it, voters vote for individual candidates rather than for parties. If a party has an extremely popular candidate who garners a very large number of voters, the votes cast for him or her are counted as the party's gain. This being the case, a candidate from one party can be elected even if he or she wins fewer votes than a rival in another party, if another candidate from his or her party enjoys massive public support. This system keeps the door open to clientelism because of its focus on individuals rather than parties.

After democratization, the political party system was fully liberalized and the basic functions of political parties were restored. They began to function as a mechanism to "receive the various interests, demands, and wills expressed by individuals and groups in society and to process them into several sets of policy options that could be appropriately handled in the decision-making processes" (Horie and Okazawa 1997, p. 142). However, the party system reforms carried out at that time also abolished the binding power of party decisions on party members. In addition, various state rules on political parties were lifted to allow inter-party collaboration during election campaigns. These changes had a major influence on the voting behavior of legislators in the subsequent period. On this aspect, Power (1997) observed that as of 1985, "party fidelity and barriers to party formation were widely viewed as *casuismos* of the military regime" and that "democratization was identified with a form of institutional permissiveness demanding the removal of any and all barriers to the personal latitude of individual politicians" (p. 4). As the system that emerged no longer demanded that politicians be strongly tied to their respective parties, or to observe fidelity to them, clientelism was encouraged particularly under the Sarney government, as Weyland (1997) described in the following words: "the long-standing weakness of political parties and the control of technocrats over crucial policy decisions induced politicians not to focus on pragmatic debates, but mostly on their own political survival" (p. 7).

The 1985 post-democratization political map of the Chambers of deputies was

characterized by the presence of numerous parties. The ruling coalition consisting of the Brazilian Democratic Movement Party (PMDB) and the Liberal Front Party (PFL) was countered by approximately twenty-five opposition parties, large and small, including the Democratic Social Party (PDS), Democratic Workers' Party (PDT), and the Workers' Party (PT). President Sarney's PFL was an offshoot of the PDS, the ruling party during the military regime. The other member of the ruling coalition, PMDB, had been founded in 1979 as the largest opposition party under the military regime. Though it was the biggest political force pressing for democratization, it was "largely a collection of forces critical of the military regime, including in its ranks politicians of very diverse class backgrounds with heterogeneous political creeds" (Horisaka 1999, p. 335). From it, a faction split to form the PSDB. Cardoso was a central figure in the PSDB.

In the decade following democratization, ongoing efforts were made to organize democratic political institutions, but the importance of creating institutions was not necessarily clearly recognized by the parties involved. It appears that most understood competitive elections as being synonymous with democratization and democratic politics. In countries having just achieved democratization, politicians often differ in major ways over how new-born democratic politics should be sustained. It can be said that in the post-democratization decade, the three successive governments were aiming for the same goal of maintaining democracy, but each in its own way was influenced by political and economic factors.

#### B. *The Environment Surrounding the Cardoso Government—Victory Based on the Success of the Real Plan*

##### 1. *Composition of the Cardoso coalition government*

In the presidential election in October 1994, Cardoso won a majority in the first ballot and was elected as the fourth civilian president of the country. His victory was largely a result of the success of the Real Plan, an economic stabilization plan he formulated as Minister of Finance under the Itamar Franco government (1992–94). In July 1994, he introduced the real as the new national currency in order to put a brake on the chronic four-digit hyper-inflation. This policy was just beginning to make its positive effects felt when the election was held.

Table I shows the composition of party seats in the Chambers of deputies during Cardoso's first term of office (January 1995–December 1998). The parties that backed Cardoso were his own party (PSDB), PFL, and Brazilian Labor Party (PTB). But Cardoso needed to get the support of more parties, since he had to have three-fifths of the congress members on his side to make constitutional amendments for social security and other reforms. By offering ministerial posts and other privileges, Cardoso succeeded in getting PMDB and Brazilian Progressive Party (PPB) to join the ruling coalition. With this move, the Cardoso government in its first term of office came to enjoy the support of more than 70 per cent of the Chambers of deputies

TABLE I

CHAMBERS SEATS HELD BY THE RULING COALITION DURING THE FIRST CARDOSO GOVERNMENT, 1995–98

	Feb. 1995	Jan. 1998	Oct. 1998	Party Characteristics
PSDB	62	97	99	Split from the PMDB in 1988, center-left
PMDB	107	86	82	Coalition of opposition parties during the military regime, center-left
PFL	89	110	106	Center-right, splinter from the ruling party under the military regime
PPB	88	79	60	Right, originating in the ruling party under the military regime (ARENA) and PDS (1979–85)
PTB	31	22	31	Right, founded in 1980
PL	13	10	12	Splinter from the PFL and the military regime ruling party PDS
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Total of chambers seats	513	513	513	
Share of ruling coalition (%)	76	78	76	

Source: Made by the author from Power (1998) and Suzuki (2002).

Note: PSDB = Brazilian Social Democracy Party, PMDB = Brazilian Democratic Movement Party, PFL = Liberal Front Party, PPB = Brazilian Progressive Party, PTB = Brazilian Labor Party, and PL = Liberal Party.

members. Nevertheless, it was not easy for Cardoso to move politics in the way he wished, since the coalition was politically heterogeneous, comprising right, center-left, and center-right parties. Besides, as the party system did not provide for party decisions to be binding on party members, Cardoso could not expect members of coalition parties to always vote for his plans.

## 2. *Constitutional amendments and the Cardoso government's reform concepts*

In its manifesto,<sup>9</sup> Cardoso's PSDB presented as its main policy goals the protection of democracy, reforms toward representative democracy, decentralization in terms of administration and budget, and enforcement of policies to improve basic public services and income redistribution. To rectify the deep-rooted inequity and inefficiency of Brazilian society and construct a state with transparency and social accountability, it was necessary to enact constitutional amendments that meticulously prescribed the rules applied to society.

The 1988 constitution, with its 245 articles and 70 transitional rules, proclaimed

<sup>9</sup> Manifesto ao povo Brasileiro, <http://www.psd.org.br> (accessed September 19, 2003).

in the abstract a series of rights that the people could exercise. As such it was only a law echoing “an unrealistic and opportunistic distributionism” (Yatani, Watanabe, and Ninomiya 1994, p. 178). Amending this constitution would require two sittings at the Senate and Chamber each and the support of three-fifths of the congress members. Also, the government’s amendment proposal would not go directly into congress deliberations, but would have to be processed by a special committee on constitution amendments, which had the right to revise the government proposal. The amendment plan thus processed would go to the Chamber where it would be deliberated twice, and then to sent to the Senate.

The first and second Cardoso governments made thirty-one amendments to the constitution. The main ones provided for the reelection for only one consecutive term of the presidents, governors, and mayors, administrative reforms, and reforms in economic regulation (for instance, deregulating activities of foreign companies and abolishing state monopoly on oil and gas services). Overall, these amendments were intended to reduce the role of the state in economic activities, privatize state enterprises,<sup>10</sup> and facilitate the participation of foreign firms in the Brazilian economy. Some amendments were oriented toward giving the federal government powers to secure fiscal sources for social services and to allocate them to local governments. Falling in this category were amendments providing for the establishment of the Social Emergency Fund (1996 and 1997), FUNDEF as a fund to manage educational budgets (1996), and a fund to combat poverty (2000). These directly reflected the Cardoso government’s predilection for social policies and efforts to reorganize the state according to the needs of society.

### III. DEVELOPMENT AND CHARACTERISTICS OF SOCIAL SECURITY SYSTEMS

#### A. *The Introduction of Social Security Systems*

Brazil’s social security systems originated in a pension system introduced in 1923 for the employees of railway companies. These workers were transporting primary products such as coffee as Brazil’s main export items. Along with Chile, Uruguay, Argentina, and Cuba, Brazil was one of the first Latin American countries to introduce a social security system. As indicated by Table II, Brazil’s social security began in the form of company-based *caixa* (funds), and then developed in the

<sup>10</sup> Privatization in Brazil gathered momentum as the state monopoly was eliminated in the petrochemical and gas industries following the constitutional amendment and changes in other laws. Usiminas was the first major state enterprise to be privatized. In the five years from October 1991, when Usiminas was privatized, through 1994, thirty-one state firms were privatized. But in the subsequent five years, double that number (sixty-two) were privatized. Privatization was carried out in the petrochemical, railways, electric power, and communication businesses (Suzuki 2002).

TABLE II  
HISTORY OF BRAZIL'S PENSION SYSTEM

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1919	Work injury law enforced
1923	Fund ( <i>caixa</i> ) established for retirement pay and pensions for railway workers
1931	Fund for retirement pay and pensions for public servants
1932	Fund for retirement pay and pensions for mining workers
1933	Retirement and Pension Institute ( <i>instituto</i> ) for seamen and dockworkers
1934	Retirement and Pension Institute for merchants and bank employees
1936	Retirement and Pension Institute for factory workers
1938	Retirement and Pension Institute for transport business employees
1953	Retirement and Pension Institute for public servants
1960	Promulgation of social security laws: mandatory affiliation of self-employed persons
1967	Establishment of National Social Security Agency (INPS), abolition of existing institutes
1971	Introduction of rural workers' fund (FUNRURAL) for rural workers
1973	Social security systems begin to be introduced for home industry workers
1974	Ministry of Social Security and Labor reorganized into the Ministry of Social Security and Assistance
1977	Introduction of the National System of Social Security and Welfare (SINPAS), INPS integrated into SINPAS
1988	New constitution promulgated stating that social security is a right of the people
1990	Establishment of the National Social Security Agency (INSS)

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Note: Made by the author from various sources.

1930s into occupation-based *institutos* (institutes). The *institutos* soon began to capture one occupation after another.

In the 1960s, the social security systems began to be reorganized into a single social security service, over resistance from companies and trade unions. In 1966 the occupation-based institutes were abolished, followed in 1967 by the establishment of the National Social Security Agency (INPS) under the control of the Ministry of Social Security and Labor. Rural and home industry workers, who had long been excluded from social security, were brought under it in 1971 and 1973. In 1974, an administrative reorganization was carried out, and as part of it, the Ministry of Social Security and Assistance was established as a vehicle to provide institutional support for the expanding INPS services. In 1977, the National System of Social Security and Welfare (SINPAS) was launched to extend social security services to yet more people. This system was meant to unitarily manage the diverse social security services such as pensions, medical services, and social assistance. INPS was integrated with SINPAS, to function as a subsection of the latter. However, since INPS handled pensions, it actually held a 70 per cent share of the SINPAS budget.

Theoretically, at least, Brazil's social security system thus came to cover all regular workers by the end of the 1970s. In fact, however, the actual benefit recipients represented only 20.8 per cent (1950), 23.1 per cent (1960), and 27 per cent (1970)

of the economically active population. Oliveira, who is versed in the history of Brazilian social security, remarks that in the social security system, he could find that “emancipated Brazil, affluent Brazil, corporate Brazil, and marginalized Brazil” existed side by side.<sup>11</sup> Though theoretically applicable to workers in all occupations, the actual social security system in Brazil was still a lopsided one with benefits limited to specific segments of the population.

In and after the economic crisis that hit Latin America in the 1980s, Brazil’s social security fell into deep financial trouble. In fact, no major institutional reform was carried out in that decade. The re-democratization of 1985 meant that the government had to address the serious social problems (poverty and unemployment) aggravated by the twenty-one years of military regimes, and to promise better social services. Reflecting this pressing need, the 1988 constitution needed to guarantee the people’s right to social security along with those to education, work, and health. This situation also compelled the government to expand social security expenditures even in the absence of corresponding revenues. For instance, it guaranteed the payment of the same amount of pensions as minimum wages (Article 201, 1988 constitution) and set the pensionable age for male and female rural workers five years below that for general workers (Article 202). These measures brought large deficits to the national social security accounts.

#### B. *State Corporatism, Import-Substitution Industrialization, and Social Security Systems*

Brazil’s social security systems were first established in the 1930s against a specific political backdrop. The Vargas government (1930–45) badly needed to win the support of urban industrial workers in order to facilitate its state-led import-substitution industrialization strategy. This is why the occupation-based social security in the 1930s was strategically targeted toward dockworkers, merchants, bank employees, industrial workers, and people engaged in the transportation business. In other words, social security at that time was intended to preempt pressure by workers from below and to depoliticize the labor movement. In the same decade, the Ministry of Labor was established and rules were introduced concerning working conditions, female workers, wages, work injuries, employment, and dismissals.

Social security continued to carry the same significance after Vargas. In the period of postwar democracy, from 1945 through 1964, the consolidation of social security systems and expansion of their coverage were actively discussed in response to urbanization and economic development, which were bringing about changes in Brazilian society, as well as the global trend of democratization. But the

<sup>11</sup> The website of the Brazilian embassy in London carries detailed accounts of the history and institutional reforms of Brazil’s social security systems, <http://www.brazil.org.uk> (accessed July 19, 2002).

nature of social security remained “selective, heterogeneous, and fragmented” in terms of the number of beneficiaries and benefit level (Medeiros 2001, p. 14). It is true that in the military regime period from 1964 through 1985, institutional changes were made as typified by the establishment of INPS and SINPAS, but such changes were “to break the power of certain groups like organized labor and to reassert the power to the central state within an authoritarian and ‘technocratic’ mode of rules” (Malloy 1985, p. 19). In the process of re-democratization after 1985, the public called for quantitative improvements in benefits, rather than institutional reform, making the social security systems more clientelistic.

State corporatism, which seeks popular support in exchange for privileges and concessions to specific supportive social groups, sustained itself in Brazil until the 1980s. Sustained in parallel was the import-substitution industrialization policy, which functioned as the national development strategy. Social security was conveniently used as an instrument for both objectives. But in the meantime, the financial position of social security programs became increasingly perilous. Under the impact of the economic crisis in the 1980s, there was a rapid increase of workers in the informal sector, leading many insured people to become delinquent on contribution payments, while the aging of the population caused the payment of pension benefits to rocket. Brazil’s social security system is based on a pay-as-you-go system. This means that benefits to retirees are paid out of a fund made up of contributions collected from active service workers. Under this system, the ratio of the non-economically active population to the active population is crucial. The ratio, which was 1 to 8 in 1950, rose to 1 to 4.2 in 1970, and 1 to less than 3 in the 1980s. The financial bankruptcy of social security systems seemed unavoidable.

### C. *Two Pillars of Social Security and Their Problems—RGPS and RJU*

So far, we have discussed the Brazilian social security system as though it were a single system, but in fact it is divided into two distinct categories by worker occupation. The first, called the General Regime for Social Security (RGPS), covers most regular employees, such as state-owned and private company employers and employees, self-employed persons, household workers, and employees of small family businesses. It should be recalled that INPS was annexed by SINPAS in the 1970s, and renamed the National Social Security Agency (INSS) in the 1990s. INSS is in charge of managing the RGPS.

As was mentioned earlier, the RGPS fell into financial crisis as revenue from contributions diminished due to population aging and the explosion of the informal sector. But that is not the only trouble it faces. Another disturbing factor lies in the system of retirement pensions by length of service, which was introduced in 1945. Under this system, the insured person is entitled to a benefit proportionate to the length of service irrespective of the amount of contribution paid. This meant that workers were entitled to pensions after serving for thirty-five years (male) or thirty

years (female). If they started to work when they were still in their teens, they could receive pensions by the time they reached their forties. This program worked effectively and was financially sustainable at the time of its introduction, when the average life expectancy in Brazil was forty-five years. But in the 1980s it became totally impossible to finance it, since the average life expectancy rose to sixty-five years or more. The INSS account began to register deficits in 1994. The deficit snowballed from 409 million real in 1994 to 608 million in 1995, 1,187 million real in 1996, 1,798 million real in 1997, 6,556 million real in 1998, and to a staggering 8,103 million real in 1999.<sup>12</sup>

In parallel with the RGPS is the Pension Regime for Government Workers (RJU), which is applied to military service personnel, public servants at the federal, state, and *município* (local) levels, as well as to people working in the administrative, legislative, and judicial agencies. For many years, no contributions were collected for this scheme. The pensions payable after retirement are linked to the pensioners' final pre-retirement salaries. According to 1995 statistics, the average monthly RGPS pension was 1.8 times the minimum wage, while the RJU pensions paid to retired ministers of the government and ex-governors amounted to 14.6 times the minimum wage. Ex-military persons were receiving 19.5 times and retired parliamentarians 54.2 times the minimum wage.<sup>13</sup> The disparities are extremely large.

Kane, a World Bank economist well versed in Latin American pension reform affairs, finds RJU problematic, pointing out that it "violates both horizontal and vertical equity norms." He writes that it was not fair for public servants' pensions to be far larger than the pensions paid to private sector workers receiving the same wage. He states that the salary/pension ratio of public servants was four times that for private sector workers. Also, the noncontributory system of the RJU is highly problematic from the standpoint of equity. With regard to "vertical equity," the final salary-linked pension provision unduly favors the high-salaried segments of public servants. Kane (1998, p. 302), stating that "civil servants are such a powerful and often well-organized interest group that attempts to cut down on these privileges run into formidable obstacles," concludes that this is why it has been so difficult to reform the Brazilian social security systems.

#### IV. SOCIAL SECURITY REFORM BY THE CARDOSO GOVERNMENT

##### A. *Contents of Reform*

The constitutional amendments proposed by the Cardoso government in March 1995, immediately after its inauguration, focused on a critical review of the RJU. It was also proposed that the pension by length of service be replaced by a new en-

<sup>12</sup> *Informe de previdência social*, vol. 11, no. 12 (December 1999).

<sup>13</sup> Ministry of Planning, Budget, and Management, *Boletim estatístico de pessoal*, 51 (2000).

titlement based on both a new age limit and the number of years of contributions of the insured. But the government proposal was turned down. What finally was deliberated and passed was a version revised by the Chamber. Table III shows the changes made in the RGPS and RJU programs in accordance with the constitution amendments adopted in December 1998.

Though the duration of contribution payments was introduced as a qualifying factor, the salary guarantee at the time of retirement remained intact in the revised RJU. The December 1998 decision set the contribution rate at a uniform 11 per cent of salary. Later, the government proposed that the rate for public employees in active service be raised to 20–25 per cent depending on their salaries. The government also proposed that contributions be collected from retired public servants. Under this plan, public servants receiving 1,200 real or less a month in salaries were to pay 11 per cent of their salaries in pension contributions. The rate would rise to 20 per cent for those receiving more than 1,200 but not more than 2,500 real and further to 25 per cent for those receiving more. For retired public servants, the proposed contribution rate would be nil for those earning 600 real or less, 11 per cent for the group receiving more than 600 but not more than 1,200 real, 20 per cent for the over 1,200–2,500 real group, and 25 per cent for the over 2,500 real group. However, the Cardoso government failed to put this plan into practice. The second Cardoso government took office in January 1999, but by that time, the Russian

TABLE III  
MAIN POINTS OF REVISION IN THE SOCIAL SECURITY SYSTEM  
(By Constitutional Amendments in December 1998)

RGPS (For General Workers)	RJU (For Public Servants)
<ul style="list-style-type: none"> <li>• Pension entitlement linked not to the service length but to the duration of contribution payments (thirty-five years for male and thirty years for female workers).</li> <li>• Upper limit to the pension amount set at ten times the minimum wage.</li> </ul>	<ul style="list-style-type: none"> <li>• Contributions are collected from all public servants.</li> <li>• Only full-time public employees are entitled to pensions.</li> <li>• Pension by length of service entitlement is abolished, and new qualification requirements are introduced combining a required duration of contribution payment (thirty-five years for men and thirty years for women) and age limits for benefit payments (sixty years for men and fifty-five years for women).</li> <li>• Public servants are entitled to pensions only after serving as public employees for ten years and serving in the last post for five years.</li> <li>• The amount of pension is equal to the retirement time salary level.</li> </ul>

Source: Made by the author from various sources.

economic crisis of summer 1998 had created serious ripple effects on the Brazilian economy. The economic crisis stranded not only social security reform but also all reform plans of the Cardoso government.

B. *Why Did the Cardoso Reform Fail? A Comparison with the Lula Government*

We stated earlier that the Cardoso government intended to rectify the inequalities in Brazilian society and to bring transparency to the operations of the Brazilian state. His social security reform was instrumental to this policy goal in an important way. Why then, were his reforms not fully carried out? Why was his political ideal not accepted by the congress? Takahashi (2001) argues that the cause for this can be found in the Brazilian political structure. Concretely speaking, the problem was the parallel presence of the two public pension systems, the RGPS and RJU. In the arena of congress, subscribers to either of the two schemes hurled blames at the other side, and in these mutual accusations impeded the needed serious debate and deliberation. The initial plan was for rural workers and informal sector workers, who were traditionally marginalized in social security, to emerge as the main force promoting reform, but they failed to sharply criticize the RJU system, as politicians effectively silenced them by providing favors and protection in election campaigns.

Another cause for the reform failure was the structure of the Cardoso coalition government and the fragmentation of political parties in post-democratization in Brazil. The six parties belonging to the Cardoso coalition gradually shifted their stance from support to opposition as regards the social security reform. In fact, 205 congress members opposed, 187 supported, and 7 abstained from voting on the government proposal to collect contributions from retired public servants. As the party decisions had no binding power on the stances of their members, it was not always the case that the members of the ruling coalition partner parties voted for bills proposed by their own parties, or by the government of which they were part. Their overwhelming concern was whether they could be reelected. On issues that were of vital interest to them, such as the pension issue, many acted not on behalf of their parties but in line with their personal interests.

During the 1994 election campaign, Cardoso had repeatedly stated that Brazil was not a poor country but an unequal one. He was keenly aware that the PSDB's stated goal of building a democratic country of social inclusion had not been achieved. Of course, he needed to save the social security system from financial crisis, but his fundamental commitment was to remaking Brazil's social security and tax systems into equitable ones, as a step toward a more democratic Brazilian state. It appears that in taking power, he had been prepared to take great risks to achieve this aim. On the other hand, he had reasons to expect that his reform would roll ahead more or less smoothly since he had won great popularity for his success in quenching inflation through his economic stabilization program, the Real Plan. Besides, the PSDB successfully maneuvered in the congress to win over as many parties as

possible. It had learned lessons from the failure of President Collor, an acknowledged strongman, in attracting a majority. Despite these high expectations, Cardoso was unable to overcome the obstacles to the needed social security reform. Ten years had passed since re-democratization, but the task remained unaccomplished.

This task that Cardoso failed to achieve in his two successive terms of office was carried over to the Lula government, which stepped into power in January 2003. Lula declared tax reform and social security reform to be his first priority tasks, and presented his social security reform plan to the Chamber on April 30, 2003. Seven and a half months later, on December 11, the Senate passed constitutional amendments for social security reform, and these were proclaimed on December 19. Why did Lula succeed in accomplishing the task in such a relatively short time? Had the political environment surrounding social security reform changed favorably from the Cardoso period? Table IV shows a distribution of the congress seats and party affiliations of state governors. As can be seen from this map, the Lula government does not enjoy stable support either in the federal or state political circles. It is

TABLE IV

CONGRESS SEATS AND STATE GOVERNORSHIPS BY PARTY UNDER THE LULA GOVERNMENT

Seat Distribution in the Parliament (Chamber, Seats by Part, Total Seats 513)		Political Affiliations of State Governors (27 Governors: 26 States + 1 Federal District)	
June 2003: ruling coalition seats	256	2002: Lula-supporting coalition governors	11
PT	93	PT	3
PTB	48	PSB	4
PL	33	PPS	2
PSB	29	PDT	1
PPS	20	PSL	1
PDT	15		
PC do B	11		
PV	6		
PMN	1		
Opposition parties and others	257	Opposition parties and others	16
(For comparison)		(For comparison)	
February 1995:		1998:	
Ruling coalition seats under Cardoso	390	Cardoso-supporting coalition	18
Opposition parties and others	123	Opposition parties and others	9

Source: Made by the author from Power (1998); *Almanaque Abril edição Brasil*, 2001 and 2002 editions; Election results, June 7, 2003, <http://www.tse.gov.br>.

Notes: 1. PT = Workers' Party, PTB = Brazilian Labor Party, PL = Liberal Party, PSB = Brazilian Socialist Party, PPS = Popular Socialist Party, PDT = Democratic Workers' Party, PC do B = Communist Party of Brazil, PV = Green Party, PMN = National Movement Party, and PSL = Liberal Socialist Party.

2. "Others" means independents or party non-affiliates.

3. As of May 2003, it became certain that the largest opposition party PMDB would support Lula.

recalled that the Cardoso government had overwhelming numerical support in the legislature.

In the 2002 elections, Lula's PT drastically increased its seats in the Chamber and Senate. By taking 93 seats (compared to 58 before the election) in the Chamber, the PT came to command the largest power in the congress. However, as of June 2003, the ruling coalition's seats totaled only 256 in the Chamber and 31 in the Senate. This meant that the Lula government had to obtain the support opposition members in order to amend the constitution, with the support of three-fifths of the congress votes (308 votes in the Chamber and 49 votes in the Senate). The key to successful constitutional amendment was the blocs held by the large opposition parties such as the PMDB, PSDB, and PFL. In this sense, the setting was similar to that under which the Cardoso government had sought to win the support of the PMDB and PPB for its social security reform, in exchange for cabinet minister posts.

What was Lula's strategy for overcoming this difficulty? True, he too sought to win opposition party cooperation through "negotiating" important posts with them. He appointed former president Sarney as chairman of the Senate and named some PMDB representatives to important posts in congress.<sup>14</sup> But the key to Lula's success in social security reform was his success in co-opting local politicians such as state governors into his side. To this, he used dialogue and consultation as his main strategy. Persuasion through dialogue was indeed the new strategy. On February 21 and 22, less than two months after its inception, the Lula government invited all the state governors from twenty-six states and Brasília to hold consultations with them on social security and tax reforms. The product was the Carta de Brasília (Letter of Brasilia), which reflected the views of both the government and states. This Carta was forwarded to the congress. It in fact "integrated to a considerable degree the opinions and views of the opposition parties" expressed by state governors affiliated with the PMDB and PSDB (Hamaguchi 2003, p. 44). Rather than presenting the government's reform plan directly to the congress, Lula first listened to state governors, many of whom belonged to the opposition parties. This was how he was able to soften opposition resistance in the congress.

The government reform plan submitted on April 30, 2003 was deliberated by the Chamber's Constitution and Judiciary Committee and the Chamber's Special Committee and put to vote twice in the Chamber plenary. On the first vote, 358 votes were cast for the proposal and 126 against it, with 9 abstentions. The showing on the second vote was 357 for, 123 against, with 6 abstaining. Of the 357 supportive votes, 62 were cast by members of the PFL and PSDB, both opposition parties.<sup>15</sup>

<sup>14</sup> At of this writing, PMDB had no cabinet member, but negotiations were under way for its inclusion in the cabinet.

<sup>15</sup> *Buraziru nyūsu sokuhō*, no. 1376, September 4, 2003.

TABLE V  
CONSTITUTIONAL AMENDMENTS IN DECEMBER 2003

Current Pension Beneficiaries (Pensioners)	Public Employees in Active Service	Persons Joining Public Service from Now On
<ul style="list-style-type: none"> <li>• The amount of pension is determined on the basis of the retirement time salary (unchanged)</li> <li>• Dutifully payable contributions               <ol style="list-style-type: none"> <li>(1) For federal government retirees 11 per cent of the portion of the pension exceeding 1,440 real</li> <li>(2) For provincial and municipal government retirees 11 per cent of the portion of the pension exceeding 1,200 real</li> <li>(3) Survivor's pension 30 per cent cut in the contribution otherwise payable for the portion of the pension exceeding 2,400 real</li> </ol> </li> </ul>	<p>To receive the same pensions under the same conditions as the current beneficiaries, a worker (male) must</p> <ol style="list-style-type: none"> <li>(1) be sixty years old (fifty-three years old before)</li> <li>(2) have paid contributions over the past thirty-five years</li> <li>(3) have been in public service for twenty years (ten years before)</li> <li>(4) have held an official post for ten years (four years before)</li> <li>(5) have stayed on the same job as at the time of retirement for five years (same as before)</li> </ol>	<p>The upper limit of pensions they may be entitled to is 2,400 real (the same as for private sector workers)</p>

Source: Made by the author from *Carta de Jettro*, December 26, 2003.

The adopted plan, it should be noted, was not fully satisfactory to the government, as the original proposal had been revised. While the government wanted to set the threshold contribution-collectable income of retired public servants at 1,058 real, the Chamber raised the figure to 1,440 real. The plan was then sent to the Senate where it was passed on December 11, with fifty-one votes in favor and twenty-four against. This was a slim victory for Lula, as the votes cast for the amendment were just two over the required forty-nine. The contents of the reform are given in Table V. The reform only involved social security for public servants. Reforming the private sector workers' scheme, RGPS, is still a task for the future.

## V. CONCLUSION

The Lula government made a great achievement in social security reform in its first year of office. This success owed greatly to the groundwork done by the Cardoso government. Cardoso's amendments, if unsatisfactory, had been debated by the congress and adopted in December 1998. PSDB was supportive of this reform process. Given this past commitment, PSDB could hardly oppose the Lula reform proposal even if it was now in opposition. Through the consultation between Lula and the governors, the views of the PSDB and other opposition parties were largely integrated into the government plan. This was how Lula was able to avoid the usual situation where opposition parties opposed all government proposals. The Lula government, in this sense, found itself in a more favorable situation than Cardoso. As shown by the Chamber voting pattern, many opposition party members voted for the government plan. This time the lack of binding party decisions did not work against the government as it had for the Cardoso government. More analysis may be needed to come to the truth, but at the moment it can be concluded that the Lula government's success owed largely to the co-optation of local political powers to his side through a dialogical and consultative strategy.

The Cardoso government attempted to reform the social security system as a means to achieve democratic politics and social equity, but its reform remained incomplete due to the very nature of the Brazilian political system. Even so, Lula was only able to succeed on the basis of what the preceding government had done. It should also be pointed out that the Lula government's success has been limited and precarious. We did not mention this earlier, but Lula, who is skilled at dialogue with the opposition, is concerned about internal problems within his own party. Far from being monolithic, the PT is plagued by antagonism between its radical and moderate wing. As he worked to pass the constitutional amendment, Lula had to exclude PT radicals from the Special Committee and Constitution and Judiciary Committee of the Chamber, and repeatedly pleaded with them to vote for the amendment. Thanks to his efforts, the party barely evaded a split. Now Lula has to resolve more structural reform issues, each requiring a constitutional amendment. To suc-

cessfully handle these issues, the Lula government will need to carry out political reform that will strengthen the political parties and help establish ethics among politicians. Now that some progress has been made in the social security reform, the Lula government must proceed to other issues of structural reform for the stability of Brazilian democracy.

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