Reforming the State:
Business, Unions and Regions in Brazil

edited by
Maria D’Alva Gil Kinzo
REFORMING THE STATE: BUSINESS, UNIONS AND REGIONS IN BRAZIL

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# CONTENTS

Notes on Contributors i

I: Introduction 1
Maria D'Alva Gil Kinzo

II: Business Politics in Democratic Brazil 3
Ben Schneider

III: Unions In Times Of Reform 24
Maria Hermínia Tavares de Almeida

IV: Regional Interest Intermediation in Brazil: The Impact of Federalism and Decentralisation 36
Celina Souza

Bibliography 54
The three papers brought together in this Research Paper were presented at the 7th Annual Brazil Conference organised by the Institute of Latin American Studies, in February 1997, under the title *Power Structure, Interest Intermediation and Policy-Making: Prospects for Reforming the State in Brazil*, convened by Maria D'Alva Gil Kinzo.

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Reforming the State in Brazil

I: Introduction

Maria D’Alva Gil Kinzo

Throughout its political history Brazil has never been in a situation so singular as the one experienced in this last decade of the century. The transformations in the economic and political structures that the country has undergone since the early 1990s can only be compared, in importance and depth, to those that occurred in the 1930s.

The three pillars that gave sustainability to the post-1930 social and economic transformations are well known. First, the prominent role of the state in the promotion of economic development, with its direct participation as an economic actor in various sectors of the economy; second, the concentration of power and centralisation of decision-making in the hands of a strong leadership, leaving limited space for parliamentary politics (when not suppressing it completely); and third, the corporatist structure of labour relations in which the state controlled and arbitrated social conflict. These are the pillars that marked the pattern of state-society relations that lasted for more than five decades in Brazil.

In the 1990s, in contrast, the nature of the changes in progress consists precisely in reformulating that model of development – or creating a new one – which implies a redefinition of the role the state played in the past. This involves the replacement of the three pillars mentioned above, as they can no longer be the basis for development in the new context. The state-led import-substituting industrialisation model was no longer appropriate for development when economic stagnation, high inflation and worldwide economic transformations made the need for overall restructuring of Brazil’s economy imperative. The Brazilian corporatist structures are no longer operative in a context of more autonomous and powerful union movements and other channels of interest intermediation. The concentration and centralisation of policy-making that characterised the period of Vargas’s rule cannot be the way public decisions should be made in Brazil’s democratic regime of today.

However, it is precisely this last aspect – the democratic context under which transformations have been carried out – that gives singularity to the current situation in Brazil, making the present a complex process of change the results of which are still uncertain. In other words, it is a process of change taking place in a political system that, due to its democratic nature, gives room for the free manifestation and interplay of a variety of social and political forces,
vying to influence decision-making; moreover, it is a political context in which the new and the old are still overlapping. Thus, old political habits crystallised by an authoritarian and statist past still coexist with new democratic practices invigorated by the emergence of democracy.

The three papers that form this publication are important contributions to the understanding of the complexities of Brazil’s current process of change. They are concerned with interest intermediation in the ongoing process of state reform that Brazil has undergone since the early 1990s. For that purpose three relevant actors – big business, unions and regional interests – are studied with the aim of assessing their capacity to influence decision-making and therefore their role in the present process of change.

Ben Schneider’s paper looks at an important aspect of the interest intermediation issue – the role played by industrialists in the present process of constitutional reform in Brazil. His work reveals that, contrary to what might be expected, industrialists have not been successful in their attempt to influence the process of reform, at least in their capacity as a collective actor to lobby for their interests in Congress. The industrialists’ low capacity to aggregate their interests, their disarticulation as a collective actor, the effect of the corporatist system and the existing pattern of electoral politics in Brazil are aspects discussed by Schneider in his analysis of the issue.

Maria Hermínia Tavares de Almeida’s paper on the unions is an analysis of the challenges that unions are facing as a result of the changing environment in which they operate today. Thus, in spite of the increasing role that unions achieved as a result of democratisation, their capacity to influence the process of change has been eroded not only by worldwide economic transformations, but also by institutional constraints in Brazil’s political system.

Finally, Celina Souza explores another important factor that made state reform a complex process in Brazil – the interplay of regional interests in the country, the role of which has substantially increased with the decentralisation established by the 1988 Constitution. Displaying the cleavages and tensions that have characterised the relationship between national and sub-national governments, Souza points out the federal government’s financial constraints and difficulties in building up coalitions to support its reform policies.

This Research Paper originates from a conference entitled Power Structure, Interest Intermediation and Policy-Making: Prospects for Reforming the State in Brazil, held by the Institute of Latin American Studies on 13 and 14 February 1997. Several aspects of the structure and dynamics of decision-making and the prospects for reform in Brazil were discussed during that two-day meeting. The papers included in this publication are a good indication of the richness of the debate during the conference.
In May 1996, the National Confederation of Industry (CNI) convened a meeting of industrialists in Brasília for a mass show of unity and focused lobbying in favour of constitutional reform. Industrialists, large and small, heeded the call. Nearly three thousand of them from all over Brazil chartered planes and packed shuttles. Fortified by a morning of speeches demanding constitutional reforms, the industrialists fanned out over Brasília in the afternoon to argue their case. As if to demonstrate they could not be intimidated, Congress chose that very afternoon to vote down a reform proposal backed by business. By the end of 1996, it was clear that business had made little progress over the year in pushing the several amendments business supported through Congress.

By December the press was also investigating a story that earlier that year Deputy Pedrinho Abrão, a leader of the Brazilian Labour Party (PTB) and a political heavyweight on the Budget Committee, had demanded a four per cent tip (around $1.6 million) on a $42 million budget item from the construction firm Andrade Gutierrez. In exchange, Abrão promised to keep funds in the 1997 budget for the continuation of a dam in the north-east (see Folha de São Paulo, 12 December 1996, pp. I-1, I-4, I-5). These two events illuminate the continuing dilemmas and ironies of business politics in Brazil. Business has poured money into politics on all fronts. What has it got in return? To the extent the Abrão case is indicative of broader practices, personalised exchange can still yield individual benefits. Yet on the public stage, business has had little collective influence. The major goals of this paper are to analyse this collective weakness and, more briefly, consider some major causes and consequences of it.

The transition to democracy in Brazil forced big industrialists in Brazil to rethink their political activities and reorganise themselves for articulating focused political influence (see Payne, 1994 and Weyland, 1996). In an overview of efforts to organise business politics over the last decade two things stand out. First, business leaders have been very creative and inventive. Business leaders have experimented with many new organisations and channels of influence. Second, the experimentation has resulted in few concrete victories for aggregate business lobbies. Interestingly, the ongoing experimentation into the mid-1990s reflects the continuing frustration of big business over its lack of collective influence in Brasília, especially in Congress.

*I am grateful to Peter Kingstone, Harry Makler, Gesner Oliveira, Thomas Skidmore, Kathleen Thelen and Kurt Weyland for comments on earlier versions and to the Center for International and Comparative Studies and the Institute for Policy Research at Northwestern University for research support. A revised version of this paper will appear in the Journal of Interamerican Studies and World Affairs
Brazil’s constitution and its ability to withstand efforts to amend it are the clearest indications of the ineffectiveness of collective business lobbying. Nearly all of business, and certainly all large industrialists, opposed many of the economic provisions of the 1988 Constitution, strongly agreed on a common agenda for constitutional reforms after 1993 and invested a lot of resources in lobbying for these reforms. An extraordinary feature of Brazilian politics over the past decade has been that the fundamental rules concerning taxes, social security, economic regulation and labour relations have been at the top of the legislative agenda in the late 1980s and through much of the 1990s. These rules profoundly affect nearly all businesses and provided strong and consistent incentives for collective action. In comparative and historical perspectives such intense and lasting centripetal incentives are very rare. Despite these incentives strong aggregate business organisation did not emerge and the various strategies adopted for collective lobbying were ineffectual in Congress. The ineffectiveness of business associations in lobbying for constitutional reform is first a story of obstacles to collective action, the primary focus of the analysis here.

The collective weakness of business also has implications, considered at the end of the paper, for understanding Brazil’s political system generally, and especially the lack of accountability and responsiveness of Congress within the overall political system. The fact that the most powerful social group in Brazil lacks influence in Congress suggests that this legislature is extremely autonomous or unaccountable. There is little evidence that the weakness of business has left the field open for influence by less advantaged groups. Smaller groups with intense interests have been effective at securing particularistic advantage through small groups of legislators. However, larger groups have been unable to advance general legislative priorities. It is especially striking that even the major funders of electoral campaigns, big businesses, have been unable to further a common business agenda in the Brazilian Congress.

Why Business Organisation Matters

In general, Brazil’s industrialists are individually powerful yet collectively weak. Individual industrialists, for instance, have regular access to economic ministers. As Paulo Villares, president of a large steel and machinery conglomerate, put it, ‘I don’t need FIESP (Federation of Industry of the State of São Paulo), when I have a problem I grab the telephone and call whomever I need to’ (interview, 27 January 1993). Yet the captains of industry lack formal organisations that adequately aggregate their interests. Industrialists lack a strong peak association, research institutes, lobbies and closely associated political parties. In one instance of comparative contrast, by the 1990s Brazil and Colombia were the only major countries in Latin America without multisectoral peak associations that united industry, finance and commerce. Business elites created peak associations (sometimes including agriculture) in Chile in 1935, Venezuela in 1944, Argentina in 1946, Mexico in 1975 and Peru in 1983 (see Durand and Silva, 1996). Economic elites in Brazil had conferences in the 1940s and 1970s.
designed to bring together capitalists from all lines of business. In 1987 various sectoral associations created the UBE (União Brasileira de Empresários) to coordinate their lobbying efforts during the Constituent Assembly. However, the conferences disbanded and the UBE closed after the Assembly adjourned.

In any capitalist society economic elites enjoy a political advantage, due to the structural dependence of state actors on private investment and the fact that capitalists control more political resources than other groups. In Brazil big industrialists have access to government decision-makers and government policies have generally favoured them, recent reverses on constitutional reform notwithstanding. What difference would organisation make? In theory, organisation strongly affects the kinds of interests capitalists pursue and how they pursue them. First, the greater the number and diversity of capitalists an association organises, the broader the interests it is likely to pursue. Industrialists have multiple interests; they can push those of their firms, their sectors, their position as employers, or their social class. In principle, broad peak associations should have a 'less parochial view than the narrow associations of which they are composed' (Olson, 1982, p. 50). More encompassing organisations have an interest in increasing total national income, whereas narrow organisations seek to increase their share regardless of the impact of their actions on the size of the whole pie.

Second, individual industrialists and small associations with part-time leaders and small staffs usually only react to policies and attempt to modify their implementation in defence of narrow interests. Larger, better funded associations have the opportunity to devise longer term strategies. Full-time leaders with large staffs are more likely to think ahead, to attempt to set the policy agenda and to try to anticipate political struggles and build coalitions (see Moe, 1980). Third, forms of representation affect the aggregation of interests. Business associations typically grant voting rights to sectors (as in corporatist organisations), to individuals (one capitalist, one vote), or to individual firms in proportion to their size (often measured in sales or employment). All three forms bias representation in different ways, though the last, 'proportional' representation, is the best suited to mediating business-government relations, because policy-makers are generally most interested in the opinions of those who control the bulk of investment. In principle, the better the aggregation of interests, the more attentive officials are likely to be to input from association leaders, and the more authoritative their input will be.

In sum, there are strong theoretical grounds to believe that the ways capitalists organise affect the types of collective preferences their associations push in politics. The relationship between organisation and power is less clear theoretically. There are some grounds to suspect that greater organisation translates into greater overall influence. Organisation is itself a political resource for all social groups, though it is more important when a group's strength lies in numbers. One empirical study of Europe found that more organised industrialists had greater access to decision making (Coleman and Grant, 1988). However, strongly organised business associations can, as Brazilian industrialists
discovered, generate counter-mobilisation by opposition groups, which reduces business influence. In the end, what is theoretically clearest is that the collective interests of business are unlikely to be forcefully represented without aggregate associations. When major industrialists like Villares telephone Brasília, they are more likely to talk to bureaucrats responsible for narrow measures than discuss broad constitutional issues with legislators.

The representation of business is, in turn, a core concern of major theories of neoliberal economic reform and democratic consolidation. In their broad political economy of economic and political reform, Haggard and Kaufman (1995) claim that business was a pivotal force in driving the military out of power in Latin America and that business support was subsequently fundamental for the medium-term consolidation of neoliberal reform. In other theories of democratic consolidation business is a crucial social actor. For instance, Rueschemeyer, Stephens and Stephens conclude that ‘democracy could only be consolidated where elites’ interests were effectively protected, either through direct influence of elite groups on the state apparatus or through electorally strong political parties’ (1992, p. 156). Later they specify that democratic survival depended on the availability to elites of political institutions for control within a constitutional context (elite political parties or state corporatist institutions) (1992, p. 163). Rueschemeyer Stephens, and Stephens do not devote much attention to how economic elites are organised, but they do imply that more encompassing organisation facilitates political representation and thereby democratic consolidation. In Brazil none of the major political parties could be called a party of business, so interest intermediation by associations carries much more of the burden of representation.

For Schmitter (1992) the issue is less a binary one of consolidation or non-consolidation but rather the quality of democracy. Schmitter breaks a democratic political system down into five partial regimes including a concertação regime that depends on the organisation of labour and business. The functioning of each partial regime affects the ability of the political system overall to process demands and manage crises. The lack of aggregate peak associations of both labour and capital in Brazil’s concertação regime limits the contributions this partial regime can make to the overall political system (see Roxborough, 1992). The major general point, even beyond issues of democratic consolidation, is that the lack of peak associations forecloses policy options (see Streeck and Schmitter, 1985; Schneider and Maxfield, 1997).

In sum, theoretical and comparative analysis directs us to the intermediation

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1 'The prerequisite for protection of elite interests was the existence of two or more strong competing political parties, at least one of which effectively promoted the interests of significant sectors of economic elites, and/or both (or all) of which allowed for direct access of economic elites to the policy-makers in the state apparatus. Effectiveness had two components, namely continued close articulation of the party leadership and/or policy-makers appointed by the leadership with economic elites, and capacity of the party to appeal to a large enough base to ensure its electoral strength,' p.169.
of business interest as a privileged locus for understanding the quality, capacity and resilience of new democracies. Given the wide variation in the aggregate organisation of business across Latin America, the analysis of business politics should occupy a central place in the comparative analysis of democratic consolidation. The following sections take a closer look at industrial organisations in Brazil, the attempts of industrialists to revamp them, and the centrifugal forces that have impeded greater articulation. The primary focus is initially on industry, though later sections analyse attempts at multi-sectoral organisation. However, the arguments on industrialists can usually be applied to business generally in Brazil, in that other sectors suffer from much of the same collective weakness. Closer attention to industry is also justified because it is the largest and most politically visible sector of business and because industrialists and their associations have taken the lead in trying to co-ordinate political activity with other sectors.

Corporatist (Mis)Representation and Collective Anaemia

Most historical studies of Brazilian business agree on its organisational weakness. Economic elites had most influence as individuals or through narrow sectoral organisations, and the interests they pursued were usually parochial. Many associations lacked strong staffs and stable leaders, and only reacted to government initiatives. And, most importantly, corporatist regulations distorted representation and impeded the proportional representation of business. In the 1960s one central banker summed up his interaction with business leaders; ‘they don’t anticipate; they only react’ (cited in Schmitter, 1971, p. 291). Other public officials complained that associations were unrepresentative, poorly prepared and usually made demands that were ‘too specific’, ‘concerned only with small measures’, ‘mere movements without substance’, ‘too many palliatives’ and ‘too many special favours’. Associations at all levels were repeatedly criticised for their immediatism, i.e., ‘their unwillingness or inability to take a longer or broader perspective’ (Schmitter, 1971, p. 291). Industrialists generally pursued their ‘individual self interest rather than cohesive class action’ (Leff, 1968, p. 116). During the military regime, opportunities for proactive participation in policy formulation were reduced and, with the exception of the anti-estatização campaign, industrialists dealt with the government largely through narrow, decentralised, ad hoc policy networks or ‘bureaucratic rings’ (Cardoso, 1975; Schneider, 1987; and Boschi, 1979). Despite recent organisational and political investments, business associations have not overcome these historic weaknesses, especially in terms of the lack of a peak association and the deficiencies of interest aggregation in corporatist organisations.


3 See Schmitter (1971); Boschi (1979); Diniz and Boschi (1978); Payne (1994) and Leff (1968). For a contrary view, see Dreifuss (1981).
At a sectoral level, Brazilian industrialists appear to be quite organised. These appearances are, however, deceptive. In the mid-1990s the CNI had around 500 employees, a budget of $42 million (O Globo, 25 October 1995, p. I-19), and a range of political and semi-political programmes. Another 1,000 or so CNI employees administered an additional $600 million in compulsory contributions through SESI/SENAI (Serviço Social da Indústria e Serviço Nacional da Aprendizagem Industrial) education and training programmes for workers. Despite these resources and the fact that all industrial firms are legally required to belong and to pay dues, the CNI had only modest political projection and little ability to aggregate, and therefore represent, industrial interests. On the aggregation side, the fundamental flaw was that the CNI was comprised of 27 state level federations, each with one vote, so that the Federation of Industry of Piaui, a tiny rural state, had the same vote as the FIESP. One result of this corporatist misrepresentation was that two of the last three presidents of the CNI were from the north-east, which makes little sense in a country where São Paulo accounted for more than half of total industrial output and the centre-south for more than two-thirds.

CNI leaders implicitly acknowledged their difficulties in aggregating interests when, in 1988, they began a series of national surveys of 500-700 managers of large and medium firms to find out how industrialists viewed the major issues of reform such as trade liberalisation, industrial policy and privatisation. The CNI did not even use its own membership list. They asked the Gazeta Mercantil (the Financial Times of Brazil) for the addresses from its database to mail out the questionnaire. Apparently, the CNI had no means of canvassing companies directly. In 1996, CNI leaders again turned to direct surveys of large firms rather than using CNI internal channels to compile a list of priority policy measures to make Brazilian industry more competitive.

In terms of political impact, the voice of the CNI in Brasília has historically been muted, in part because its staff of hundreds worked in Rio de Janeiro. Until recently the CNI lacked even a minimal lobbying operation. When the Constituent Assembly began deliberations on the new constitution, the CNI had only one lawyer in Brasília assigned to monitoring Congress. In some periods, the CNI certainly had political access, if for no other reason than that its presidents were also politicians. This dual role was, however, a mixed blessing for industrialists. For example, Albano Franco’s position in the Senate gave the CNI guaranteed access to top level policy-makers, but to the extent that Franco’s loyalties were divided, the representation of industrialists’ interests was distorted. At times Franco identified more with his party and the political class than with the industrialist class. For example, a new tax on financial operations proposed in early 1993 had strong support in Congress, yet met with nearly

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4 For background on industrial associations see Schmitter (1971) and Boschi (1979). On recent organisational activity in agriculture, see Payne (1991); in finance, see Barker (1990).
5 See CNI (1990, 1991 and 1992). It is not clear from the publications what sampling method they used; however, the sectoral distribution of the sample is fairly close to that of total national industrial value added.
universal opposition among industrialists, including CNI leaders. Franco supported the tax increase (at least as a temporary measure).\footnote{See \textit{Folha de São Paulo} 16 January 1993, pp. 1-7 and 28 January 1993, pp. 1-8). The IPMF (Imposto Provisorário sobre Movimento Financeiro) was later enacted as the CPMF (Contribuição).}

In light of the CNI’s corporatist defects, The FIESP emerged as the \textit{de facto} national mouthpiece for industry (Diniz and Boschi, 1988, p. 308). As an article in \textit{Veja} put it, ‘not even all the state-level federations combined, with the confederation (CNI) thrown in, are equal to a FIESP’ (Toledo, 1992, p. 78). The FIESP/CIESP has an imposing organisational presence including 121 member associations (CIESP has 8,764 member firms), about 500 employees, a budget of $41 million and a 15 storey building on the Avenida Paulista (the inner sanctuary of the Brazilian bourgeoisie).\footnote{Exame, 22 July 1992, p. 29; Toledo (1992), p. 80. References to the FIESP usually subsume the nominally independent Centro da Indústria do Estado de São Paulo (CIESP). The latter is an independent civil association founded three years before the FIESP in 1928. Its members are individual firms rather than sectoral organisations. The president of the FIESP has always also been president of the CIESP.} Membership for all industrial firms in São Paulo is compulsory.

Behind the imposing façade is an organisation that suffers from its own corporatist distortions. Marginal sectors and small and medium-size firms remain over-represented. For example, the Association (Sindicato) for Canes and Umbrellas with a dozen or so small firms has the same vote as Sindipeças (auto parts) with thousands of member firms, some of them huge. These distortions affect leadership selection. The clearest illustration of the distortions in corporatist representation came in the 1992 elections for the president of the FIESP/CIESP (discussed further below). The opposition candidate won almost half the votes from the over 8,000 member firms in the CIESP, but only 20 per cent among the 121 member associations of the FIESP.

Not surprisingly, the president of the FIESP has often been a marginal figure in paulista industry and has not recently come from the ranks of São Paulo’s best known and respected industrialists. Since the late 1970s, the \textit{Gazeta Mercantil} has mailed ballots to thousands of managers and asked them to elect directly the business leaders of the year. These direct elections consistently elect leaders outside the FIESP. Mário Amato, president of the FIESP (1986-92), did not appear in the top ten until \textit{after} he became president of the FIESP. His successor, Carlos Eduardo Moreira Ferreira, had not been elected directly in the \textit{Gazeta Mercantil} poll before 1991 (\textit{Gazeta Mercantil, Balanço Anual}, 1989, p. 12; 1992). Albano Franco, president of the CNI, came 13th in 1984 and 20th in 1989 (\textit{Balanço Anual}, 1984, p. 9 and 1989, p. 11)

This does not mean that unknown industrialists are incapable of representing collective interests. In some countries the tendency has been towards greater role differentiation and professionalisation, in line with the growing dominance of professional politicians generally. In France, for example, major spokesmen
for business were usually ex-bureaucrats (Suleiman, 1978, p. 242). However, in Latin America many more industrialists who have first made a name for themselves in industry end up leading business associations, especially non-corporatist ones. In Mexico, the leaders of non-corporatist organisations like Coparmex, CCE, and ABM have usually been well-known figures in big business of the sort that would be elected in a poll like that of the Gazeta Mercantil.

Business elites themselves clearly felt that their associations lacked political influence. In a 1990 survey they ranked these associations 12th out of 14 different groups, and well below individual companies in terms of influence in the Sarney (1985-90) government (see Table 1). Not surprisingly, business associations are more powerful in the eyes of other elites. However, other elites still rank business associations only seventh out of 14 and, most significantly, below unorganised business. Non-elites had similar views. Nearly 5,500 voters surveyed in mid-October 1992 in five state capitals ranked employers' associations lowest of 24 different groups and institutions in terms of prestige and second lowest, just ahead of candomblé and umbanda centres, in terms of power. On both dimensions associations ranked lower than private national firms, banks and multinational corporations (MNCs). All respondents in these surveys agreed: the whole was less influential than the sum of the parts.

Despite these problems the FIESP and other business associations rank among the most powerful associations in Brazil's civil society, though given the pervasive weakness of organisation in civil society this ranking does not say much. Leaders of business associations appear daily in the press and government officials consult with them constantly. Nonetheless, scholars and various groups in Brazil, including business groups, agreed that business associations have been weak relative to other political actors and relative to unorganised business.

**New Organisational Initiatives**

The amount industrialists invested in the 1980s and 1990s to bypass or reform existing corporatist organisations was a good indication of the dissatisfaction with them, and of the belief in the potential for improving the articulation and representation of their interests. The early years of the new civilian regime (1985-87) seemed a golden age for political activity by the captains of industry. Industrialists were viewed as pivotal participants in the coalition that had kept the military moving toward the barracks and this lent their new political activity greater legitimacy (Cardoso, 1986; Bresser Pereira 1978; Frieden, 1991; Haggard and Kaufman, 1995). However, in the new civilian regime they participated mostly as individuals – Dilson Funaro became minister of finance, Antôonio Ermírio de Moraes ran for governor of São Paulo, and many others were elected to Congress. Somewhere between one fifth and one half of the

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8 The survey of non-elites was conducted by Datafolha and reported by JCL Noticias via electronic mail.
Table 1: Elite Perceptions of Influence in the Sarney Government
per cent citing 'much' or 'decisive influence'

<table>
<thead>
<tr>
<th>Businessmen</th>
<th>Other Elites (a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Television networks</td>
<td>Television networks</td>
</tr>
<tr>
<td>National Congress</td>
<td>External creditors</td>
</tr>
<tr>
<td>Government técnicos</td>
<td>Government técnicos</td>
</tr>
<tr>
<td>Political Parties</td>
<td>National banks</td>
</tr>
<tr>
<td>Print Media</td>
<td>LARGE NATIONAL FIRMS</td>
</tr>
<tr>
<td>External creditors</td>
<td>National Congress</td>
</tr>
<tr>
<td>National banks</td>
<td>Armed Forces</td>
</tr>
<tr>
<td>LARGE NATIONAL FIRMS</td>
<td>BUSINESS ASSOCIATIONS</td>
</tr>
<tr>
<td>Unions</td>
<td>Multinational companies</td>
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<tr>
<td>Armed Forces</td>
<td>Political Parties</td>
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<tr>
<td>Church</td>
<td>Print Media</td>
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<tr>
<td>BUSINESS ASSOCIATIONS</td>
<td>Unions</td>
</tr>
<tr>
<td>Multinational companies</td>
<td>Church</td>
</tr>
<tr>
<td>Scientists and Intellectuals</td>
<td>Scientists and Intellectuals</td>
</tr>
</tbody>
</table>

a) Other elites include union leaders, leaders of other organisations, intellectuals, journalists, politicians, military officers and high government officials. Question: 'In the last five years (Sarney government) what is the degree of influence that the following groups exercised over decisions in the Federal Government?' I am grateful to Bolívar Lamounier for sharing this data with me. See IDESP (1990) on the general methodology and results of this elite survey.

deputies elected in 1986 had business backgrounds. 9 An estimate for the 1990 Congress put the number of 'business' deputies at 201 or 40 per cent (Folha de São Paulo, 31 January 1991, A10). A study of the 1994 Congress estimated that a quarter of the Chamber and a third of the Senate came from business. 10 However, hopes for hegemony by the politicised bourgeoisie soon faded: Funaro left office in disgrace, Antônio Ermírio lost and the business deputies never

9 Rodrigues (1987) estimated that 'empresários' made up 32 per cent of the Constituent Assembly. Góes (1987) calculated that 45 per cent were tied to capital. Both calculated that a little over one fifth were urban businessmen (cited in Diniz and Boschi (1988, p. 313)).

10 Calculations by the consulting firm Monte Castelo Ideias, as reported by the Jornal do Brasil, 16 April 1995, p. 2.
formally articulated their collective legislative power as representatives of business.

The Congress elected in 1986 was to write a new constitution, and business had every incentive to organise as a whole to influence the drafting. One of the most significant organisational innovations, discussed more later, was the UBE, which brought together various business associations in a co-ordinated lobbying effort (see Weyland, 1992 and Dreifuss, 1989). The UBE might have been the seed of a national peak organisation, but it did not outlast the Constituent Assembly. By 1992 prominent industrialist interviewees could hardly remember the UBE.

In the late 1980s several paulista industrialists embarked on two more lasting organisational initiatives. In 1987 Emerson Kapaz and other young businessmen founded the Pensamento Nacional das Bases Empresariais (PNBE). Kapaz had been in the FIESP (he was elected president of the association for toy manufacturers, ABRINQ, in 1986), but quickly became impatient with its cumbersome procedures and outmoded policies. PNBE members were young, came from small and medium-sized firms from both services and industry and spouted progressive ideas (in 1989 Kapaz voted for the Partido da Social Democracia Brasileira (PSDB) candidate Mário Covas in the first round of the presidential elections, the Partido dos Trabalhadores (PT) candidate Lula in the second). In contrast to the FIESP, the PNBE was cross-sectoral, organised on the principle of one capitalist/one vote, and willing to engage more directly and actively in politics. They cast themselves as modern managers and supported unions, wage negotiations and redistribution overall. The PNBE attracted a lot of attention in the first year (1990) of the Collor government. Its leaders were, as Collor and his cabinet appeared to be, young, modern reformers. PNBE leaders went to Collor in mid-1990 and suggested he attempt to negotiate a social pact with business and labour. Government representatives subsequently met several times with those of business and labour, but the negotiations collapsed, due mostly to government disinterest (see Schneider, 1991b). A different sort of relationship with the Collor government sparked a subsequent moment of political projection. Over the course of 1992 the PNBE was one of the groups in civil society, one of the few business groups, to take to the streets demanding Collor’s impeachment.

By 1993 the PNBE had attracted about 300 subscription-paying members. The PNBE continued to grow over the next few years. By 1995 the PNBE had 480 members, mostly from small and medium-size firms. The membership base grew more diverse as more capitalists joined from the service sector (close to half of all members by 1995). While 80 per cent of the members are from the state of São Paulo, the PNBE has established branches in other major cities. In contrast to the corporatist associations, the PNBE survives on a modest budget.

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of about $350,000 a year with a small staff financed out of voluntary member contributions ranging from $60 to $230 per month. The major themes in the PNBE’s politics in the mid-1990s continued to be labour relations, corruption, ethics in politics, poverty and citizenship. They have generally tried to stimulate public debates on these issues, rather than attempt to push a specific legislative agenda in Brasília. However, when they do lobby for constitutional reform they try not to do it alone. Pedro Camargo, PNBE co-ordinator in 1995, said that one of the lessons they learned in 1994, when business failed to advance constitutional reform, was that business alone was too weak (interview 24 May 1995). The PNBE was one of the first business associations to seek out labour unions in an effort to find a common agenda for constitutional reform.

After nearly a decade, the PNBE had a fairly institutionalised yet still precarious presence in the constellation of business associations in Brazilian politics. Apart from a few cameos by its most charismatic founder, Emerson Kapaz (by 1996 a secretary of the government of the State of São Paulo), the PNBE has not been in the political limelight (since the Collor government) or the vanguard of business political pressure for constitutional reform. However, what is most remarkable about the PNBE story is that a handful of political entrepreneurs could assemble a few hundred mostly small business people, raise a few hundred thousand dollars, and articulate a national presence and a major opposition to corporatism as represented in the FIESP. Projecting a collective agenda does not require many capitalists or resources.

The second initiative, the Instituto de Estudos para o Desenvolvimento Industrial (IEDI, created in 1989), also emerged from frustrations with the FIESP and with the Sarney and Collor governments. Many of the IEDI’s founders were also active members of the FIESP but unlike the young basistas of the PNBE they were the captains of about 30 of Brazil’s largest industrial groups. The IEDI’s members were also less concerned about issues of democratic politics, social welfare and relations between capital and labour. They wanted industrial policies and found the Sarney and Collor governments especially deficient (see Shapiro, 1991 and Suzigan, 1988). The FIESP did not help advance the agenda of industrial policy and at times made matters worse. During Mário Amato’s term (1986-92), the FIESP’s long-term proposals were essentially neoliberal and against state intervention in industry. Industrial policy is barely mentioned in the book the FIESP published with great fanfare in Collor’s first year (FIESP 1990, especially pp. 291-323). In the view of Isto É, ‘the FIESP came into the 1990s without having formulated important proposals for industrial policy, or even having sought a solution to the economic crisis...’ (5 August 1992, p. 63). A Veja report on the FIESP carried the subtitle, ‘Without Ideas of its Own, the FIESP Follows Brasília’ (6 January 1993, p. 69). In contrast, the idea behind the IEDI was to conduct studies, disseminate research, and formulate proposals for a new industrial policy. The IEDI teamed up with economists at the University of Campinas and started publishing studies and proposals (for example see IEDI, 1992). Their target audience was restricted to the elites of the economic bureaucracy and of industry, and they did not initially seek great visibility nor a mass base.
However, the IEDI received a lot of exposure when Emerson Kapaz launched his opposition candidacy in the 1992 elections for president of the FIESP. IEDI members Paulo Francini, Paulo Villares, Claudio Bardella and Eugênio Staub were either on Kapaz’s ticket or prominent supporters of it. The PNBE and IEDI had begun with different motives, but united in their opposition to the FIESP’s traditional leadership. The election of August 1992 was the second contested election in the FIESP/CIESP’s 64 year history and the first since 1979. A contested election was already a clear sign of discontent with the existing leadership. The fact that Kapaz was thought to be leading in the CIESP (a civil association with over 8,000 member firms), while Moreira Ferreira was ahead in the FIESP (a federation of 121 associations) demonstrated a clear split in forms of representation. Moreira Ferreira ultimately won both elections, though by a much slimmer margin in the non-corporatist association: 80 per cent of the associations in the FIESP, but only 52 per cent of the members of CIESP (Isto É, 5 August 1992, p. 62).

This election and subsequent events weakened the PNBE and IEDI. Kapaz’s candidacy split the PNBE and several stalwarts defected to the FIESP ticket. Several of the IEDI’s prominent members withdrew. One alleged that the IEDI was nothing more than a front for the elections in the FIESP; another felt they had grown too protectionist (interviews, January 1993). Moreover, the firms of some of the founders hit especially hard economic times in 1992. Lastly, President Itamar Franco (1993-4) offered the Finance Ministry to the IEDI’s president Paulo Cunha. This was a golden opportunity to implement the IEDI’s proposals, but Cunha declined, leading some members and the press to question the commitment of IEDI leaders.

In the mid-1990s, the IEDI stabilised at a fairly low level of activity (interviews with Mauro Arruda, executive director of the IEDI, 15 December 1993 and 23 May 1995). A few members left and a few joined, so the total stayed around 30. The budget remained constant at about $350,000 (about the same as that of the PNBE). The IEDI also promoted debates with public officials and continued to advocate industrial policy, though usually in targeted and discrete ways, as in presenting president-elect Fernando Henrique Cardoso with a blueprint for industrial policy at the end of 1994. Overall though, the IEDI has been marginal to national debates because industrial policy has not been a core concern in Brasília in any of the last three governments. On the major policy issues of constitutional reform, the IEDI has had little to say.

A last indication of the dissatisfaction with the existing representation of business interests were the reforms high officials in the CNI and FIESP were pushing in the 1990s. The early impetus for many of the proposed reforms was to prepare for the revision of the constitution slated for 1993, in order to avoid the perceived failures of business articulation and lobbying during the Constituent Assembly. José Augusto Coelho Fernandes, executive director of the CNI, planned to expand operations in Brasília significantly and establish a high speed communications network, so that the Brasília office could inform the membership (probably still only member federations) of developments in
Congress (interview, 25 January 1993). Roberto Nicolau Jeha, first secretary of the FIESP, also favoured greater lobbying in Brasilia, in addition to internal reforms to make the FIESP more democratic (i.e., reduce the number of ‘phantom’ associations) and shake it free from remaining government controls (interview, 28 January 1993). The FIESP president Moreira Fereira advocated greater electoral activity, not only in terms of contributing to campaigns of sympathetic politicians, but also of launching candidates from the FIESP itself (*Folha de São Paulo*, 15 December 1992, pp. 1-4).

The specific goals of the organisational entrepreneurs who formed the UBE, PNBE and IEDI differed, but they were all dissatisfied with the FIESP and CNI. Each initiative addressed a different organisational weakness identified in the previous section. The UBE was a fleeting attempt at least to co-ordinate lobbying, if not to create a lasting peak association. The IEDI was predominantly an attempt to get big industrialists more involved collectively in setting the agenda. The PNBE had many goals, but fundamentally challenged existing patterns of interest aggregation, while it also tried to get business more involved in agenda setting on broad social and political issues. If reformists in the CNI and FIESP succeed, they may be able to reincorporate the dissidents and create more unified and representative associations of industrialists. Until then, efforts such as those by the IEDI and PNBE demonstrate the perceived inadequacies of the FIESP, at the same time as they further fragment the organisation of business.

Learning to Lobby for Constitutional Reform

The UBE initially appeared to be an appropriate vehicle for taking advantage of a golden opportunity for collective input into the most general of policy debates over the constitution. By the time the Constitution was adopted in 1988, many business associations were sorely disappointed. The UBE lacked staff and institutional means for interest aggregation. In order to balance the representation of the participating associations, the UBE adopted a practice of rotating presidents every six months or so, which ensured a further lack of experience and institutionalisation on the part of UBE leaders. In the end, the rotating presidents used it to pursue their own agendas rather than seeking out a common one (interview with a senior CNI staff member in Brasilia, 27 May 1995). Some argue that business was effective in reorganising to influence Congress and the Constituent Assembly (Dreifuss, 1989). However, most others, including many of the business participants themselves, viewed the glass as more than half empty. According to one report, the UBE prepared a list of 24 essential, ‘non-negotiable’ demands (on labour law, interest rates, regulations on MNCs, etc.) on which to concentrate business lobbying, yet only one of them was approved (*Jornal do Brasil*, 4 September 1988, as cited in Figueiredo 1993, p. 58).

The constitution of 1988 included a provision that the constitution be opened to amendment by a simple majority vote five years after its adoption. In fact, the
constitution was slated for major overhauls every year from 1993 to 1997. So, the organisation of business lobbying on the Constitution over the last decade offers a privileged window on strategy within the business community in Brazil, as key participants continually learned and updated their strategies. The continuing experimentation with different strategies throughout 1996 shows that big business had yet to find an effective and satisfactory formula.

In 1992 Mandelli, a vice president of the CNI, began mobilising for the revision slated for the following year. For Mandelli and others in the CNI, part of the aggregation problem in 1988 derived from the fact that each association hammered out a specific and detailed wish list before discussing its position with other associations. In 1992-93, the CNI held many meetings purely to discuss principles, without drawing up a detailed platform. Once the CNI and other associations had reached agreement on principles, it was easier to reach agreement on specific amendments. This procedure had come about by coincidence, and was quite successful, in the narrow reform of port legislation. The issue of ports had come up in a separate congressional debate. It was a relatively narrow issue, and all the business associations agreed, in principle, on lobbying for the break-up of state ownership and labour monopolies. Jorge Gerdau Johannpeter, the head of a large steel conglomerate, assumed informal leadership of business lobbying on ports because he was well known and was well informed about ports. Members of the CNI asked Gerdau to assume the same informal leadership for the constitutional revision. The lesson in more general terms is that the obstacles to collective action among associations depend in part on the process by which they seek out and define their common interests.

While business seemed to have worked through some of the problems of aggregating interests, they still had not found the best means for articulating and pursuing their common interests in the public arena. In 1993 business associations lobbied for a loose co-ordinating body, Ação Empresarial, headed by Gerdau, which came out with a joint programme and a lot of publicity. Business positions suffered because the lobby appeared to be so big, well-financed, powerful and at the service of the rich. By 1995 business was taking a very different tack. Ação Empresarial was highly organised yet almost completely informal and only dimly visible. It had no office, no staff, no position papers and no blueprint for lobbying. Its work was divided up among working groups headed by staff members from each of the major participating associations. In this way Ação Empresarial had no staff of its own (though it did have a small budget of several hundred thousand dollars, mostly for office expenses). Ação Empresarial was quite active in interest aggregation and in lobbying, but never openly in the name of Ação Empresarial. In a curious fashion, it would reach a consensus position that was documented in a specific platform, though not distributed in the name of Ação Empresarial. Actual

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12 My analysis of Ação Empresarial owes a great deal to lengthy interviews with a long-time member of the Legislative Action Council of the CNI, 27 May 1995 and 9 September 1996.
lobbying based on this consensus was left up to members, but only in the name of that member's association. The leaders of Ação Empresarial decided that the whole was less influential than the sum of the parts. The bankers' association had a similar practice, since the 'bank lobby cannot be seen walking around the halls of Congress'. Febraban co-ordinated campaign contributions, later aggregated interests, but sent individual bankers, rather than officers of Febraban, to Brasília to talk with legislators (interview with an executive of the Banco Real and director of Febraban, 22 May 1995).

On the core legislative issues that affected Brazilian business in the very detailed Constitution, business elites opted deliberately for a low-profile and non-institutionalised means for intermediating, reconciling and representing business interests. Why? Some peculiarities of Brazilian politics probably affected the decision. Lobbying has always lacked legitimacy in Brazilian democracy (see Leff, 1968); the Portuguese neologism 'lobby', taken from English, lacks any positive connotations. Moreover, in Brazil's electoral system (proportional representation combined with unrecorded votes in Congress) legislators cannot be held accountable. So deputies and senators have little incentive to appear publicly as advocates of big business, despite their clear dependence on big business for campaign financing. A last motivation for the low profile strategy derived from a Newtonian logic: every collective action by business would be met by an opposite and potentially neutralising collective reaction. With Ação Empresarial's low profile strategy, business sought to keep the opposition from counter-mobilising against it. Most employers in Brazil are dissatisfied with the labour code in the Constitution and would like to amend or delete it. When this position became public, the outcry was so great that associations dropped it from the agenda for discussion.

Business lobbyists in Brazil became increasingly concerned about how business and business political influence is viewed as narrow, self-serving and illegitimate. So when business mobilised again in 1995, they sought out labour to discuss common positions on revisions. As mentioned earlier, PNBE leaders took the lead in seeking common ground with labour leaders. Later the FIESP and CUT (Central Única dos Trabalhadores) negotiated joint positions on some issues of constitutional revision, especially the fiscal reforms. In May 1995, the FIESP, CUT, and Força Sindical signed a document of common demands for fiscal and tax reform, including taking all tax questions out of the Constitution. The Movement 'Reformas Sim', that included business and labour organisations, even took to the streets in the centre of São Paulo for a public demonstration in favour of constitutional reform (Folha de São Paulo, 7 May and 15 May, p. I-7).

Mass Mobilisation: O Encontro Nacional da Indústria

In May, 1996 nearly 3,000 industrialists flew to Brasília to pressure the government, especially Congress, to accelerate the pace of constitutional reform. This Encontro or meeting constituted a radical departure from the low profile
lobbying of Ação Empresarial. The *Encontro* also represents perhaps the largest investment in collective lobbying, considering the opportunity cost of taking the day off from business. Ação Empresarial continued its work through 1995 and 1996, but the CNI opted to add on a more high profile complement.

The impetus for this mass mobilisation can be traced to three sources. First, and most importantly, Fernando Bezerra, the new president of the CNI, adopted a different political profile from the moment he took office in October 1995 (see *Gazeta Mercantil*, 19 October 1995, p. A-6 and 4 November 1996, p. A-6).\(^\text{13}\) In his first speeches he declared that the CNI was primarily an institution for lobbying and representing industry. Because of this function he announced that the CNI would move all its offices to Brasília. In an interview Bezerra called the *Encontro* in Brazil ‘a lobby with a capital L. We are not doing anything in secret’ (*Gazeta do Povo*, 18 May 1996, p. 12). In addition, Bezerra was greatly concerned with the sectoral fragmentation of industry and wanted to use the *Encontro* to promote a unified position for industry. Bezerra offered an interesting interpretation in a column he wrote just before the *Encontro*:

> The fragmentation of business that exists today is reflected in the way the government discusses issues with the business classes. Although we have the best understanding with and great access to President Cardoso, we have not managed to institutionalise negotiation with other levels of government. We are constantly taken by surprise by initiatives that go completely against our interests and on which we were never even consulted. If we recognise that the blame is mostly ours, we will be on the way to a solution.\(^\text{14}\)

Second, industrialists were generally frustrated with the lack of progress on constitutional reforms, and many of the leaders of the state federations felt that more open and ‘transparent’ lobbying was an essential complement to Ação Empresarial’s activities (interview with a CNI staff member, 9 September 1996). These concerns became especially manifest during the transition to Bezerra’s presidency. Lastly, President Cardoso provided a last minute nudge by encouraging industrialists to come to Brasília to pressure Congress. He had suggested a Brasília meeting in March, and once the CNI had issued invitations

\[^{13}\text{After an uncharacteristic interregnum by an ex-president of the FIESP, Mário Amato, the presidency of the CNI reverted to an industrialist from the north-east. And, like the last president from the north-east, Albano Franco, Bezerra was also a senator in the National Congress. However, Bezerra was a marginal figure in both industry and politics; he was the Coca Cola bottler in the small state of Rio Grande do Norte and he had been elected as the substitute on another politician’s ticket (*O Globo*, 24 May 1996, p. 4 and *Estado de São Paulo*, 19 June 1996, p. B6).}\]

\[^{14}\text{‘O fracionamento do empresariado, existente hoje, reflete-se na forma como o governo dialoga com as classes empresariais. Embora tenhamos o melhor entendimento e todo acesso ao presidente FHC, não conseguimos institucionalizar a negociação com os escalões correspondentes do governo. Constantemente, somos surpreendidos com iniciativas que nos contrariam frontalmente, sem que sequer tenhamos sido ouvidos. Se reconheçamos que a culpa é, sobretudo nossa, estaremos no caminho que conduzirá solução’ (*Estado de São Paulo*, 20 May 1996, p. 2-2).}\]
for the May meeting, Cardoso personally telephoned key figures like the keynote speaker Antônio Ermírio de Moraes to persuade them to come (Estado de São Paulo, 22 May 1996).

The meeting itself was a great success in terms of mobilisation and collective action. The press issued amazed reports at the plane-loads of industrialists who all made their way to Brasilia. Big associations like the FIESP and the Federação das Indústrias do Estado do Rio Grande do Sul (FIERGS) chartered whole planes to ferry the industrialists to Brasilia. Moreover, the meeting managed to present a unified voice (and Bezerra (CNI) and Moreira Ferreira (FIESP) managed to overcome their differences on specific issues like interest rates). However, the meeting was also a stark failure in terms of bringing pressure to bear on Congress. In a remarkable feat of bravado, Congress voted down, the same day thousands of industrialists were walking the halls of Congress, the government proposal for reforming social security, which had the explicit support of the industrialists. Bezerra called it ‘lamentable’ and an ‘affront’ to industry (Folha de São Paulo, 23 May 1996, p. 14).

For the second half of 1996 and into early 1997 Congress shelved constitutional reforms in order to concentrate first on the municipal elections in late 1996 and the amendment to allow Cardoso to run for a second term. However, lobbyists for industry felt they had made some progress with the Executive. In fact, industrialists generally expressed satisfaction with the orientation, if not the policy progress, of the Cardoso government and cabinet. Antônio Kandir, Minister of Planning, in particular has close relations with industry and especially big firms tied to the IEDI. In the 1994 congressional elections, Kandir positioned himself as the candidate of constitutional reforms (interviews, 24-25 May 1995). His appointment in 1996 as Minister of Planning must have pleased many pro-reform industrialists. The major policy success industrialists noted for 1996 was Kandir’s package of measures in mid-1996 to promote exports, which did not require congressional approval.

Bezerra also started reforming the internal structure of the CNI in order to improve its capacity for interest aggregation. Over the course of 1996 Bezerra incorporated sectoral associations into the CNI’s working committees on such issues as labour relations and international trade. The innovation in this strategy is that the associations are voluntary organisations completely outside the corporatist structure, that historically have had nothing to do with the CNI. Thus, a parallel structure may be emerging within the CNI with the state federations voting on some issues, including leaders, while association leaders and other industry ‘representatives’ appointed by CNI leaders do the real work of aggregating interests on policy issues.

Bezerra expanded the CNI’s use of opinion surveys to canvass the preferences of industrialists. After the Encontro in May, the CNI set about constructing a much more specific list of demands that Bezerra had promised to present to the government later in 1996. Based on interviews with managers at Brazil’s 120 largest firms in the second half of 1996, the CNI compiled a list of
60 suggestions to reduce costs (*o custo Brasil*) that Bezerra then delivered to President Cardoso (via his chief of staff Clóvis Carvalho) in late November. Most of the suggestions were quite detailed (such as deadlines for paying taxes) and were grouped into three general areas: taxes, labour relations and trade (see *Jornal da Tarde*, 20 November 1996, pp. 9-14 and *Estado de São Paulo*, 21 November 1996, p. B-9). The CNI promised to submit a second list drawn from the more than 850 suggestions made by the firms consulted. In terms of interest intermediation, this survey continued the practice among the corporatist associations to use extra-institutional channels to find out what industry wanted. However, there are two important innovations in the CNI surveys on trade liberalisation and competitiveness (CNI 1992-1996). First, the sampling does not attempt to be representative of industry as a whole, but rather covers only the largest firms in industry. Second, the CNI did not opt to let the data speak for itself by publishing the results of the survey, but rather ‘intermediated’ the data by aggregating the preferences into a list of 60 suggestions.

In sum, 1996 represented another year of organisational activity and experimentation with little policy impact. When asked about the scorecard for constitutional reform in 1996, one CNI lobbyist responded that it was ‘stuck at zero’ (interview, 9 September 1996). Given the political calendar (municipal elections and the amendment for re-election) it is doubtful that any amount of societal pressure could have prodded Congress to action. It was a significant year though for further experimentation in interest aggregation and representation in industry.

**Conclusions**

Over the past decade, industrialists have tried many strategies and invested a great deal of resources in Brazilian politics in pursuit of their top priorities of constitutional reform. Yet, they have achieved little. Why? The simplest answers are twofold. The first concentrates on the continuing disarticulation of Brazilian business: Brazilian business associations lack the capacity to aggregate industrialists’ interests and push a common set of preferences effectively in Brasília. The second places business politics in the wider context of Brazil’s political system and focuses on the peculiar independence of the Brazilian legislature from broad business interests: while individual deputies may jump to do the bidding of business contributors, they seem decidedly indifferent to collective business preferences. These two answers are linked in that the weakness of business associations is in part a function of the autonomy of legislators; rational business leaders are unlikely to invest more in collective organisation to lobby deputies who are consistently deaf to aggregated

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15 The FIESP, for example, conducted a survey of 262 firms in greater São Paulo, stratified by size, on the FIESP’s initiative to pressure government ‘in favour of (Constitutional) reforms’. Of those surveyed 98 per cent thought it important to pressure government. Moreover, ‘a possible alliance with labour is well received by business: 84 per cent thought it important...’ *Folha de São Paulo*, 7 May 1996
association intermediation.

Why is Latin America's largest and most dynamic industrial bourgeoisie so disorganised and collectively anaemic? Political factors, both long and short-term, have the greatest explanatory power, though economic forces have also been centrifugal.\textsuperscript{16} Industry in Brazil is diverse in terms of size, sector, location, conglomeration, ties to MNCs and export capacity (see Payne, 1994). However, heterogeneous industrialists elsewhere have organised and Brazilian industrialists have previously demonstrated an impressive, if fleeting, capacity for articulation (as in their opposition to Goulart in the early 1960s). Recent economic crises have been additional deterrents to collective action (interview with Luiz Carlos Bresser Pereira, 29 January 1993). As demand and profits fall, managers scramble to save their firms and move collective action to the bottom of the agenda, as witnessed in the case of the IEDI. Crisis is another plausible hurdle, but in other countries and in other periods crisis has triggered organisation.\textsuperscript{17}

Ironically, the most direct political cause of bourgeois disarticulation is state corporatism. Corporatism was initially a boon to business organisation (and supported by major industrialists), but over time it became an increasing impediment to effective representation. Corporatist organisations occupied associational space and thwarted later efforts to improve the aggregation and representation of business interests. Moreover, Brazilian corporatism formally proscribed multisectoral associations, peak or lower level. The Cardoso government has come out in favour of ending corporatist regulation of civil organisation, and leaders of major associations like the CNI, FIESP and CUT have endorsed such changes. Ending monopolies of representation and compulsory dues would decimate the coffers and structures of the FIESP and CNI and thereby open up vast spaces for political entrepreneurs like those who founded the PNBE, IEDI and Ação Empresarial.

The Brazilian state also had major indirect and unintended effects on business organisation. Collective action depended heavily on the incentive structure created by the state and the political system generally. The political exclusion during military rule, and to a lesser extent before 1964, reduced the threat from leftist parties and labour, so economic elites had little motive to organise to compete with class adversaries, in contrast to business counterparts in Mexico or Chile, for instance. Moreover, since the 1940s the Brazilian version of a developmental state had the indirect consequence of rewarding individual over collective action. The bureaucracy controlled extensive subsidies which individual bureaucrats meted out in very discretionary ways. This bureaucracy was porous and vulnerable to outside pressures, in large part because top positions were filled by personal, political appointment (see Schneider 1991a). Thus, industrialists had every incentive to spend their time

\textsuperscript{16} See Weyland (1992, 1996) for arguments similar to the ones developed here.
\textsuperscript{17} See, for example, Schattschneider (1935) on business politics in the United States during the Depression and Schneider and Maxfield (1997) on a broader range of developing countries.
cultivating connections in the state to further individual interests, rather than investing in organisations with broad collective agendas. In theory, collective action is difficult, even for small groups of economic elites with a great deal of resources at their disposal. In Brazil, patterns of state intervention in the economy, as well as in associational life, made organised action even more problematic.

Some centrifugal incentives faded along with the developmental state in the 1980s when the state ran out of subsidies, and labour and the left mobilised. Yet other political factors continued to foster disarticulation. For example, the fragmentation of the party system, and of legislative representation more generally, dissipated input from organised business into legislative politics. Industrialists voted for a range of parties, so their business associations could not afford to become too close to any one party (José Augusto Coelho Fernandes, executive director of the CNI, interview 25 January 1993). Despite an abundant flow of resources into electoral campaigns, capitalists lacked a party of business, or even an identifiable group or caucus (banca) of politicians from different parties who might be mobilised in the collective interests of business. For example, construction firms contributed a great deal of resources to electoral campaigns, yet lacked articulated sectoral power. As an official in Sinduscon (Sindicato da Indústria da Construção Civil) lamented:

There are a great number of congressmen who are closely tied to construction firms ... but this does not mean that the sector has a great deal of political power. So, there is a great potential for political articulation in Congress... (a construction firm) thinks it is important to have a Deputy in Congress. So, there is a close relationship. Many times the firm helps in the campaign. But this does not help the sector. Each one is worried about his own little problem. So, what is our idea? It is to have the sector as a whole discuss fundamental issues and then have the firms work on their Deputies to get a good result out of Congress, to establish political linkage. (Interview, 27 January 1993)

In other words, one of the most politically active sectors cannot get ‘its’ deputies to act collectively in the common interests of the sector. Why do business contributions to campaigns not buy more collective influence? The anecdote at the outset about Pedrinho Abrão shows how votes for particular projects are available for purchase, but general business financing cannot be mobilised to get a majority vote in Congress on constitutional reforms. In general, the electoral system (especially open lists and proportional representation) makes Brazilian deputies some of the least accountable in the world. They do not have to answer to parties or voters. Voters in fact rarely even remember for whom they voted. However, campaign contributors have incentives to watch how their candidates vote, so business should in fact have far more influence, since legislators are not subject to countervailing pressures from parties, voters and other social groups. Brazilian deputies are freer than most politicians elsewhere to cater to their contributors. Yet they do not appear to, certainly if one believes the complaints of business contributors. Without more empirical research on campaign financing, alternative hypotheses on the
apparent unresponsiveness of legislators to their financiers have to be mostly speculative. One (null) hypothesis is that legislators are in fact responsive to demands, yet business makes only particularistic claims. Perhaps business contributors give money to candidates with the expectation and implicit bargain that the successful candidate will broker relations with the Executive. In other words, business people want their delegates in Brasília to take care of their contracts and subsidies, but leave it to the politicians to decide how to vote on general policy issues. A second hypothesis is that legislators do not care if a particular business contributes to their campaigns when they run for re-election. In large districts, like the state of São Paulo, deputies may have so many possible sources of finance from business, that they do not have to worry about pleasing past supporters. Here business associations could fulfil a collective accounting function, as unions do, but business associations apparently do not.

If these hypotheses and speculations on the political sources of the collective anaemia of business are on target, then there are few reasons to expect business alone to be able to resolve its own 'disintermediation'. At the same time, there are also few grounds for considering this disintermediation of collective interests to be an institutionalised feature of Brazilian democracy. The electoral and corporatist systems are on the reform agenda and even small alterations in these systems could rapidly change the collective representation of business.

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18 There is little empirical research on campaign financing. The best source to date is Kinzo, 1997.
III: Unions in Times of Reform

Maria Hermínia Tavares de Almeida

Since the beginning of the 1990s, Brazil has been undergoing a broad process of economic reform that is reshaping the functions and structures of the state. Trade liberalisation, privatisation, public administration and civil service reforms are simultaneously redefining the state's role and remaking its administrative apparatus.

Although the direction of change is similar to that in other countries all over the world, the timing, pace and extent of the Brazilian reform process seem to be distinctive. Brazil is a late and moderate reformer, at least compared to its Latin American neighbours. Economic reform in Brazil is an extremely cautious and negotiated process of change. Several political, bureaucratic and social actors participate in this negotiation and influence its results.¹

What is the importance of unions in this process? Do they have any significant sway in economic reform? What are the sources of their power and what accounts for their capacity (or incapacity) to influence the reform process?

There is no one simple answer to these questions. Unions' clout certainly varies considerably according to the specific feature of state reform under consideration. In this paper I attempt to address those questions of relevance to unions' influence, with respect to one dimension of state reform: the privatisation of public enterprises and public services. I compare the privatisation of state-owned steel and petrochemical firms and the concessions for private exploitation of public ports. I maintain that unions' capacity to influence reform policies depends less on the nature and size of their own power resources than on the institutional setting of the state's decision-making process regarding reform.

In the first part, I briefly discuss different analytical approaches to the issue of unions' capacity to influence policy decisions. In the second, I give a short description of the main features of the Brazilian system of interest intermediation, stressing its recent institutional trends. In the third, I compare two situations of reform policy in which unions, with similar power resources, revealed very different capacities for influencing policy-making and policy implementation.

¹ I discuss this at length in Tavares de Almeida (1996, pp. 213-34)
Power resources and institutional opportunities

The conventional analysis of unions' power is embedded in the pluralist tradition. Pluralism treats power as an intrinsic attribute of collective or individual agents that stems from their social circumstances. The pluralist approach to unions' power emphasises the importance of resources such as union size; financial assets; ability to build strong bureaucratic apparatuses; spatial concentration of union membership; and capacity for mass mobilisation, especially the ability and strength to organise and sustain strikes. Some power resources arising from institutional arrangements, such as the control of job opportunities in closed-shop systems, are also considered. Nevertheless, the emphasis is rather on those resources related to the social characteristics of the union members as a group, such as the degree of spatial concentration and skills of the workforce. The union's size and its ability to organise strikes are the two most popular indicators of its power.

The literature on neo-corporatism criticised pluralist theory not only because it assumed the universality of the pluralist pattern of interest organisation, but also for its incapacity to assess the importance of institutional features in different political and policy outcomes. At the beginning of the 1970s, Schmitter (1974) showed that neo-corporatism was an important, if not dominant, pattern of interest intermediation in Western Europe and that there was a strong correlation between corporatist arrangements and social harmony (Schmitter and Lehmbruch, 1982). In other words, there were close affinities between modes of interest organisation and modes of policy formation. Further research has shown that corporatism helped to restrain industrial conflict (Hibbs, 1987; Korpi and Shalev, 1980) and contributed to more efficient policies to cope with inflation and unemployment (Berger, 1983, Rowthorn and Glyn, 1987).

According to this approach, union power is no longer an attribute of social groups, but depends heavily on features of the corporatist organisation, such as its degree of centralisation, its extension and representational monopoly. Power also relies on the political resources produced by participation in procedures to mediate conflict.

The literature on neo-corporatism made a strong, but qualified, institutionalist statement: corporatist institutions matter, they make concertação possible and enhance the probability of specific policy outcomes. This literature also gave new emphasis to where sources of power should be sought: from their social basis to the institutional features that moulded the interest organisations and defined their relations to the government. However, it said little about the relevance of an institutional approach to the analysis of groups' influence on groups.

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2 The Portuguese word for this is concertação: there is no simple translation for the word into English, and so I have used the Portuguese in this paper.

3 Monopoly of representation and especially centralisation, both essential traits of corporatist structures, were thought to further concertação.

4 Lehmbruch (1982, p.10) defines centralisation as the 'accumulation of decision power in the peak associations'.
policy-making of non-corporatist polities and when *concertação* is not the name of the game. Neocorporatist literature accepted the pluralist statement about the affinity between pluralist organisation and pressure politics, but did not discuss the possible institutional sources of group influence in these circumstances. Nevertheless, institutions are as important in pluralist settings as they are in corporatist ones, and power resources are conditioned and defined by their specific features.

Tsebelis (1995) and Immergut (1996), quite coincidently, suggested a (neo)institutionalist model for the comparative analysis of policy change in terms of *veto players*\(^5\) whose power is institutionally embedded. Tsebelis considers two types of veto players: institutional ones, whose number and competence are defined in the Constitution and vary according to the system of government; and partisan veto players. The number, internal cohesion and shared interests among different veto players is decisive for policy change, but this becomes more difficult when the number of veto players increases and their shared interests and internal cohesion decrease.

More interested in analysing the capacity of interest organisations to influence policy change, Immergut considers the political institutions as a particular structure that allows for the existence of different *veto points* where unions and other interest groups can exert influence to block or promote change. The number and position of veto points depend on the constitutional rules, the party system and electoral results.

In both models institutions are not self-sufficient explanatory variables. They explain policy change, but they do not do it alone. Distribution of preferences is important in determining the degree of cohesion either of institutional or partisan veto players in Tsebelis’s model. The same is true for Immergut who emphasises the importance of electoral results in determining changes in the position and strategic importance of veto points.

This paper aims to explore the explanatory capacity of the *veto points*-*veto players* analytical framework at two moments of policy change. The first is the creation of the legal framework for policy reform and the second is the implementation of the new policy. The structure of veto points is different at both moments as are the veto players. At the legislative moment the veto players are the Executive, the Congress, the political parties, and occasionally the Judiciary. Interest groups may influence decisions through their relations to some of the players, but do not have institutional veto capacity. Congruence among different veto players and their internal cohesion is crucial. At the implementation moment the different actors in the Executive are an important veto player – ministers, governmental agencies, the Presidency – the Judiciary may also be another and interest groups strategically placed may block policy

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\(^5\) According to his definition ‘veto players are individual or collective actors whose agreement (by majority rule in the case of collective actors) is required for a change in the status quo’ (Tsebelis, 1995).
implementation. Here coherence is important, especially between the Executive and the Judiciary, but internal cohesion of all relevant players is essential.

The two cases of privatisation discussed here may be particularly interesting since they present two different outcomes, although the institutional framework was the same and the characteristics of the unions involved were very similar. These two cases allow me to explore the interplay of institutions and preference distributions in the process of policy change. First, however, it is important to outline, if briefly, the Brazilian interest intermediation system.

**Corporatism in decline**

The Brazilian interest intermediation system is in transition. Corporatism, that prevailed for more than fifty years, is declining as the institutional, as well as the systemic, conditions that nurtured it are changing. The Brazilian interest intermediation system, established in the 1930s, has been for decades a peculiar case of state corporatism (Schmitter, 1974). It combined monopoly of representation, granted by the government and guaranteed by law, with a deconcentrated and rather decentralised system. Municipal unions were placed at the core of a hierarchical structure, where state federations by branch and eight national sectoral confederations constituted the upper levels. No shop floor organisation existed and no legal warranty was ever granted to union representatives at firm level. Until 1985, no peak association was allowed to exist. A compulsory contribution paid by all workers (or firms in the case of entrepreneurs' organisations), whether unionised or not, provided the funds to finance the system's operation. State corporatism replaced direct collective bargain by a sophisticated system of labour courts and administrative arbitration.

During the previous democratic period (1946-64) corporatist structures were a two-way route of communication between the government and the unions. The Ministry of Labour exercised a sometimes repressive, sometimes paternalistic, control over the unions. When government preferred populist measures to repression or bureaucratic control, labour leaders had direct, although informal, access to Executive decision-making arenas. Concertação was never a government option for policy-making, but labour leaders were frequently co-opted by populist governments. Therefore, corporatist structures allowed union leaders some degree of political influence, that depended less on the size of the unions, or their capacity to mobilise, than on their political closeness to the president and other members of the governing coalition.

During the authoritarian regime (1964-84), the repressive features of the

---

6 Or municipal entrepreneurs' organisations, since the structure is a symmetrical one for workers and firms.

7 Labour and entrepreneurial representatives participated in tripartite comissions that defined the minimum wage increases and in those that established the 'categories' that should be the constituency of the unions. They also had seats in labour courts through the judges appointed by unions and business organisations.
state corporatist model were reinforced and became a powerful tool to impose
labour quiescence and wage restraint. However, since the end of military rule
important changes have occurred, both in the legal framework and in the actual
functioning of the system. All mechanisms that provided for state control over
union activities were abolished as early as 1985. Unions became autonomous in
relation to the government.

As a result of unions’ mobilisation against the military government and of
their internecine political differences, several peak organisations emerged
outside the legal intermediation structure, adding a pluralist roof to the
corporatist building. Their number and relative strength varied during the 1980s;
the latest data showing the distribution of union membership to peak
associations are in Table 1.

**Table 1 - Union membership in peak associations (1991)**

<table>
<thead>
<tr>
<th>Type</th>
<th>CUT</th>
<th>CGT1</th>
<th>CGT2</th>
<th>USI</th>
<th>FS</th>
<th>Total Unions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees(a)</td>
<td>843</td>
<td>114</td>
<td>58</td>
<td>22</td>
<td>192</td>
<td>3,547</td>
</tr>
<tr>
<td>Liberal professions</td>
<td>79</td>
<td>3</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>376</td>
</tr>
<tr>
<td>Other (b)</td>
<td>29</td>
<td>15</td>
<td>10</td>
<td>2</td>
<td>6</td>
<td>340</td>
</tr>
<tr>
<td>Total urban</td>
<td>951</td>
<td>132</td>
<td>69</td>
<td>24</td>
<td>199</td>
<td>4,263</td>
</tr>
<tr>
<td>Rural</td>
<td>605</td>
<td>35</td>
<td>14</td>
<td>-</td>
<td>13</td>
<td>2,905</td>
</tr>
<tr>
<td>Total (urban + rural)</td>
<td>1,556</td>
<td>167</td>
<td>83</td>
<td>24</td>
<td>212</td>
<td>7,168</td>
</tr>
</tbody>
</table>

*Source:* Anuário Estatístico do IBGE - 1994

*Note:* CUT = Central Única dos Trabalhadores (Partido dos Trabalhadores);
CGT1 = Central Geral dos Trabalhadores; CGT2 = Confederação Geral dos
Trabalhadores; USI = União Sindical Independente; FS = Força Sindical.

* includes members and non-members
(a) includes workers and employees in industry, commerce, banking,
transportation, public administration, education and culture.
(b) includes self-employed and temporary employees.

Table 1 shows that there is a significant number of unions (72%) not related
to any of the five peak associations. In fact, only three of them still exist today:
CUT, FS and CGT2; only the first two are politically significant. The CUT's
importance stems not only from its grip on the most important workers' unions in modern industry, the rural sector and civil servants associations, but also from its intimate link to the Partido dos Trabalhadores (PT). The FS built its identity as the major opponent of the CUT and consequently as an alternative to those labour leaders who do not back the PT. Its moderate discourse also has drawn sympathy, and frequently some material support, from all governments since its creation in 1989.

Sharp political differences divide the two major national organisations on the issues of state reform. CUT leaders and followers oppose either market-oriented economic changes or social security, administrative and civil service reforms. The FS is more prone to accept and negotiate them.

The 1988 Constitution confirmed the changes made in previous years and introduced others that contributed to create a very strange hierarchical structure combining corporatism at union level and pluralism at the top.

Within the new Constitution's framework, decentralisation of the interest-intermediation system increased significantly – probably induced by the absence of bureaucratic controls and the multiplication of compulsory contributions. While union membership in the urban areas dropped slightly from 1979 to 1994, the number of unions grew dramatically after 1988. New unions in 1990 and 1991 were 22% of those already in existence in 1990, and in 1992 a further 11.5% of those in existence in 1990 were created. Only 25% of the growth since 1990 is due to unionisation of civil servants, forbidden to organise under previous Brazilian constitutions. Tables 2, 3, 4, 5 and 6 show the evolution of unionisation and the process of organisational multiplication and fragmentation.

While the Brazilian corporatist system has lost the legal provisions that made for its structural coherence, political conditions do not favour its survival either. The long life of corporatist arrangements was due to the vested interests of labour leaders and of union, government and labour court bureaucracies. Nevertheless, government interest in using corporatist structures either to control or co-opt unions and business organisations definitely contributed to their perpetuation. Corporatist organisations were part and parcel of a specific mode of relationship between the state and society that some authors called the state-centred matrix (Cavarozzi, 1988), which went with the import-substituting model of growth and state intervention.

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8 The political division is in some respects prior to the definition of the state reform agenda, but since the latter became the major political cleavage of the 1990s it grew into the great divide inside the labour movement.

9 Unions' monopoly of representation was maintained, but no provision was made to establish who would recognise the union and grant it exclusive representation, thus making room for dispute over jurisdiction. Compulsory funds were preserved, and even enlarged, with the creation of two new universal and compulsory financial contributions. On the other hand, pluralism at peak level was confirmed.
**Table 2: Brazil: Union Size, 1939 - 1995**  
(per cent)

<table>
<thead>
<tr>
<th>Year</th>
<th>Unionised workers/ Working population (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Urban (a)</td>
</tr>
<tr>
<td>1940</td>
<td>8.0</td>
</tr>
<tr>
<td>1960</td>
<td>12.2</td>
</tr>
<tr>
<td>1970</td>
<td>13.8</td>
</tr>
<tr>
<td>1979</td>
<td>11.6</td>
</tr>
<tr>
<td>1988</td>
<td>10.8</td>
</tr>
<tr>
<td>1990</td>
<td>10.5</td>
</tr>
<tr>
<td>1995</td>
<td>10.7</td>
</tr>
</tbody>
</table>

**Source:** FIBGE: PNAD e Indicadores Sociais.  
(a) urban population only excluding self-employed  
(b) urban and rural population

**Table 3 – New entrepreneurial and workers’ organisations**  
**Brazil – rural and urban sectors, 1990-96**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>16</td>
<td>90</td>
<td>63</td>
<td>26</td>
<td>72</td>
<td>83</td>
<td>5</td>
<td>355</td>
</tr>
<tr>
<td>Urban</td>
<td>1,255</td>
<td>1,301</td>
<td>701</td>
<td>626</td>
<td>386</td>
<td>372</td>
<td>38</td>
<td>4,679</td>
</tr>
<tr>
<td>Total</td>
<td>1,271</td>
<td>1,391</td>
<td>764</td>
<td>652</td>
<td>458</td>
<td>455</td>
<td>43</td>
<td>5,034</td>
</tr>
</tbody>
</table>

**Source:** Ministério do Trabalho
Table 4 – New entrepreneurial and worker’s organisations 1990-1996

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Employers</td>
<td>206</td>
<td>270</td>
<td>217</td>
<td>125</td>
<td>150</td>
<td>160</td>
<td>15</td>
<td>1,143</td>
</tr>
<tr>
<td>Employed</td>
<td>987</td>
<td>1,027</td>
<td>508</td>
<td>502</td>
<td>274</td>
<td>271</td>
<td>25</td>
<td>3,594</td>
</tr>
<tr>
<td>Subtotal</td>
<td>1,193</td>
<td>1,297</td>
<td>725</td>
<td>627</td>
<td>424</td>
<td>431</td>
<td>40</td>
<td>4,737</td>
</tr>
<tr>
<td>Autonomous</td>
<td>42</td>
<td>46</td>
<td>19</td>
<td>7</td>
<td>13</td>
<td>9</td>
<td>1</td>
<td>137</td>
</tr>
<tr>
<td>Liberal professions</td>
<td>36</td>
<td>48</td>
<td>20</td>
<td>18</td>
<td>21</td>
<td>15</td>
<td>2</td>
<td>160</td>
</tr>
<tr>
<td>Subtotal</td>
<td>78</td>
<td>94</td>
<td>39</td>
<td>25</td>
<td>34</td>
<td>24</td>
<td>3</td>
<td>297</td>
</tr>
<tr>
<td>Total</td>
<td>1,271</td>
<td>1,391</td>
<td>764</td>
<td>652</td>
<td>458</td>
<td>455</td>
<td>43</td>
<td>5,034</td>
</tr>
</tbody>
</table>

Source: Ministério do Trabalho

Table 5 – New entrepreneurial and workers’ organisations by sector – 1990-96

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry 1</td>
<td>78</td>
<td>91</td>
<td>70</td>
<td>21</td>
<td>36</td>
<td>31</td>
<td>5</td>
<td>332</td>
</tr>
<tr>
<td>Industry 2</td>
<td>237</td>
<td>234</td>
<td>110</td>
<td>83</td>
<td>56</td>
<td>49</td>
<td>2</td>
<td>771</td>
</tr>
<tr>
<td>Commerce 1</td>
<td>88</td>
<td>111</td>
<td>89</td>
<td>47</td>
<td>41</td>
<td>50</td>
<td>6</td>
<td>432</td>
</tr>
<tr>
<td>Commerce 2</td>
<td>239</td>
<td>218</td>
<td>135</td>
<td>86</td>
<td>70</td>
<td>63</td>
<td>9</td>
<td>820</td>
</tr>
<tr>
<td>Transport 1</td>
<td>14</td>
<td>22</td>
<td>6</td>
<td>15</td>
<td>8</td>
<td>7</td>
<td>1</td>
<td>73</td>
</tr>
<tr>
<td>Transport 2</td>
<td>14</td>
<td>64</td>
<td>36</td>
<td>25</td>
<td>16</td>
<td>29</td>
<td>4</td>
<td>188</td>
</tr>
<tr>
<td>Rural 1</td>
<td>14</td>
<td>20</td>
<td>40</td>
<td>24</td>
<td>55</td>
<td>57</td>
<td>3</td>
<td>213</td>
</tr>
<tr>
<td>Rural 2</td>
<td>2</td>
<td>70</td>
<td>23</td>
<td>38</td>
<td>17</td>
<td>26</td>
<td>2</td>
<td>178</td>
</tr>
<tr>
<td>Banking 1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>17</td>
</tr>
<tr>
<td>Banking 2</td>
<td>25</td>
<td>11</td>
<td>8</td>
<td>5</td>
<td>4</td>
<td>5</td>
<td>1</td>
<td>59</td>
</tr>
<tr>
<td>Autonomous</td>
<td>42</td>
<td>46</td>
<td>19</td>
<td>7</td>
<td>13</td>
<td>9</td>
<td>1</td>
<td>137</td>
</tr>
<tr>
<td>Liberal professions</td>
<td>36</td>
<td>48</td>
<td>20</td>
<td>18</td>
<td>21</td>
<td>15</td>
<td>2</td>
<td>160</td>
</tr>
<tr>
<td>Education &amp; culture 1</td>
<td>1</td>
<td>10</td>
<td>7</td>
<td>10</td>
<td>5</td>
<td>9</td>
<td>0</td>
<td>42</td>
</tr>
<tr>
<td>Education &amp; culture 2</td>
<td>58</td>
<td>64</td>
<td>35</td>
<td>38</td>
<td>13</td>
<td>17</td>
<td>0</td>
<td>225</td>
</tr>
<tr>
<td>Media &amp; public relations 1</td>
<td>9</td>
<td>13</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>0</td>
<td>34</td>
</tr>
<tr>
<td>Media &amp; public relations 2</td>
<td>12</td>
<td>12</td>
<td>0</td>
<td>43</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>72</td>
</tr>
<tr>
<td>Civil servants 2</td>
<td>400</td>
<td>354</td>
<td>161</td>
<td>184</td>
<td>93</td>
<td>82</td>
<td>7</td>
<td>1281</td>
</tr>
<tr>
<td>Total</td>
<td>1271</td>
<td>1391</td>
<td>764</td>
<td>652</td>
<td>458</td>
<td>455</td>
<td>43</td>
<td>5034</td>
</tr>
</tbody>
</table>

Source: Ministério do Trabalho

Note: 1 - Employers’ organisations
       2 - Workers’ unions
At this time, the broad systemic conditions that created and contributed towards reproducing state corporatism are withering away. State-society relations are changing as much as government policies towards interest organisations. Vested interests continue to exist and account for the persistence of corporatist arrangements, even if awkwardly combined with pluralist institutions. However, transition towards some kind of pluralist system does seem to be in process.

Corporatism is now decentralised and in decline. It also lacks political cohesion. Under these circumstances, different peak organisations or individual unions tend to act basically as pressure groups with decentralised strategies.

Inside the corporatist system, public sector unions form an important, but far from homogeneous group. Civil service unions are recent, numerous (1,281 in the whole country), extremely vocal and almost unanimously subscribed to the CUT, where they hold important power positions.
Workers and employees of state-owned enterprises (SOE) are represented by municipal unions at the sectoral level – metal-mechanic, chemical, oil, electricity, railway, etc. – or by professional unions in the case of port workers – stevedores, longshoremen, drivers, etc. In both cases, the unions have existed for many years. Together, SOE and port unions have very high levels of unionisation compared to the private sector. However, they vary greatly as far as political allegiances are concerned. Port unions do not belong to any of the peak organisations; they are represented at the federal level by three different national federations. They live in a union world of their own with weak relations to other labour organisations. Their internal cohesion is very high, inside each union as much as among different unions and federations. At present, they do not have established relations with political parties, but their leaders are very efficient at lobbying Congress.

On the other hand, the loyalty of unions organising workers and employees of SOE are divided between the CUT, FS and CGT2. Union cohesion is not always great and they frequently have a high degree of internal competition. Cohesion also varies among unions in the same sector nationwide. Peak organisations, confederations and some prominent unions regularly lobby Congress. The CUT’s unions have very close ties to the PT and also have good relations with the Democratic Labour Party (PDT) and the small leftist parties in Congress.

Unions and privatisation policies

In general terms, Brazilian unions have shown little capacity to influence the process of economic reform. Nevertheless, they have been more successful in some cases than in others in influencing the legislative process or blocking reform implementation.

For unions, port reform – or rather its absence – has been a success story so far; privatisation of state-owned steel and petrochemical enterprises, on the other hand, was a clear failure. In both cases, unions opposed the reform proposals. In both cases, unions were strong, if measured by conventional indicators: high levels of unionisation, high degree of territorial concentration and significant capacity to mobilise their constituencies. Port unions have succeeded in influencing the lawmaking process and have been able to block law implementation. Steel and petrochemical SOE unions did not have a say in the legislative process that produced the legal framework for the privatisation of public enterprises and failed to block its implementation.

Port reform and privatisation are important issues in the wider agenda of state reform. In the first case, increasing the efficiency of port services was seen as an important condition for the external opening of the Brazilian economy. Port services were thought to be expensive and highly inefficient and the prevailing dock labour scheme seemed to contribute significantly to this situation. Changing the dock labour scheme meant, among other reforms,
breaking closed-shop procedures that accounted for the hiring monopoly of port unions and its control over the whole labour process inside the ships and on the waterfront.

In 1993, the Executive sent Congress a draft law that proposed radical and immediate changes in port institutions, and especially in the dock labour scheme. Port unions, particularly those in Brazil’s biggest public port, succeeded in mobilising a broad coalition, consisting of local community leaders, leftist parties and the mayor, to press Congress for their claims. Inside Congress some representatives and a senator acted as spokespersons for their demands. The congressional debate was heated, representatives’ preferences were split, and the proposition received 130 amendments. The whole legislative process took six months, and the resulting law was partially vetoed by the Executive. The result was institutional reform that established a transition period for changing the dock labour scheme and granted the unions representation on all-important port administrative councils.

The port unions therefore influenced the legislative process and were partially successful in their efforts to defend their interests. They continued to oppose the law’s implementation, threatening to paralyse Brazilian ports, with significant losses for the state and employers. Nevertheless, their main asset was not the strength of this organisation and the capacity to mobilise workers, but rather the sympathy and support of administrative bureaucracies in the ports, who were also unwilling to face change. The alliance between unions and bureaucracies has been crucial in blocking port reform since 1993.

By contrast, unions had no participation in the process of drafting Law 8031/90 that established the institutional framework for the privatisation process, defining its basic norms and procedures, its regulatory framework, the public enterprises to be privatised and the agreed forms of payment. Congress did introduce some changes in the original proposition, among them the participation of workers’ representatives in the National Commission and the compulsory sale of 10% of the enterprises’ shares to employees. However, unions remained alienated from the debate and the decision-making process. Differences between the Executive and the Congress were not too deep, and there seemed to be significant internal cohesion in Congress regarding privatisation as it was defined in the draft law.

When privatisations began, unions tried to block them with appeals to the Supreme Court and fundamentally through mass mobilisation and public

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10 There were 220 amendments to the original proposition, but only 12 were approved. These included two that favoured workers and their representatives. Nevertheless both were vetoed by the Executive.
11 Elsewhere (Tavares de Almeida and Moya, 1996) we have shown that sectors included in the programme were precisely those whose privatisation achieved the greatest consensus among Congress members.
demonstrations. Judicial procedures did not succeed to the same extent as mass mobilisation. Unions were divided on the issue. The members of the CUT opposed privatisation fiercely, while FS members approved it. In order to undermine the unions’ efforts at mobilisation, the administration offered 10% of the shares to workers and stimulated the organisation of firm-level employees’ clubs to buy them. Inside each steel and petrochemical firm high-level public executives tended to favour privatisation, which was seen as way of freeing firms from excessive bureaucratic regulations and of bringing in new investments that the government could no longer provide. The unions, divided and alone, could not provide any effective resistance, despite the number of their members, the bureaucratic strength of their organisation and the mobilisation resources of their leaders.

The conclusions that can be drawn seem to be clear. In the port reform process the different perspectives of the Executive and the Congress and the low degree of cohesion inside the Legislature created veto opportunities for port unions, themselves very cohesive and capable of mobilising important political allies. Veto opportunities also emerged in the implementation phase due to the lack of cohesion inside the Executive. The situation was the opposite when privatisation of steel and petrochemical firms was under consideration. This time powerful unions could exert no veto at all, since institutional arrangements and, above all, distribution of preferences, among and inside relevant political institutions, did not create the appropriate conditions.

In Brazil, privatisation and other important state reforms are still in the making. Until now it has been a highly negotiated process. The Brazilian institutional framework allows for an extremely complex structure of veto points and veto players, that change for each specific reform policy. Unions may influence the reform decisions and the course of change, but their impact depends heavily on institutional opportunities.

12 Unions organised street rallies on the days and in the locations where public enterprises were to be sold. Although this achieved media visibility, it had no real impact.
IV: Regional Interest Intermediation in Brazil: The Impact of Federalism and Decentralisation

Celina Souza

With the promulgation of the 1988 Constitution, Brazil became a very decentralised country in the distribution of political and financial resources (Souza, 1992; 1994; 1996). The 1988 Constitution was the result of the country’s commitment to democratic values, in which political, financial and administrative decentralisation fulfilled an important role. Nevertheless, after the promulgation of the Constitution, the role of the state, especially that of the federal government, as a provider of social and economic benefits as well as its responsibility for evening out inequalities among Brazilian states and regions, has had to face many challenges, while the so-called market mechanisms have been gaining salience. Furthermore, economic reforms, especially those designed to control inflation, have been reducing support from the federal government to the states for the provision of infrastructure and local and regional public services.

At the federal level, the results of decentralisation are quite clear: the federal government is particularly affected by financial constraints and is finding it difficult to build governing coalitions, although it has been finding ways to overcome those difficulties, as shown by Limongi and Figueiredo (1996) and Souza (1997). At the sub-national level, however, the results of decentralisation present a high level of heterogeneity given the country’s regional disparities and the uneven power possessed by regional leaders.

Brazil has been marked, from the beginning of its republican history, by the existence of deep-rooted regional inequalities within the federation. The latest report by the United Nations Development Programme and the Instituto de Pesquisa Econômica Aplicada (UNDP and IPEA, 1996) brought to the fore the existence of three ‘Brazils’, composed of i) an area constituting seven states in the south of the country which, together with the Federal District, share a high level of human development; ii) an area towards the north-west, starting in Minas Gerais, which has a medium level of human development; and iii) an area composed of the states of the north-east plus the states of Pará and Acre, which is characterised by low levels of human development.¹ These results depict a new map of Brazilian regions, somewhat different from the traditional geographic map which divides Brazil into five regions.

¹ The states of Rio Grande do Sul, São Paulo, Santa Catarina, Rio de Janeiro, Paraná, Mato Grosso do Sul, Espírito Santo, plus the Federal District, belong to the first category. In the second category are the states of Minas Gerais, Goiás, Mato Grosso, Rondônia, Amazonas, Roraima, and Amapá. In the third group are the states of Pará, Acre, Sergipe, Bahia, Pernambuco, Rio Grande do Norte, Maranhão, Ceará, Piauí, Alagoas, and Paraíba.
This paper examines the relationship between the states and the federal government after decentralisation, as well as the impact of the ongoing constitutional reforms in that relationship. These issues are discussed focusing on Brazil's regional inequalities, given the fact that these inequalities have caused new tensions to the federal equilibrium which was achieved by the 1988 Constitution and agreed during the transition to democracy. The paper argues that the Brazilian experience on political and financial decentralisation favours the prospects of democratic consolidation in Brazil, through the emergence of new political actors in the political scene and the existence of several power centres competing among themselves. The state governors, especially those governing economically powerful states, and the mayors of the state capitals, became one of the main centres of power, compelling the federal government to negotiate with the sub-national spheres the solution of national issues. In this sense Brazil became not only more democratic but also more 'federal'. On the other hand, the Brazilian experience shows that decentralisation might impede the reduction of the country's regional inequalities, because of the financial and political weakening of the federal government.

The paper first presents a conceptual discussion of intergovernmental relations as a conflict-ridden process; it then provides an overview of the main economic and social features of the Brazilian states and regions, showing the degree of regional inequality. Following this the paper discusses the ways in which the states have been using their political strength to negotiate their financial constraints. Finally, a review of the ongoing legal reforms, either constitutional or those under way through ordinary or complementary legislation to the Constitution, are presented and the impact of those reforms upon state-federal government relations are discussed.

**A Political Approach to Intergovernmental Relations**

The emergence of the nation-state has expanded the role of governments and increased concerns regarding the distribution of governmental power. In federal countries, the main question with which intergovernmental studies are concerned is: how do central and sub-national governments work to solve shared problems? Throughout this century complex sets of machinery and of linkages in Intergovernmental Relations (IGR) have been developed. However, most of the theoretical contributions on IGR in federal countries are based on the experiences of the USA, Canada and Australia, which tend to emphasise an Anglo-Saxon view of the issue. Furthermore, many studies have tended to treat IGR as related to service delivery, financial stringencies and regulatory measures.

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2 A more detailed discussion is presented in Souza (1997).
4 An exception to this view is Davey's (1996, p. 261) assumption that IGR are basically concerned with power.
There are no great conflicts in the concept of intergovernmental relations, as opposed to the unfinished (and highly ideological) discussion around the concept of local government. IGR is the study of relationships between different levels of government. This apparently simple definition hides a struggle between branches of the social sciences on how to approach IGR studies. Smith (1985) summarised the advantages of each approach as follows. First, the historical-legal approach focuses on institutional and procedural changes which may be made to alter the distribution of power between levels of government. Second, the community-politics approach emphasises that changes in IGR may be neutralised by their political and economic contexts. Third, inter-organisational studies call attention to the multidimensional nature of IGR and the power resources which can be utilised when governments interact. The problem with studies based on these approaches is that they tend to isolate conflicts between levels of government from other political conflicts in society. Hence, Smith (1985) suggested that a study of IGR should be placed within a framework of conflicting interests.

Calls for the need for a theoretical shift in the approach to IGR have been made to overcome what Elazar (1987) saw as an obsolete theoretical orientation, namely the view of IGR from the logic of the centre-periphery model. He called for a new model able to incorporate discussion of the likely constituent elements of the federation and whether they would be primarily administrative vehicles or polities. Hence, this paper has developed the interpretation of the relationship between the states and the federal government in Brazil in line with the propositions of Smith (1985) and Elazar (1987). By doing so this paper argues that, as is true of IGR everywhere, a pattern emerges whereby groups with less power and resources are pitted against groups struggling to upgrade their position. However, this game is not dichotomous but rather a continuum. Following these theoretical formulations, the understanding of how conflicts are channelled becomes more relevant to this paper's development than the investigation of administrative or legal arrangements.

However, although the frameworks of Smith and Elazar are broad enough to encompass the three territorial units of governance, the search for theoretical formulations able to capture the differences between sub-national units in countries experiencing an unprecedented political, financial and constitutional strength in their states, such as post-1988 Brazil and Canada since 1982 (Marshall, 1988), needs to be narrowed. Therefore, the theoretical foundation for the states' role in the IGR game comes from the view of IGR as a combination of structure and process, which are continually interacting (Anton, 1989). As Chapman (1993, p. 71) developed the approach,

...these patterns of interaction become quasi-institutional, legitimated by use or sometimes by legislation or executive fiat. The actors are

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5 For a review of the theories of local politics and local government, see Stoker (1988).
6 Gagnon (1993) pointed out that the idea that federalism pits government against government should be reconsidered. However, this paper argues that for IGR the idea is valid and it is one of the bases of the distinction between federalism and IGR.
continuously involved in mutual transfers creating thereby an additional set of structures and processes, extra-constitutional and, in many cases, extra-parliamentary. These processes are policy-oriented and problem-centred, arising at specific times from particular issues, yet remaining, in one guise of another, to establish another pattern of IGR.

What follows from the quotation above is that IGR, especially in federations such as Brazil and Canada, are conflict-ridden. However the resolution of conflicts does not imply that solutions rest on a rational allocation of responsibilities, of revenues, or of merely adversarially-based intergovernmental relations. As Chapman (1993) put it, conflicts should not be seen as simply a national and sub-national conflict but as an entanglement across those systems.

One aspect of this paper, however, could not be solved by the above-mentioned theoretical approach to IGR. The literature on IGR tends to use the word influence when referring to the mechanisms used by levels of government in their IGR. The paper has opted to use the word influence but also the word veto when referring to post-1988 Brazil, and to players in the decision-making process as veto players. Veto power and veto players are used after Tsebelis’s (1993) development of the concept which stems from the idea of ‘checks and balances’ in the North-American constitution. A veto player, in Tsebelis’s words, is an individual or collective actor whose agreement is required for a policy decision. The reason for this choice is that the structures and processes of IGR are beginning to be rebuilt in Brazil to cope with the relative novelty of the weighted role of sub-national governments in the federation. Therefore structures and processes are interwoven and entangled, but mechanisms based on ‘influence’ have not yet fully emerged.

Studies of intergovernmental relations in Brazil have been traditionally addressed under the theoretical formulations of political science, political sociology and public administration. Those studies have not been limited to the analysis of the relationships between governmental units, but have tended to incorporate two other approaches: i) the relationship between the state and society, a division common in discussions of authoritarianism; and ii) how the distribution of territorial power influences political arrangements and pacts. Works focused on the political arrangements before 1964 tended towards a dichotomous view of the relationship between levels of government and between state and society without capturing their interdependence. Some of those studies viewed territorial cleavages in Brazil as following a pattern in which the state dominated society, and the federal government the sub-national units, as in Faoro’s (1958) work. Another approach saw society as dominated by private interests and the state as the result of compromises between local and regional interests, as in the works of Duarte (1939), Freyre (1964), Vianna (1949) and Queiróz (1976). A variant of the latter school of thought is represented by Leal’s (1977) work focusing on the municipality to explain the power of local patrons, the coronéis. Leal showed the contradictions behind the adoption of modern forms of political representation such as universal suffrage, in a milieu of poverty, centralisation of power and resources at the state and federal levels and
of decadent, private local power.

During the 1970s works by Balán (1974), Cardoso (1975) and Uricoechea (1980) attempted to overcome the dichotomous approach. However, they continued to stress the predominance of the state versus society, and of the centre versus the periphery. In the 1980s, works by Ames (1987), Medeiros (1986) and Schwartzman (1988) incorporated the interdependence of local, regional and national politics into their views of the relationships between state and society and between levels of government in their political arrangements within the federation. However, because these studies were developed before the constitutional espousal of decentralisation, they no longer capture the current trends in Brazilian politics.

There have been efforts from international financial organisations to analyse the financial aspects of Brazil's decentralisation and the fiscal tensions between the federal and state governments. There have been works by economists discussing the political economy of inflation and the constraints blocking economic growth, in which the role of sub-national governments is briefly assessed (Bresser Pereira, 1993; Franco, 1993). However, studies based on an understanding of the reasons which caused Brazil to become such a decentralised nation, and the effects of decentralisation on the political and financial systems and on policy results at the sub-national level are few. Although studies on the influence of intergovernmental relations and decentralisation in shaping Brazil's current political system are still in their infancy, both issues have been on the political agenda since the beginning of the 1990s.7

**Brazilian Regions and States: Some Features**

Brazil is a country marked by inter- and intra-regional disparities. Despite a certain degree of spatial de-concentration which occurred in the mid-1970s, the gap between states and regions remains wide. From the geographical viewpoint, Brazil is divided into five regions. The State of São Paulo, in the south-east, is the centre of the Brazilian economy. In 1985 the south-east accounted for 70 per cent of the country's industrial production and 58 per cent of its GDP, with 34 per cent in São Paulo alone. In 1991 the south-east, which accounts for 10.8 per cent of the country's territory and 42.6 per cent of the population, accounted for 59 per cent of GDP and 66 per cent of industrial production. The north-east, by contrast, where 28.9 per cent of the population live, contributed with 13.6 per cent of GDP and 12 per cent of industrial production (Guimarães, 1995).

Income per capita in the south-east is almost three times greater than that of the north-east. Marked differences may be also found in all other indicators.

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7 Souza's (1997) work is an attempt to link these issues. Kinzo (1996) included decentralisation among the factors accountable for the difficulties faced by the current decision-making process.
Work by the IPEA (1993) shows that in 1990 out of 32 million Brazilians whose income was only enough for a daily diet, according to the guideline established by the Food and Agricultural Organisation (FAO), 54.5 per cent live in the north-east, 22.2 per cent in the north; 25.2 per cent in the south-east; 12.9 per cent in the south; and 5.2 per cent in the centre-west. Life expectancy in the north-east was 58.8 years in 1990, whereas the country’s average was 64.9. Income per capita in the north-east was US$918 in contrast to the country’s average of US$2,241 (Albuquerque, 1993).

As regards the states, the participation of the main state economies in Brazil’s GDP was, in 1990, as follows: São Paulo, 35 per cent; Rio de Janeiro, 11 per cent; Minas Gerais, 9.5 per cent; Rio Grande do Sul, 7.8 per cent; Paraná, 7.7 per cent; and Bahia, 5 per cent. However, GDP per capita shows a different distribution among the states. The highest rate was found in Brasília (US$4,988), followed by São Paulo, with US$3,993; Rio de Janeiro, with US$3,352; Rio Grande do Sul, with US$2,738; Santa Catarina, with US$2,344; and Paraná, with US$2,037. Minas Gerais is in seventh place, with US$1,850, and Bahia in tenth place, with US$1,226 (Albuquerque, 1993).

Brazilian federalism and the relationship between the federal and the state governments are no different from the country’s socio-economic features: they are marked by enormous differences and complexity. As noted by Afonso and Lobo (1996), the federation presents a high participation of the sub-national spheres in the national revenue, as well as in expenditure, either in payroll and consumption or in investments, without great interference from the central government. On the other hand, the country pays a relatively high price to maintain national unity and has a complex and inarticulate system of IGR.

To counterbalance the country’s regional inequality, Brazil has, since 1946, adopted a fiscal system aiming at a better vertical and horizontal balance through the redistribution of the national revenue from the well-off to the worse-off regions. This scheme was considerably extended by the 1988 Constitution. As reported by Afonso and Lobo (1996) the centre-south of the country generates around 80 per cent of GDP and of the national revenue, but retains only 60 per cent of the expenditure. Because of the system of horizontal balance, which transfers resources from better-off states to worse-off ones, the fiscal system is highly entangled and whenever the economy of well-off states slows down, less developed regions are also affected. On the other hand, of all fiscal incentives, 38.3 per cent go to the Amazon region, 9.6 per cent to the north-east and 51.6 per cent to the centre-west, south, and south-east regions (Braudel Papers, 1993). Moreover, most of the incentives going to the Amazon region and the north-east benefit companies from the south-east.

These socio-economic disparities also have a political pay off: smaller and economically weaker states hold proportionally more seats in the Chamber of Deputies than bigger constituencies. This over-representation was first introduced in 1932 to counterbalance the power of the states of São Paulo and Minas Gerais in the federation. It has been maintained ever since. Arguments
against this over-representation emphasise two points. First, it acts against the principle of electoral systems based on proportional representation, because the goal of one person, one vote is not totally met. It is also criticised because parliamentarians from smaller states tend to act according to parochial demands. However, there are historical and political facts favouring this over-representation. First, the scheme was set up as a way to decrease the control of São Paulo and Minas Gerais over the whole country. The concentration of economic and human resources in the south-east, especially in São Paulo, has since decreased, but the gap among regions remains wide. Second, the over-representation of smaller units of the federation is one element reinforcing the relationship between federalism and consociational democracy, according to Lijphart’s (1984) formulation. Third, the over-representation of weaker economic units of the federation forces the political system, the federal government and Congress to incorporate the problems of Brazil’s regional inequalities into the political agenda.

The Strength of the States in the Brazilian Federation

The states in Brazil have always enjoyed great political power, compared to their financial strength. This power was considered by Brazil’s two authoritarian experiences as an obstacle to their objectives: both Vargas and the military regime of 1964 tried to diminish the power of the states. Seeking greater political and administrative unity, Vargas strengthened the federal government by centralising resources and by appointing ‘intervenors’ to replace popularly elected governors. The military regime of 1964 again promoted centralisation of the national resources and prohibited popular elections in the states and their capitals. With democratisation, however, it was no longer possible to restrain the power of the governors, especially those who governed economically strong states. Furthermore, the influence of the governors upon the state delegation in Congress is now often stronger than the political parties to which they belong.

The power of the governors may express itself in several ways, but the main vehicle is the power to veto measures proposed by the federal government, which have not previously been negotiated with them. Negotiations with regional leaders mainly address solutions to the financial constraints faced by the states. Negotiations follow three main paths. First, the governors have an important say in the appointment of officials to the federal bureaucracy and to the board of federal-owned companies. It has been estimated that the number of politically appointed positions in the federal Executive is 63,570, plus the directorates of over 100 federal-owned companies. Of all politically appointed positions, 73 per cent are for civil servants and 27 per cent are totally free for

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8 Intervenor is the title given to those who are appointed by the federal government when a federal intervention in a state is declared. During the Vargas period the intervenor had executive and legislative powers in the state’s jurisdiction. An example of Vargas’s uneasiness with the states was that he publicly burned the state flags in an official ceremony.
political negotiation. The president uses these positions to negotiate with Congress and with regional leaders and to build coalitions for government. Second, the governors negotiate more resources for their states, despite an increase of 3.5 per cent of the national fiscal revenue granted to them by the 1988 Constitution. These resources are achieved by negotiating larger shares in the federal budget, by the concession of incentives, subsidies and loans at subsidised interest rates, and federal guarantees in loans with international financial organisations.

Third, and currently the most important aspect of the federal-state relations, is the governors’ strength used as a way to compel the federal government to re-negotiate the states’ debt. In the 1980s and 1990s the states’ debts have been re-negotiated numerous times. The state creditors are mainly the federal government, the commercial banks under the state control, the financial institutions controlled by the federal government and the international financial institutions. This aspect of the relationship between the states and the federal government is one of the most complicated issues and it is also the one which has had the greatest effect on the federal balance and on the performance of the public accounts.

The Indebtedness of the States

The debt of the states was estimated at around R$100 billion in December 1996 (40 per cent in short-term debt) which implies high interest rates. Four states, the most powerful economically, account for 90 per cent of the debt. Three of these states, São Paulo, Rio de Janeiro and Minas Gerais, are governed by the president’s party, the Party of Brazilian Social Democracy (PSDB), and one, Rio Grande do Sul, by the Party of the Brazilian Democratic Movement (PMDB), which belongs to the president’s coalition at the national level. Furthermore, these states occupy a high number of seats in Congress, since they are Brazil’s most populous states. Large delegations mean that the victory or failure of measures sent to Congress by the Executive depends, to a great extent, on these delegations. Only three states, Ceará, Bahia and Paraná, the two former situated in the north-east and the latter in the south, are said to have their debts under control. One feature shared by Ceará and Bahia is the fact that the same political group has been controlling the state politics since the mid-1980s. As for Paraná, this state has been marked by a tradition of technocratic values, which has meant less room for the politicisation of the finance of the state, although two political parties, the PMDB and the Democratic Labour Party (PDT), have occupied the Executive since the return to popular elections.

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9 It has been reported that the federal government’s intention to extinguish 22 entities is under pressure from the states’ delegations in Congress. The states of Minas Gerais and Goiás, for instance, which have traditionally appointed the directorate of the company for roads, the DNER, have already managed to exclude it from the list of those to be abolished (Folha de São Paulo, 8 August 1996).
Despite the fact that the 1988 Constitution has promoted a great decentralisation of national resources from the federal to the sub-national level, solutions have not yet been found to address the problem of the debts inherited by them. Pressures coming from the states to transfer to the federal government the responsibility for their debts, on the one hand, and the dependence of the federal government upon the governors' support – together with the federal commitment for fiscal adjustment – have promoted a game in which the only result, so far, has been the postponement and the worsening of the states' debt problem.

States and municipalities are presently accountable for 51.5 per cent of the public deficit. The public deficit stands at 31.5 per cent of GDP. Of the internal federal debt, estimated in June 1996 at R$154 billion, the main item, amounting to R$34 billion, corresponds to the payment of interest, following a policy adopted since the issue of the Real Plan, designed to restrain consumption and to maintain the stabilisation plan. The second largest item of the internal federal debt, amounting to R$29 billion, corresponds to the federal help given to the states and to the commercial banks under their control.

The relationship between the states and their commercial banks works as follows. As a result of the 1966 fiscal reform, which promoted a centralisation of revenues, the state commercial banks were granted permission to make loans to their main shareholders, that is, the states. Since then the states have been using their commercial banks as one of their main sources of income. The states did not usually pay their debts with their commercial banks and, furthermore, they would request resources the banks did not have, which in turn forced the Central Bank to cover the deficit, throwing more currency into the market, thereby pushing up inflation. The states currently owe their commercial banks over R$23 billion, R$18 billion of which corresponds to the state of São Paulo. It has been reported that the federal government is about to issue a model for the privatisation of the state commercial banks and that six states (Rio de Janeiro, São Paulo, Minas Gerais, Mato Grosso, Alagoas and Rondônia) have already reached an agreement to privatise their banks; twelve others are still negotiating the terms of the adjustment of their commercial banks, although not all of them are likely to have their banks privatised (Folha de São Paulo, 17 January 1997).

Since the Collor administration, several attempts to control the debts of the states have been made without success. The latest attempt began in August 1996, allowing the federal government to back the financial adjustment of the state commercial banks, aiming at their privatisation. Resources from privatisation would be earmarked for the payment of the state's debt with the federal government. Furthermore, revenues accruing from the states' share in the federal revenue would be taken as a guarantee for payment. The latter scheme has been

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10 The State of Rio de Janeiro has followed a unique direction for the adjustment of its commercial bank. After its intervention by the Central Bank, the state agreed to transfer it to a private bank. The bank is now ready to have its 'healthy' part privatised.
unsuccessfully tried in the past. It is estimated that the federal help to the states and their banks will cost the taxpayers R$12 billion.

Paradoxically, Brazilian states are highly capitalised when compared to other federal countries, especially those in the developing world. Furthermore, Brazil is unique in the fact that it has a value-added tax under the jurisdiction of the states. This tax, the Value-added, Communications and Transportation Tax (ICMS), is the highest tax levied in the country, registering increases in amounts levied higher than inflation rates.\(^\text{11}\)

In justifying their web of unpaid debts the governors blame the high interest rates, which became, according to one of them, Antônio Britto, from Rio Grande do Sul, an unpayable atomic bomb (\textit{Folha de São Paulo}, 18 December 1996). However, when the policy of high interest rates was not in place, the disarray in the states' finances was much the same as it is today, as shown by Souza (1996). This has meant that the indebtedness of the states is more a result of the federal government's need to build governing coalitions, preventing it from adopting tighter control over the states' debts, together with the federal policy of high interest rates. This is not a new problem. The military opened up the gates of the state commercial banks to the states as a way of counterbalancing the centralisation of revenues. Even before the military regime, Ames (1987) showed that when the presidential administrations of Vargas and Kubitschek increased spending under the aegis of the 1946 Constitution, powerful state-level politicians dominated Congress's Budget Committee and took control of the resources.

Therefore, the indebtedness of the states is more a result of debts from the past, now aggravated by the policy of high interest rates. This confirms one of the current concepts of ungovernability as defined by Fiori (1995), that is, the incapacity of the governments to regain their power of initiative because of their financial constraints, principally their inherited debt. Addressing solutions to the state debt clashes with the political strength of the governors, forcing the federal government to postpone the adoption of more definitive solutions, given that the governors are now one of the main partners in the governing coalitions at the national level.

The indebtedness of the states has been further troubled by the decrease in inflation due to the fact that the governors over the last decades have invested their revenues in the financial market. Therefore, before the Real Plan, the combination of inflation and high interest rates played a short-term positive role in the states' revenue, since they were able to invest their revenue and were freer to adopt a policy of wage compression than the federal government, because their civil services were not as strong as those at the federal level.

\(^{11}\) In 1995, the sub-national governments directly levied 34 per cent of the country's revenues, including taxes and contributions, and they retained 44 per cent of all revenue because of their participation in two federal taxes (Afonso and Lobo, 1996).
The indebtedness of two contrasting states, São Paulo and Alagoas, requires a more detailed comment, because of its implications for the federal system and for the political system itself. Both states are under the threat of undergoing federal intervention requested by their Judiciary. The State of São Paulo owed around R$60 billion in December 1996, including judicial awards worth around R$5.5 billion – hence the reason for a federal intervention. Alagoas is not fulfilling its constitutional obligation to transfer resources for the functioning of the state’s courts, which also gives grounds for a federal intervention. Because Alagoas lacks the resources to cover its payroll, the police, judges, teachers and health workers of the state have stopped working for several months during the last year, causing all public functions to come to a standstill. An important aspect in analysing the size of the debt is the relationship between the debt and the state’s net revenue. This relationship tends to be closer in smaller states, which makes the solution to the problem harder to achieve. Another relationship has to be made between the debt and the GDP. In 1993, São Paulo’s debt accounted for nine per cent of the state’s GDP, which was relatively low when compared to other Brazilian states and even to other Latin American countries.

If the debt of São Paulo is not high when compared to its net revenue or to its GDP, the federal help to well-off states promotes more imbalance to the federal system by making the country’s taxpayers, including those of less developed regions, pay for the debt of well developed states. As for small states, the problem lies not in the debt itself, but in the state’s commitment to payroll expenditure. This is also the case of Brasilia. As a result, even if the federal government finds a solution for the state’s current financial constraints, they will still have to borrow to pay their payroll.

Another aspect of the cases of São Paulo and Alagoas is the fact that situations which give grounds for federal intervention may increase the bargaining power of regional leaders. The reason for this is that the 1988 Constitution determines that no constitutional amendment can be passed if a state is under federal intervention. Because the federal government has as its main priority to change the constitution, the debts of the states are no longer only a fiscal problem, but rather a political one. The tension increases because the main reform on the agenda is currently the re-election of the heads of the Executive at the three levels of government. Re-election, however, might not be as attractive to the governors as it is to the incumbent president, because the governors probably have less chance of re-election given the financial situation of the states they govern.

While a more definitive solution for the state debt has not been found, the states have found ways to obtain some extra revenue. This was the case of an event which became a scandal, damaging the image of some governors and mayors. The states were improperly using one of the few opportunities left open by the 1988 Constitution allowing the states to issue bonds to pay for debts.

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12 In 1993 Argentina’s debt was 26.6 per cent of GDP, although it was 112 per cent before the introduction of the policy of tight fiscal control (Gazeta Mercantil, 9 October 1993).
contracted before 1988. The bonds could only be issued when the courts recognised the debt as pertinent. After the courts’ decisions, the states had to ask for the Central Bank and the Senate’s authorisation to issue the bonds. Because between 1988 and 1994 the country had high inflation, the governors had overestimated the amount to be paid and apparently used the resources for other purposes. All the cases which went for Senate approval were passed, despite negative recommendation by the Central Bank. Between 1995 and 1996 the Senate approved the issue of bonds amounting to R$2.2 billion to the states of Alagoas, Pernambuco, Rio Grande do Sul and Santa Catarina and to seven municipalities, six in São Paulo, including its capital. The Senate has constituted a Parliamentary Inquiry Commission to investigate these cases, given that there are suspicions of two types. First, the states were using the resources for purposes other than the payment of judicial awards, in particular to pay their bills with the building industry, a powerful lobby in Brazil. Second, the bonds were issued in the market by private financial institutions, with high profits, such as the one in Santa Catarina, which is estimated to have earned R$25 million.

The indebtedness of the states is so high that most of the governors are barely able to cover their payroll and have very few or no resources left for investment or for improving social services. Therefore, the constitutional amendment allowing re-election is not a good business for them, at least in the short term. Nevertheless, they have been using the government’s intention to pass the re-election amendment for more negotiations, especially in relation to their debt problem.

Despite the lack of resources available for investment, a calculation by Afonso (1994) demonstrated that, slowly, the states are replacing the federal government in some spheres, while others remain without governmental support, the federal government having backed down. This unplanned and uncoordinated transfer of responsibilities contradicts the view that the financial constraints faced by the federal government are due solely to the lack of responsibility transfer to the sub-national levels. This transfer of responsibilities, however, has not significantly changed policy results at the state level and is subject to distortions. These distortions are more likely to be explained by the fact that the decision to decentralise was taken without a social consensus on what was to be achieved, as discussed in Souza (1997). Furthermore, IGR have become highly politicised since the rules of the fiscal system, including the distribution of revenues between levels of government, are now a detailed chapter of the 1988 Constitution or they are subject to the rule of laws and/or pacts made between the heads of the Executive and Congress. The problems faced by the federal government lay more in the power gained by sub-national leaders and Congress, which tend to have a regional and local view of national issues, and in the lack of a social consensus on what has to be achieved through decentralisation, together with the impossibility of finding a definitive solution to deal with the debts of the states.
The Federal Government’s Willingness to Negotiate

The federal government has shown a willingness to negotiate, yet again, the states’ debts. It is also accepting the ‘federalisation’ of part of the states’ debts, meaning that their debts with the private banks are transferred to the federal government, although the states should pay them off at subsidised interest rates (six per cent per year) over between 15 and 30 years. If all the 27 states join the programme, the federal government might become accountable for a debt of around R$72 billion. In exchange, the states are expected to privatise state-owned companies, especially those of telecommunications and electricity, and undergo a fiscal adjustment, in particular a reduction in payroll expenditure. Negotiations are made on a case by case basis and the agreement can only be signed after its approval by the Senate and the state’s legislature to protect the federal government against future judicial challenges and changes in the political groups governing the states. As shown in Table 1, ten agreements have been made and four, those of São Paulo, Rio de Janeiro, Rio Grande do Sul and Minas Gerais, are of fiscal importance.

Table 1 – Conditions of the Re-negotiations of the States’ Debts

<table>
<thead>
<tr>
<th>State</th>
<th>Debt re-negotiated R$ million (estimated)</th>
<th>Validity of re-negotiation</th>
<th>Deadline for the net revenue to equal expenditure</th>
<th>Companies to be privatised</th>
</tr>
</thead>
<tbody>
<tr>
<td>São Paulo</td>
<td>29,307</td>
<td>30 years</td>
<td>June 2008</td>
<td>To be defined</td>
</tr>
<tr>
<td>Rio de Janeiro</td>
<td>11,600</td>
<td>30 years</td>
<td>Under negotiation</td>
<td>State commercial bank</td>
</tr>
<tr>
<td>Minas Gerais</td>
<td>9,235</td>
<td>30 years</td>
<td>Dec 2006</td>
<td>To be defined</td>
</tr>
<tr>
<td>Rio Grande do Sul</td>
<td>6,651</td>
<td>30 years</td>
<td>Dec 2008</td>
<td>To be defined</td>
</tr>
<tr>
<td>Maranhão</td>
<td>75</td>
<td>30 years</td>
<td>Dec 2016</td>
<td>Electricity</td>
</tr>
<tr>
<td>Pernambuco</td>
<td>862</td>
<td>15 years</td>
<td>Not mentioned</td>
<td>Telecommunications, Synthetic Rubber</td>
</tr>
<tr>
<td>Piauí</td>
<td>139</td>
<td>15 years</td>
<td>Dec 2003</td>
<td>Electricity</td>
</tr>
<tr>
<td>Sergipe</td>
<td>301</td>
<td>30 years</td>
<td>Dec 2004</td>
<td>Electricity</td>
</tr>
<tr>
<td>Mato Grosso do Sul</td>
<td>375</td>
<td>30 years</td>
<td>Dec 2012</td>
<td>Electricity</td>
</tr>
<tr>
<td>Pará</td>
<td>224</td>
<td>15 years</td>
<td>Already achieved</td>
<td>Electricity</td>
</tr>
</tbody>
</table>


As a short-term measure the government allowed the Caixa Econômica Federal, a federal bank, to lend resources to the states preventing them from paying the high interest rates charged by private institutions. Until August 1996, this bank, which is also facing financial problems, made loans to states and municipalities amounting to R$6 billion. A loan from the federal government and the Inter-American Development Bank (IDB) of around R$1 billion is about to be authorised by Congress aiming at the financial adjustment of those states that have already gained the Senate’s approval to renegotiate their debts under
the rules of the package issued in August 1996. The loan aims at the rationalisation of the states' fiscal machinery.

The federal government has always reacted to the states' pressures in an ambiguous way. The presidents have tried to promote the idea that the states are responsible for public sector problems, including the public deficit. On the other hand, and because of the increase in the power of the Legislature granted by the Constitution, the presidents need the state governors' support to obtain congressional approval for their policies, because of the influence the governors exert over their state's delegation in Congress. Given that the presidents always had difficulties guaranteeing a strong and stable parliamentary base, they need to maintain good relations with the governors who can influence the state representation in Congress. In a milieu of political party fragmentation and fragility and of an electoral system of open-list proportional representation, the governors as a group have become one of the main players in assuring the federal government in its capacity to govern. This picture shows that the federal government alone is not in a position to overcome the fiscal constraints of Brazil's public finance.

The Ongoing Constitutional Reforms

Since the promulgation of the 1988 Constitution, its reform is on the agenda of the business community and investors, both national and international. They regard the revision of the Constitution as the only way to 'modernise' the country and to free it from the constraints blocking its development. Indeed, the 1988 Constitution was born under the aegis of its revision given that one of its articles determined that it should be reviewed in 1993. Another point demonstrating this is the low number of votes required for a constitutional amendment: three-fifths of the members of Congress, one of the lowest in the world. However, those who advocated a total revision of the Constitution in 1993 were defeated. The causes of their defeat are manifold, one of them being Brazil's congested electoral agenda: every two years parliamentarians are involved in electoral races either for national, state or local elections.

From the viewpoint of the presidency, two presidents, Fernando Collor and Fernando Henrique Cardoso, became particularly committed to changing the Constitution. Both argued in favour of its amendment on the grounds that the state must be reformed to guarantee what they call the country's governability. Collor's proposals were first blocked by his authoritarian behaviour, which led to an unwillingness to negotiate with Congress and with regional leaders and later to his impeachment. Cardoso is still struggling with Congress, a controversial amendment allowing re-election for executive positions having

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13 This article was approved by the majority of leftist and centrist parties, showing their confidence in increasing social and democratic measures adopted by the Constitution. Only the PFL, a right-wing party, voted against the article, although today it is this party which exerts the most pressure to change the Constitution.
been added to the list of the constitutional reforms.

Since its promulgation, the Constitution has undergone 20 amendments, a relatively low number considering the high number of proposals by the Executive and parliamentarians. The most important measures were related to the divestiture of state monopolies. Two amendments affected the fiscal system. One reintroduced the Temporary Contribution on Financial Transactions (CPMF), with its resources to be earmarked for health care programmes. The second amendment created a federal fund, the FSE, Fundo Social de Emergência (Emergency Social Fund), renamed later the Fiscal Stabilisation Fund (FEF). The fund’s purpose is to ensure that the government’s fiscal position is kept under control through the retention of 20 per cent of all federal taxes, except transfers to sub-national spheres.

Three major amendments sponsored by the Federal Executive were sent to Congress in 1995 and are still under debate. These amendments are related to the federal system and to the so-called reform of the state. The reforms are to change the fiscal system, the social security system and the rights of civil servants. How far the governors are backing the contents of these reforms is not yet clear, except the proposition to abolish the right of life tenure granted by the 1988 Constitution to civil servants. Paradoxically, most of the support in favour of the latter comes from governors who belong to the Partido dos Trabalhadores (PT).

The government’s proposals have been subjected to several changes in Congress. The federal government is showing its intention to negotiate and compromise but there are certain aspects of the reforms which are unlikely to be negotiable. In the reform of civil servants’ rights, it seems that the government will struggle to eliminate their life tenure, to set a ceiling on their wages and to prohibit the payment by the Treasury of more than one wage in addition to their pension. As for the social security system, the line of resistance seems to lie in the age limit for retirement combined with the increase in the number of years to qualify for retirement. These measures are intended to reduce the rights of civil servants, who enjoy a special and more privileged retirement scheme than workers from other sectors. In the fiscal reform the goal is to rationalise the fiscal system and to reduce the cost of production.

The federal government, which was putting pressure on Congress to approve these three reforms, has changed its strategy because of i) its recent history of defeats in Congress committees; ii) the high cost of negotiations; and iii) the fact that it has shifted focus to the amendment allowing the re-election. Under pressures from the Party of the Liberal Front (PFL), investors and international financing organisations, who regard the time and the costs of the reforms in Congress as too slow and expensive, the federal government has opted to adopt measures which do not require constitutional amendments. These measures include the following. First, the government has frozen its expenditure on payroll and no monetary updating has been carried out on civil servants’ wages since January 1995. Furthermore, increases in pensions paid by the social
security system have been below inflation. Second, the government is putting pressure on the states and municipalities to privatise and to reduce their payroll expenditure. Third, it has been passing provisional measures of dubious juridical value reducing the rights of civil servants. Fourth, certain measures have been taken through ordinary or complementary legislation, which require the support of fewer parliamentarians than a constitutional amendment. Examples of such measures include: i) a programme stimulating voluntary redundancy of civil servants from the state and the federal governments (although the results at the federal level were disappointing: only 11,000 civil servants requested redundancy, one-third of the target set by the government); ii) pressure on the states to privatise their companies and to decrease their expenditure in exchange for the re-negotiation of their debts. However, the most important measure, praised by the business community, was the exemption of several export products from the ICMS, a state tax. States financially penalised by this measure are to be compensated by the federal government. The states were persuaded to accept the reduction of their main tax for the following reasons. First, because there was no law regulating the levy of the ICMS, the fiscal life of the states was constantly disturbed by judicial decisions against the states. Second, the states were convinced that a reduction in the tax would increase production, thus bringing more revenue than that accruing from the previous system.

To sum up, the increase in states’ finances gained after the 1988 Constitution have had little effect upon the states themselves because of the expansion of their payroll expenditure and the size of their inherited debt, exacerbated by the policy of high interest rates and inflation control. Despite their financial constraints, the states have increased their influence over the federal government, as well as their veto power, through their political strength and their share in the public deficit. The strength of sub-national governments does not mean, however, that Brazil has returned to the ways of the Old Republic, in which the regional interests of a few states prevailed. Between the Old Republic and post-1988 Brazil, the country has become an urban society and an industrial economy, together with improvements in the political and electoral systems, which became more democratic and competitive.

The power-sharing relationship set up since 1988 does not imply that every state or every municipality enjoys the same amount of power; instead, there are several unequal but competing power centres which have a voice in deciding on or in vetoing national policies. The existence of several power centres does not mean that the strategies used by the states in the intergovernmental relations are the same. However, the states have created several quasi-institutional, extra-constitutional and extra-parliamentary structures and processes in their intergovernmental relations. These structures and processes have assumed various forms. In their relationship with the federal government, structures and processes are developed by the states in the following ways: i) by the influence governors exert over the states’ delegation in Congress; and ii) by appointment to positions in the federal government’s governing coalition. To differing degrees the states have increased their bargaining power upon the federal government, strengthening, therefore, the federation.
Conclusions

This paper has investigated the results of decentralisation in a federal country characterised by regional inequalities. It has also shown the strategies used by the federal and the state governments to cope with their financial constraints, as well as the mutual dependence between these spheres of government. The evidence shows that, despite the fact that decentralisation strengthens the prospects of democratic consolidation by the incorporation of several power centres in the political game, there are political and economic factors which influence the outcomes of decentralisation. One of these factors is the limits of financial decentralisation in countries where regional and social inequalities are very deep. This point brings an aspect to the discussion of decentralisation generally ignored by the literature, that is to say, that decentralisation and intergovernmental relations do not occur in a political and economic vacuum, but are rather a result of a pre-existing context.

On the other hand, decentralisation forces the political system to address solutions to Brazil’s regional cleavages. Despite the fact that Brazilian federalism has experienced varying features throughout the country’s republican history, it has remained a mechanism of political negotiation able to buffer regional inequalities. After 1988 several competing power centres have had access to the national decision-making process. In a democratic system in which the political parties are weak, regional leaders have become a major source of support for the federal government.

The governors’ strength does not mean that the federal government is an absent player. The use of federal political appointments, the success in passing bills to overcome temporarily its cash-flow problems, the changes already made in sensitive aspects of the Constitution and the approval of several stabilisation plans prove this argument. At the same time, the governors’ strength has created patterns of additional intergovernmental relations, in which extra-constitutional and extra-parliamentary structures and processes are as important as ordinary ones. The existence of these structures and processes suggest that intergovernmental conflicts are entanglements across national and sub-national systems, as mentioned above. The impact of constitutional reform upon state-federal relations should be viewed within this framework, that is to say that constitutional reform per se is not likely to promote substantial change on the above mentioned pattern of intergovernmental relations.

Brazil’s experience confirms the vision that federalism as a mechanism of territorial power-sharing is a way to accommodate conflicts rather than to promote harmony. It also confirms the view that IGR are more likely to be based on conflicting interests which are in turn an expression of other political conflicts in society. From this viewpoint one should consider conflicts as inherent to federal systems and to intergovernmental relations, particularly in countries like Brazil, which have opted to make the political ‘opening’ before fiscal, economic and administrative reforms. In this sense Brazil’s experience is, to this day, unique. By opting for this path the federation is strengthened by the
incorporation of regional demands on a congested political agenda, although this path may delay a more definitive solution to Brazil's fiscal and administrative problems.
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