

The Collor Administration: Recurrent Political Crises

In the history of Brazil, the Fernando Collor de Mello administration (March 1990–December 1992) will remain a dramatic case of contradiction. On one hand, it changed the country's political agenda because it was able to implement bold and badly needed market-oriented economic reforms and fiscal adjustment. Although there had been attempts in this direction since 1987, it was during the Collor administration that the old national-developmental ideas were effectively confronted and defeated. Yet in spite of having given full support to his two economy ministers, Collor's administration was unable to control inflation, and, sadly, his government ended with actual impeachment after charges of corruption had been fully demonstrated.

The Collor administration was characterized by recurrent political crises. In its first year President Collor clearly leaned more toward confrontation than conciliation with the business community and, more broadly, with civil society. At times he was courageous, if not heroic, implementing market-oriented reforms and fighting hyperinflation with strict monetary and fiscal measures. Yet this heroism was eventually impaired by its self-sufficiency and quasi arrogance. During this period he revealed an enormous difficulty with, if not resistance to, listening to and engaging in dialogue with the society. As a result, his administration began to face a serious problem of legitimacy and loss of support from civil society.¹ With the dismissal of Zélia Cardoso de Mello—who matched Collor in bravery and arrogance—and the choice of the low-profile Marcílio Marques Moreira as minister of the economy in April 1991, Collor began a second phase of his administration, the initial objective of which was to recover the support of civil society, especially the business community. Yet in May–June 1992 the government was again immersed in a deep political crisis, this time as a result of being accused of corruption. This crisis eventually led to the president's being impeached in September 1992, with Vice President Itamar Franco replacing him in office. In this chapter I try to present a broad picture of the political ups and downs of the Collor administration.

The government began with a vote of confidence from civil society. The Collor Plan I received broad support in its first months. Its failure, which I

analyze in Chapter 13, plus the increasing corruption charges led the government to its first political crisis.

A significant change occurred in the Collor administration, beginning in April 1991 with the replacement of Zélia Cardoso by Marcílio Marques Moreira in the Finance Ministry and ending in early 1992 with a complete change in the cabinet and the appointment of some well-known and respected intellectuals to some cabinet positions. As a result, the administration, which had been immersed in a serious legitimacy crisis, partially recovered the support of civil society. This positive change was underlined by the fact that the inflation rate, which had been accelerating in 1991, stabilized at around 20 percent a month in the first semester of 1992. This was viewed as a government victory.

Yet in May 1992 a new and very serious political crisis erupted, triggered by the president's brother Pedro Collor's disclosures about corruption in the government. The weight of the accusations, which soon multiplied, fell on the president, who lost the support he had recently recovered. In September of that year Congress temporarily removed Collor from office, and in December he avoided formal impeachment by resigning a few hours before the Senate decided to remove him permanently from office.

In Brazil it is possible to be elected without the support of the business community, but it is not possible to govern without that support. This is true in any capitalist country, but it is particularly so in Brazil because a dual democracy exists: in an election a vast majority of the dispossessed chooses the president; the next day, however, only a small elite—a minute segment of civil society in relation to the mass of 80 million electors—can influence the government.

In this tiny civil society, where—in various organized and interrelated ways—the business community, the press, scientists, celebrities, labor leaders, and associations of all types play a part, the business community is the largest, most powerful, and most influential group. A president can be elected in spite of this group, as Collor was, or against this group, as would have been the case if Lula—the PT candidate—had been elected president in 1989, but no president can govern without its support.

However, precisely because this society is dual and it is theoretically possible to elect a candidate without the real support of the business community, it is very tempting, once elected, to govern without it, to continue to rely on the mass of electors for support. President Collor basically succumbed to this temptation during the first year of his administration. It was this fact, more than the failure of his anti-inflation policy and the recession, that plunged his administration into a deep political crisis, actually a legitimacy crisis (that is, a loss of the support of civil society) similar to those that had plagued the last three years of the Figueiredo administration and the last two years of the Sarney administration. The difference is that these other

legitimacy crises took place when the respective administrations lost the support of civil society in spite of their efforts to prevent this, whereas the Collor administration had given the opposite impression. Seemingly ignoring the fact that popularity comes from the electors but that legitimacy, in the political and juridical sense of the term, originates in civil society and especially in the business community, the Collor administration almost deliberately attempted to govern without civil society. By doing this, it engaged in a dangerous and exhausting conflict that eventually, when the charges of corruption that involved him directly were pressed, led to impeachment proceedings against Collor at the end of 1992.

Although the participants in civil society—especially the business community—always complain about their lack of power, they in fact have enormous power. When for some reason they are not invited to participate in a government, they respond with words and acts. Words wield enormous power and an ideological hegemony in the social arena because, as a group, society is in the best position to form public opinion. Acts, in turn, constitute the daily decisions on prices and investments.

Capitalist societies are democratic in part because democratic values are a part of their ideological foundations, as are liberal and individualistic values, and in part because the democratic regime is the only one compatible with the effective participation of civil society in politics. Although the business community, intellectuals, and civil society in general represent a minority in society, they constitute a large mass of people who demand political participation.

It is clear that any ruler who hopes to be a statesperson cannot simply bow to society. Such a ruler would not govern. The relationship of rulers with the powerful, both at home and abroad, is always conflictive. The polar alternatives are always submission or confrontation. A middle ground between these two extremes must be found—not one of mediocrity but a strategic one in which advance and retreat, the affirmation of one's convictions, and the ability to compromise amalgamate in many ways.

Self-sufficient, almost arrogant in its first phase between March 1990 and April 1991, the Collor administration listened little and talked even less with society. The choice of Marcílio Marques Moreira as minister of the economy represented an attempt at change. The new minister was a conciliator who had a respected team of economists and bureaucrats. He seemed a good match for the younger, more aggressive president. With Zélia's departure, the heroic phase of the Collor administration ended; with the entrance of Marcílio, the accommodative phase began. During the heroic phase the administration lost its political legitimacy through its confrontations with society and its foreign creditors. As a trade-off, it initiated bold structural reforms—trade liberalization and privatization—that are fundamental for overcoming the crisis of the state. In the accommodative phase, reforms were continued, but no effective stabilization plan was adopted.²

In the second half of 1991, to deal with the legitimacy crisis and the deep friction between President Collor and civil society, Brazil's political parties initiated a debate on a possible "national understanding"—that is, a political agreement. Its goal, as the president saw it, was to obtain support for his proposed amendments to the Constitution. In fact, the goal of this national understanding could only be to reestablish confidence in the administration. This was well understood by Senator Fernando Henrique Cardoso, when, in a speech in the Senate, he formally proposed the political agreement.³ Brazil was undergoing a very serious political crisis, a classical crisis of loss of legitimacy by the administration. A national understanding would make sense only if it resulted in renewed confidence in the administration, thus making it able to govern once more.

The Collor administration concentrated on a set of constitutional amendments, which were known as the *emendação*, or big amendment. Reform of the Constitution was indeed necessary. The 1988 Constitution was the last manifestation of the national-developmental ideas that dominated the political coalition that led the transition to democracy in Brazil between the mid-1970s and 1984. Although the outcome was a democratic compromise between the supporters of a state-led strategy on the right and the left, and the liberals, mostly on the right, the text was marked by some degree of nationalism and statism. Additionally, it decentralized fiscal revenue to states and municipalities without transferring responsibilities. It made public administration extremely rigid, particularly the management of universities and hospitals, which lost autonomy and were treated as government departments. It assured social rights, particularly retirement rights, that were incompatible with a balanced budget.

The Collor administration recognized this fact. The 1988 Constitution had become an obstacle to overcoming the fiscal crisis of the state. However, the basic cause of the political crisis plaguing Brazil at that time was not to be found in the Constitution. Its background was in the political vacuum that had formed in the country since the 1987 collapse of the populist democratic pact that produced the transition to democracy.⁴ Its most general cause was the economic crisis—centered on the high and persistent rate of inflation and on the crisis of the state—I examined in the first part of this book. Its immediate causes were, on one hand, the failure of the Collor administration's stabilization strategy and, on the other, the wave of corruption charges involving almost the entire federal administration.

A political agreement such as the one proposed could only be based on a revamping of the administration, making it free from corruption and able to deal with the fiscal crisis, to stabilize prices, and to resume development. In its new form, the president would preserve his powers while sharing them with the sectors of society that had taken part in the political agreement.

This seemed to be understood by President Collor, who in early 1992 effected a sweeping change in his cabinet. The quasi arrogance of the first

year of his administration was replaced with a more humble and negotiating attitude. His belief that all decisions should be based on his own judgment and courage was replaced by a greater willingness to listen to others. The idea that he could govern supported only by the small team that had helped elect him was replaced by a much greater willingness to include capable politicians in his cabinet. Clearly corrupt or incompetent members of what was usually called his intimate circle were removed. The president started to appeal insistently to national agreement while reaffirming his belief in a "social-liberal" course for Brazil.⁵

It could be said that the president decided to change because he had no choice. The fact is, he showed that he was able to learn and change. It could also be said that the negotiations were limited to Congress. They had not yet been extended to the rest of society, especially to business and labor leaders, but it would not have been difficult to have taken this step.

Collor's call for a new understanding, expressed in a series of newspaper articles, was in general poorly received. The failure of his radical attempts to control inflation was vivid in the minds of the people. Intellectuals and the left were mistrustful.

Collor had adopted a bold program of economic reforms led by trade liberalization and privatization. In the opinion of most left-wing intellectuals, these reforms identified the Collor administration with the neoliberal right. This was a mistaken view. Neoliberalism is the ideology of the new right. It is a neoconservative view of society that is radically opposed to the state's intervening in the economy. Neoliberalism is the old economic liberalism updated by the neoclassical views of the Austrian school (Haiku), by the monetarist and the new neoclassical microeconomics (Friedman and Lucas, respectively), and by the politico-economic critique of the state carried out by the rational choice school (Buchanan and Olson). Neoliberalism is what Margaret Thatcher tried unsuccessfully to implement in Britain for eleven years. Neoliberalism is what the Reagan administration preached rather than practiced. Because neoliberalism is a utopian view of society in which the state is minimal, deprived of any economic and social role, the U.S. neoliberal experience was wrapped up in a curious mixture of conservative and populist policies that led the economy to fiscal crisis and seriously aggravated the country's social problems.⁶

Neoliberalism is deeply pessimistic and individualistic about the possibilities of social cooperation and collective action. Its objective is the minimal state. Industrial and technological policies make no sense, and even short-range macroeconomic policies are fallacious. The market is perfectly self-adjustable in accordance with the expectations of economic agents. Moreover, the real neoliberal condemns social policy itself because it inhibits work and individual initiative. As Albert Hirschman (1991) demonstrated, this new right is founded on the "perverse effect principle," already

present in Edmund Burke's social philosophy. This principle holds that the attempt to improve the distribution of income and reach greater social equality is perverse to the extent that its real effects are the opposite of its objectives. It does not matter that the history of the European social democracies refutes this proposition. The perverse effect principle is a powerful ideological argument against more-effective social and economic state action. Additionally, it is the standard explanation for all of the failures of such actions.

According to this concept of neoliberalism, Collor was clearly not a neoliberal; nor are most of the Latin American politicians who have adopted market-oriented reforms since the late 1980s.⁷ The industrial and technological policy his administration attempted to execute was not neoliberal by definition. Trying to assign a key role to the market in the coordination of the economy is not neoliberalism; it is pure common sense if the state has grown too much. When the state faces a pressing fiscal crisis, fiscal discipline and privatization of state-owned enterprises are obvious outcomes. Through privatization the state can obtain the resources it needs to reduce its debt instead of investing further in productive activities the private sector can perform more efficiently. Of course, foreign trade should have been liberalized long ago, when the strategy of import substitution became exhausted in the early 1960s. Collor was called a neoliberal because of a much too broad interpretation of the term, which the left in Latin America insists on using.

In Brazil several forms of liberalism are found within the business class, but neoliberalism as such has not been adopted by any relevant sector of society. To be conservative in Brazil does not mean to be against state intervention except for rhetorical purposes. The authoritarian capitalist-bureaucratic coalition that ruled the country between 1964 and 1984 was both conservative and interventionist. In the late 1980s neoliberal rhetoric entered the discourse of Brazilian conservative politicians and businesspeople, but a corresponding political practice did not emerge. Even among the intellectuals it is hard to find true representatives of this perspective.

Criticism of the gap between Collor's words and his deeds was constant during his administration. On February 2, 1992, the president tried to respond to his critics in an article in the *Folha de S. Paulo*, followed by several others. His speeches and interviews showed a modern, democratic, socially oriented thinking. They contained conservative elements but could not possibly be confused with a neoliberal view. Collor's ideological inspiration was José Guilherme Merquior, who was definitely not a neoliberal but was instead a distinguished intellectual very close to—although a little to the right of—social democracy.

Collor's articles and speeches were aimed at national development. The business community, operating freely in the market, would be the main agent of this development, and competition would be a fundamental factor

in an efficient allocation of resources. The market, however, is not the nearly perfect mechanism for economic coordination the neoliberal economic models claim it to be. Thus, the flaws of the market, according to Collor, should be compensated for by state action, not only in the social and environmental area—the distributive realm—but also in the productive realm: technological development and industrial-agricultural policies.

While occupying the presidency, Collor did not hold back from fighting inflation. In this area his administration was very different from the previous one. The Collor administration was not populist. The president was willing to face any political difficulty. He accepted unpopularity without hesitation if the objective was to stabilize the economy. In the almost three years he governed Brazil he gave full support to his ministers of the economy, both Zélia and Marcílio. A fiscal adjustment was in fact carried out, although incompletely. Continual Treasury surpluses were an objective fact. The reduction of both the public deficit and the internal public debt was undeniable. If inflation was not controlled, it was not for lack of strength and determination on the part of the president but rather was the result of the inefficiency of the stabilization programs, which were unable to address the particular character of inertial inflation.

If Collor's words were positive, his deeds—such as the selection of corrupt ministers and advisers in the first phase of his administration or the indiscriminating attacks on business and media critics or the inability to listen—contradicted them. The change in his cabinet in 1992 opened new perspectives for his administration. A moderate increase in its popularity in the polls indicated this.⁸ Yet the political scandal that erupted in May 1992, involving the president in serious accusations of corruption, led immediately to a loss of popularity. A poll conducted in June of that year indicated this decline: 65 percent of respondents viewed the Collor administration as bad or very bad; 65 percent believed Collor was involved in corruption; and 32 percent believed he should renounce the presidency (*Folha de S. Paulo*, June 25, 1992). In September, when the impeachment vote was taken in the House of Representatives, the vote was almost unanimous (only 61 of the 505 representatives voted in Collor's favor or were absent). At that time opinion polls showed that around 90 percent of the population viewed the Collor administration as bad or very bad.

According to Philippe Faucher's observation at a conference in São Paulo in April 1992, "the current Brazilian economic policy is at the same time the only possible and the worst alternative."⁹ It was the only one possible because society had shown itself to be unable to visualize another. It was the worst because it was destroying Brazil's productive capacity—the average real interest rate in 1992 was 30 percent—without controlling inflation.

The economic crisis Brazil faces is defined by stagnation and high infla-

tion rates; the political crisis is delineated by the lack of a political coalition that could define national goals and give political backing to the administration. The result of this kind of crisis is to immobilize the government and society itself.

In a situation such as this it is understandable that Marcílio's economic policy during the second phase of the Collor administration was "the only one possible." It was the only one possible because it was a nonpolicy, a "nothing plan," as André Lara Resende suggested. The conventional stabilization plan resulted from the failure of the previous price freezes and from the fear of new real attempts to stabilize the index-linked or inertial high inflation. It was a nonpolicy because it defined itself as *laissez-aller*, because it hoped that all problems would be solved automatically by the market, and because it recognized the government's impotence to define and implement any program.

Actually, as we will see in Chapter 11, when there is no broader political coalition, no national goal has been defined, and the only possible policy is that of *laissez-aller*, the general solution is to transfer the costs to the state—which is seen as something distinct from society. Each group, economic sector, and region of the country discovers that the general solution is a very special one: it is to exact the costs from the state, to make it pay a bill it is unable to pay and thus perpetuate inflation and put off the necessary structural reforms. This perverse situation will last until it becomes possible to define a new political and social pact that makes feasible a concerted action by the administration and society against inflation and for structural reforms.

Given the failure to stabilize the economy, an alternative is to wait for chaos to arrive, for open rather than indexed hyperinflation. In Argentina it was the economic chaos associated with hyperinflation and the liberal shock that made the alteration of economic policy possible. The country's economy was exhausted; Argentines were exhausted. In late 1992 Brazil had not yet reached that level of fatigue. The Brazilian economy is much more powerful, diversified, and resistant than the Argentine economy. But it had hit what we could call "the rational bottom of the well."

The rational bottom of the well is the point at which it is no longer even minimally rational to continue to try to muddle through the crisis. The bottom is not economic and social chaos. It is not radical impoverishment. Brazil does not need to become a Bangladesh, just as the United States—which is also facing grave macroeconomic maladjustment problems—does not need to become a Brazil before it starts to reform and to adjust. Long before this, the peoples of Brazil and the United States will understand that adjustment can no longer be postponed and that the net costs of adjustment (costs of adjustment minus costs of adjusting and reforming) have turned

negative. Even for people with a very short time preference, adjustment will be less costly than its postponement.¹⁰

Literally, the bottom of the well is the bottom of the crisis, but what is the bottom of the crisis? The point at which it is no longer possible to go deeper into crisis? There is no limit except a rational limit. There is a time when the transitional costs of adjusting the economy and implementing reforms become equal to or less than the cost of not adjusting, of trying to muddle through the crisis. Even if people have an absolute preference for present consumption, even if the citizens of a given country adopt a very high discount rate over future consumption, it is more rewarding to make the adjustment immediately, and it is irrational to postpone it. When this moment arrives, the rational bottom of the well has been reached.

Economic adjustment and reforms can be anticipated and decided upon when the rational bottom of the well has been reached, or they can be decided upon only after that point. Brazil probably reached this point around 1990, when reforms began to be undertaken seriously. Yet fiscal adjustment remained insufficient. Argentina reached the bottom of the well before 1990–1991, but only at that time were adjustment and reforms effectively undertaken. Chile and Mexico were the first countries to undertake adjustment and structural reforms, but Mexico was unable to complete them. Chile anticipated the transitional costs. As a trade-off, it emerged from the crisis sooner. Argentina lies at the other extreme. It decided to carry out adjustment and reforms only when the costs of adjusting became much smaller than the costs of not adjusting. The Argentines clearly took a long time to perceive this, which is why their adjustments were made so late. Since 1990 Brazil has probably been at the point where the two cost curves are crossing. After this point in time, it no longer made sense not to undertake reforms, even for the shortsighted. Yet in this situation minority groups that are still profiting from the crisis may oppose the reforms and the adjustment needed, and this strategy may work because the country has not yet been plunged into complete chaos.

In 1994, when stabilization was finally achieved, it was clear that the Brazilian economy could no longer grow—even minimally—without adjusting and stabilizing. The short-term costs involved in continuing to adopt populist policies were greater than the benefits. Some indicators were pointing in that direction. Since 1990 the country had been almost permanently in recession. Recoveries were short-lived. Populist episodes such as Antônio Delfim's first stabilization plan in 1979–1980 or the Cruzado Plan in 1986, which brought a piece of paradise for a few months, could no longer occur. The recovery from recession was short-lived and very weak. It was no longer possible to expand income based on an increase in consumption, as had happened on other occasions, because the economic agents—investors and consumers—knew that inflation remained uncontrolled and that the

administration would have no other choice but to try a new stabilization plan.

Brazil had, therefore, hit the rational bottom of the well. The Collor administration's bold attempts to stabilize demonstrated this fact. They did not fail for lack of political support; they failed because the stabilization plans were incompetent or inefficient (see Chapters 13 and 14). Stabilization became possible only in 1994 during the Itamar Franco administration, when Fernando Henrique Cardoso was able to select a competent team of economists who had helped to develop the theory of inertial inflation (see Chapter 15).