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The Role of Congress in Liberalizing the Brazilian Economy

The Collor and Real Plan

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1.0 Introduction

The Republican form of Government established in the Constitutions of Brazil since 1891 ordains the separation of powers and the control and mutual supervision between its institutions. It has to do with a characteristic common to Republican regimes; particularly those inspired from the U.S. model, as is the case of Brazil. Therefore, the system of Checks and Balances adopted by the Founding Fathers was incorporated, as a matter of principle, into the Brazilian political model. That system requires, among other things, Congress approval for legislative proposals made by the executive. As it was the case of the last two economic stabilization plans under presidents Fernando Collor and Itamar Franco, respectively.

For us to reach the Brazilian institutional and legislative mechanisms, it is necessary to make some considerations about the origins of the state and government in Brazil as well as the sources, exercise and nature of governmental powers.

This paper shall be focusing on the aspects related to the role played by the Brazilian Congress in economics, mainly regarding to the liberalization of the Brazilian economy, paying attention specifically to the process launched by the Collor Plan (1990) and Real Plan (1994).

Both plans have changed dramatically the society in relation to the state - centralist, and most of the time, authoritarian - that permeated, during decades, the political, economic and administrative life of Brazil. Congress's participation in the approval of the privatization program shall also be covered. It also gives a historic perspective of the state and the government in Brazil, its economic development phases and an overview of the economic functions of the Congress over time.

The final goal is to demonstrate the hypothesis that the Congress is dedicated to fulfilling its mission as an authentic forum for discussion of the major national problems. If this is true, the following step should be to demonstrate how political negotiations involving legislative political leaders and executive officers affected the content of major bills submitted to Congress deliberation, and also in what extent those modifications introduced by Congress alters a given law. Another important issue to be pointed out is the fact that those reforms are being

implemented under democratic rule. Because of that, it has been required substantial negotiation between the government and the political and economic elite.

2.0 The Brazilian State and Government - Historical Perspective

The initial configuration of the state in Brazil was the colonial one, dependent on the political power of the Crown that reigned until the middle of the 17th century. Indeed, the colonization of Brazil was characterized as being a conglomerate of independent units linked together by the common dominion exercised by the metropolis. From the second half of the 17th century, therefore, the clarity of conflicts between national and Portuguese interests was formed due to the economic development of the colony. The iron circle of Portuguese oppression came closing down progressively because of the economic and political decline of Portugal in the world. This situation that lasted for many years came to constitute a decisive factor to the independence of Brazil.

The conflict of interest, however, did not provoke armed struggles against Portugal for the emancipation of Brazil, as occurred in other Latin American countries. Brazil, on the contrary, perhaps, was the only country in the continent to gain its independence peacefully.

The decisive event that brought about this event was the transfer of the Portuguese Court to Brazil in 1808. The coming of D. João VI to Brazil had as its motivating factor, mainly, the belligerence between France and England to whom Portugal was allied.

The period between the arrival of the Royal Family in 1808 until the upgrading of Brazil to the United Kingdom of Portugal and Algarves, in 1815, were decisive years to the political, economic and administrative formation of Brazil. Various measures taken by D. João VI marked decisively these years of formation. By placing in Brazil the seat of the monarchy the Regent determined, practically, the end of the colonial regime to which the country was submitted. The structures of the colonial administration were successfully abolished, having been replaced by others typical of a sovereign nation. The interest of the nation, for example, was widely benefited from the establishment of the political, economic and administrative apparatus that were not of a mere colony, when Portugal - occupied by the French and English - did not have not the conditions to act as a metropolis. [Skidmore, 1998]

With regards to the Brazilian government, it is necessary to characterize three distinct phases of its evolution. The first occurs soon after the Proclamation of the Republic (1889) when the country set its first Constitution (1891).

Brazil, from the close of the 19th century to the end of the second decade of the 20th century, was already predominantly rural and oligarchic.

Modern Brazil begins with the 1930 Revolution led by Getúlio Vargas.

During this period the classical pattern of administration, derived basically from the Weberian model, was implemented. The Vargas years (1930 to 1945), incorporated to the government apparatus the necessity for change and modernity, ideals of the Revolution that brought him to power.

Within the first fifteen years that Vargas ruled Brazil, it is convenient to stick, more specifically, to the period between 1937 to 1945 - known as the *New State*. It was during this period of dictatorship in which political parties were abolished, the Congress closed, interventors nominated in the states and rigorous censorship of the press established, that Vargas seized the opportunity to introduce substantial changes in the public administration and, particularly, institutionalize the centralization of power in the federal government, making the state and the figure of the president, practically, unique and omnipresent in the Brazilian political and economic life.

It can be said that during the *New State*, Vargas, in a certain sense abolished the Federation, ruling Brazil as if it were a *Unitary State* and not a *Federal one*.

From an economic point of view, *the nationalization and rising intervention of the state in the economic realm characterized the Vargas Era*. Besides, notable as the important consequences of Vargas's administration are: the establishment of new government standards, that is, the centralization of powers by the federal government in the political, economic and administrative sphere - in detriment to the relative autonomy the local states had during the period before 1930; the expansion of the government machinery with the creation of new ministries (Ministry of Labor, Ministry of Industry and Commerce, Ministry of Education and Health and other organisms); emphasis on the nationalization and intervention of the state in the economy; growth of the federal bureaucracy and finally the institutionalization of political, economic and administrative centralism that was in effect during decades, although with alternating periods of major decentralization. [Skidmore, 1996]

What can be called as an *Autarchic State* (Patrimonial), was then institutionalized in detriment to the *Liberal State*, whose ideology was strongly revived in Brazil on the nineties as a consequence of the extraordinary changes that occurred in the political-economic scenario of the world since 1989, with the fall of the Berlin Wall and the extinction of the Soviet Union.

The period immediately after that Vargas era, was characterized from the political point of view by re-democratization, as a consequence of the victory of the allied forces at World War II and, in the economic aspect, by the development impulse of the Kubitschek years (1955 to 1960), although at a very high inflationary cost and also at the expense of a rising public sector deficit.

The third period begins with the 1964 Regime and lasts up to 1985. Over twenty-one years, successive military presidents ruled Brazil motivated basically by a two-fold ideology - security and development. Modernization, development, economic and political stability were features of the regime, although with an unavoidable political and social costs.

During Figueiredo's period - last of the military regime - transition to fully competitive civilian politics was far from assured as the 1984 elections had demonstrated, however economics problems persisted as the fiscal and external debt crisis of 1982 had demonstrated. At the economic front the battle for economic stability and lower inflation was not over.

Figueiredo's successor, indirectly elected Tancredo Neves, an old conservative politician from the state of Minas Gerais died before his inauguration. Consequently Vice-President Jose Sarney became acting president.

A new political regime was inaugurated, but the same old economics problems continued to create development constraints to Brazil's economic development.

The so-called "New Republic", presided over by Jose Sarney, followed the end of the military regime (1985 – 1989). This fourth phase also inaugurated a new economic stage in which heterodox stabilization plans were introduced as a new medicine to end the recurrent economic disease: high inflation.

The Sarney's administration had to deal with serious political and economic problems at the same time. On the political front his condition as a former member of the Revolution's political party (PDS) were by no means easily accepted by opposition leaders from the PMDB, now in power. Moreover, the political economic and social turmoil caused by the process of writing the new Constitution was a cause of permanent political destabilization in itself, specially for a recently inaugurated civilian regime. On the economic side, inflation, public deficit and the country's external debt were also permanent factors for enhancing political mini-crisis.

The main economic problem during Sarney's administration was high inflation. When inflation rate rose to 25% a month, Sarney adopted a heterodox shock designed by young economists brought together by finance minister Dilson Funaro. The Cruzado Plan was announced with great fanfare on February 28. It combined, as its head features, replacing an old unit of currency for the new *crusero* at a rate of one to 1,000; a one-year freeze on mortgages and rent; an indefinite price freeze; and a new wage system.

In the short run this program appeared to be a success. Monthly inflation rates stayed under 2% until October, and savings were funneled into productive investment rather than the merry-go-round of financial speculations

that had been rampant in recent years. Substantial increases in real income and rising employment led, however, to a consumption boom that often went beyond the bounds of reason. (Schnider, 1996] Sarney's administration inaugurated the heterodox economics implemented by law decree of the Cruzado Plan, without previous negotiation with Congress.

Table 1: Political and Economic Characteristics of Brazil - 1930 to 1998

Period	Administration	Main Characteristic
1930 – 1945	Getulio Vargas	State Intervention in the Economy, Industrialization and Public Sector Modernization
1946 – 1950	Gaspar Dutra	Economic Liberalization
1950 – 1954	Getulio Vargas	Nationalism and Populism
1955 – 1960	Juscelino Kubitschek	Developmentism, Inflation
1960 – 1964	Janio Quadros, Joao Goulart	Right and Left populism Inflation and Political Instability
1964 – 1985	Castelo Branco, Costa e Silva, Medici, Geisel e Figueiredo	Nationalism, National Security and Development Ideology, Modernization, Fiscal and Debt Crisis
1985 – 1989	Jose Sarney	New Republic, New Constitution, Statism and Economic Nationalism, High Inflation, Cruzado Plano
1990 – 1992	Fernando Collor	Economic Reforms, Public Sector Reform, Impeachment, Privatization
1992 – 1994	Itamar Franco	Real Plan
1995 – 1998	Fernando Henrique Cardoso	Economic Stabilization, Structural Reforms (in progress)

2.1 The role of Congress in the economic field

Brazil is a federative and democratic republic, made up of the executive, the legislative and the judicial powers. The federal legislative power is composed of two houses: The Chamber of Deputies and the Federal Senate. They make up the National Congress. Both houses date back to the days of the Brazilian Empire, when they were established by the first Brazilian Constitution granted by Emperor Pedro I, in 1824.

While the members of the Chamber of Deputies represent the people of the states, and therefore the number of Deputies for each state is roughly proportional to the population of that state, the Senators are representatives of the federated states themselves (and of the Federal District), so there is an equal number of Senators (three) for each state (and for the Federal District). Thus, the Federal Senate has 81 members and the Chamber of Deputies

has 513 members. The term of office of the Senators is 8 years, and every four years there is an election for the Senate, for one or for two Senators per state, alternately. The Deputies have a four-year term of office.

According to Scott Maiwaring Brazil is a case of symmetrical bicameralism in which the Senate possesses significant powers. As a law-making body, the Senate stands on approximately equal grounds with the lower chamber. (...) Both must approve constitutional amendments by the same (60 percent) supermajority. The Senate also has broad powers of appointment and approval of appointments (Article 52). It must approve nominations for ministers of the Federal Accounting Court, presidents and directors of the Central Bank, the attorney general, and many other important positions. It must authorize external financial operations, establish the limit of total internal and external debt, and determine the limits and conditions of internal and external debt of the federal and subnational governments. (Mainwaring, 1999)

Both Houses have the same competence regarding the making of laws: one operates as a revision chamber for the other.

If the bill of law has originated in the Chamber of Deputies, for example, the Senate must pass it and vice-versa. If the bill of one House is passed by the other House, but with some changes, it goes back to the House where it has originated for new consideration and new voting.

Only after both the Chamber of Deputies and the Federal Senate pass it, the bill of law is presented to the President of the Republic. The President may approve the bill in whole or in part and transform it into law. But he can also veto it. It is possible to override a whole or partial presidential veto to a bill, but only with the favorable vote of the absolute majority of the members of both Houses in a joint session (then acting as the National Congress), that is, with the concurrence of half plus one of the Deputies and Senators.

Before they are considered and voted on by the plenary session, one or more Parliamentary Committees must examine all bills of law.

The Constitutions of 1988 established: "The National Congress and both Houses shall have permanent and temporary committees, established in the manner and with the incumbencies set forth in the respective regulations or in the act from which their creation resulted." [Art. 58, Constitution, 1988]

There are Permanent, Temporary, Special and Inquiry Committees, in each House as well as Joint Committees (in which Senators and Deputies work together).

The Constitution reserves to the Congress an exclusive role in several issues.

Economic responsibilities of the Senate, for example, go back to the Senate's creation itself.

Viscount of Caravels, with his experience of main editor of the 1824 Constitution repeats that " we are in a mixed government, the Senate is who serves as balance of the powers ". They were exclusive attributions of the Senate for the article 48 of the Constitution of the Empire such as the judgement of the individual crimes of the Imperial family, of ministers and counselors of state and of the own Senators, (...) the control of the destined financial endowments of the Imperial Family, besides the attribution of setting the general budget of the country, and of making laws, interpreting them as well revoking them.

Historically we can identify the participation of the Senate in the abdication of Dom Pedro I, in the Regency, and also in the Second Empire, in the war with Paraguay, and successively in every moment of the Brazilian political history.

From the economical point of view the Senate was at the center of the government's economic responsibilities from the very beginning of its existence. Since the independence of Brazil, the Legislative has exclusive competence in the elaboration of the budget. [Chacon, 1997].

During the Monarchy, the Constitution of 1824 established that the responsibility to fasten the expenses annually and to distribute the direct contribution fell to the legislative power, just leaving to the executive to organize its own proposal through the Treasury department.

The Constitutions of the Republic maintained distinct economic functions for the Congress and the Senate. In spite of regime changes and, consequently, power changes between the executive and the legislative branch of government, as it happened over the military regime and over re-democratization. A good example of that is the case of the attributions of the Mixed Committee for Budget Affairs:

Table 2: The Constitutions of Brazil and the Congress: Joint Commissions for Budget: Competency Alterations

Constitutions / Prerogatives	1946	1967	1988
Vote the Fiscal Budget	Yes	Yes	Yes
Open new credits	Yes	No	Yes*
Fix benefits for civil servants	Yes	No	No
Concede subventions apart from established ones	Yes	No	No
Create new expenditures or increase proposed ones	Yes	No	Yes*
Transfer resources from one fund to another	Yes	No	Yes
Concede unlimited credits	No	No	No
Partially reject the bill or amend it	Yes	No	Yes
Totally reject the bill	Yes	Yes	Yes
Deliberate on the opening of supplementary credits	Yes	No	Yes**
Vote the Pluri-Annual plan	No	No	Yes
Vote the Social Security Budget	No	No	Yes
Vote the budget of state-owned companies	No***	No	Yes

(*) If the origin of the necessary resources is indicated

(**) Under the conditions established in the Constitution (Article 172, Paragraph 8th)

(***) New prerogative

Source Tubaki, 1989

Table 3: The Seven Constitutions of Brazil
Brazilian Constitutions reflect over time the political momentum

Period	Phases and Main Characteristic	Duration
1824 to 1890	Empire, most durable	67 years
1891 to 1933	First Republican	43 years

1934 to 1936	Least Lasting	03 years
1937 to 1945	"New State"	09 years
1946 to 1966	Liberal	23 years
1967 to 1987	Military Regime	27 years
1988 on	"New Republic", economic, nationalism, progressive in social issues, "pro-state"*	

*After successive modifications introduced from 1995 on, the Constitution of 1988 had lost its "pro-state" characteristic.

The Constitution of 1988 brought a new political tool to be used by the president of the Republic, intended to substitute the law-decree that existed in the Constitution of 1967.

That Provisional Measure was a sort of democratic version of the law-decree. Presidents Collor, Franco and Cardoso used that instrument to implement radical policy changes pursuing economic and state reforms.

Historically the use of decree powers is a constant way to express presidential power.

Table 4: The use of presidential decree power in modern Brazil

Government	N° of DL or MPs	Legislature In session?	Average/ month
Vargas era			
Estado Novo, 1937-45	8.154	No	85
Provisional Government	810	No	270
Military Republic			
Castello Branco, 1964-67	318	Yes	9
	486	Partially	17
Costa e Silva, 1967-69	265	No	133
Military Junt, 1969	253	Yes	4
Médici, 1969-74	357	Yes	6
Geisel, 1974-79	593	Yes	8
Figueiredo, 1979-85			
New Republic			
Sarney, 1985-88	209	Yes	5
(Constitution of 1967, DL)	147	Yes	9

Sarney, 1988-90 (Constitution of 1988, MP)*	160	Yes	6
Collor, 1990-2	505	Yes	19
Franco, 1992-94*	702	Yes	36
Cardoso, 1995-96*			

Source: Timothy Power. *The Pen is Mightier than the Congress in Executive Decree Authority*, 1998, Mathews Shugart and Jonh Carry, 1998.

The legislative has mixed visions to such decree power, frequently exercised by presidents of the republic in Brazil. However, very rarely rejected those pieces of legislation. According to Timothy Power, "the *medida provisória* ensures the continuity of a long Brazilian political tradition: The executive acts and the legislative reacts."

3.0 State, Market and Economic Development

It has not been easy in Brazil, to accommodate the government, politicians and society, in order to play in the same direction to change the Brazilian economic history.

Neo-liberal economic policy prescriptions, which have become very much part of the mainstream since 1980's, have therefore focused on the following: (1) The state should provide for prudent macroeconomic management (reducing budget deficits, keeping inflation low, etc.), basic infrastructure, and a legal framework within private property is safeguarded and the market can do its work; (2) the market should, in general, be left to function unhindered (no direction, no subsidies, no protection); (3) private enterprise should be the engine of economic life and growth; (4) foreign trade should be liberalized and exports fostered. It will be noted later, however, that the mainstream has in the 1990's gradually been absorbing some additional elements as well.

The state continued to be a crucial player in promoting development. In fact, his role in the economic sphere was enhanced over time by the creation of several state companies and establishing state monopolies in many sectors.

Aside there was another major event. Brazilians elected a new Congress that would also function as Constituent Assembly, to right a new constitution. [Schnider, 1996]

After one year of congressional debate the Constitution of the New Republic was promulgated.

Sarney's administration ended in high inflation, political decay and society's despise toward an entire generation of old politicians. Those circumstances gave the opportunity to the birth of a new style of leadership.

After a very aggressive campaign Fernando Collor de Melo won the first direct election in thirty years. He promised a new political and economic order to Brazil and a vigorous program of structural reforms. His first decision was the implantation of a market-oriented liberalism tempered by moderate social democrat precepts: This was the main stream of Collor's basic project.

The sharpest contrast was Collor's determination to push ahead with privatization of state-owned enterprises to which Sarney had paid lip service and to attack inflation at its roots.

Collor took power with a radical and vigorous economic plan to be implemented by Provisional Measure 155 of March 15, 1990, in order to fight Sarney administration's legacy of economic disorder: Inflation of over 70% per

month, plummeting exports, an overvalued currency, unsustainable budget deficits, lack of investment and an inefficient bureaucracy all called for urgent corrective measures.

This plan was apparently bolder than earlier efforts. All but modest bank deposits were frozen, as were wages and prices, and economic activity immediately reacted adversely. But evasions of restrictions soon occurred, additional reforms did not take place, the price restrictions were released, and inflation was back – this time at a much higher annual rate, supported by an expanding monetary supply. Collor II was a feeble effort by the same team to regain control of the inflationary process; its major effort was to recognize that if a tight fiscal policy were to be sustained, prices of public goods that had been held constant would have to be raised.

As result of Collor's impeachment in September of 1992, Itamar Franco, another vice president, formally assumed the presidency. After having four finance ministers in the period of 8 months, Itamar finally appointed Fernando Henrique Cardoso in June 1993. The Real Plan was the eventual consequence, coming into formal effect on July 1, 1994, although some of the steps had been gradually introduced since the beginning of Cardoso's tenure. [Fishlow, 1997]

As nearly five years have passed, the Real Plan stands clearly as Brazil's most successful effort at stabilization. The critical question now is its permanence, which depends fundamentally on the credibility of governmental fiscal policy.

Did Congress help the Government to implement the reforms launched by the two recent economic plans? The answer is yes. But before explaining how, let's go back to the 1988 Constitution.

4.0 The Congress, The New Economic Plan and the Old Constitution of 1988

The 1988 Constitution is a very lengthy statute comprising no less than 245 articles and a 70 - article Transitory Provision Act that is attached to it, defining the transition rules from the old to the new constitutional order. The Constitution's official publication is 189 pages long. Many problems of style and substance have been raised in criticism of the Brazilian Constitution, including the fact that the text is far too detailed to have any hopes of surviving the changes of historical conditions for very long. The Constitution itself states that in the fifth year its text would be revised by the vote of an absolute majority of the members of the Congress elected in 1990.

One of the questions constantly raised by constitutional scholars is that the 1988 Constitution, contrary to the expectations of its drafters, has become very old, very quickly. Similarly to all the previous country's political charters, it has been written as a clear rebuke to the precedent political order. Therefore, 1988 was the democratic answer to authoritarianism. At the same time, it presented an economic agenda that was the result of the Opposition's suspicions about the role of foreign investment in the Brazilian economy. The new order mistrusted foreign investment and introduced cumbersome controls over it. The charter was extremely nationalistic in its view of foreign investments.

This happened at a moment when all developing countries, including those that comprised the former Eastern block, were opening up their economies in order to attract international investors. Therefore, the constitution's treatment of foreign investment had been seen as an obstacle to economic growth. The Charter included several nationalistic measures that have worried the international financial markets and have hindered investments.

According to most scholars and policy-makers, in order for the country to achieve economic development, the relations between state and society must move beyond political liberalization to the reconstruction of the economy. The Constitution must provide it very clearly.

The 1988 Constitution aimed to end a period of excessive Executive Branch control over public policy making and implementation. The Constitution would end the long Brazilian tradition of an "imperial presidency", that had led to the 1969 charter drafted by the "military junta" after the closing of Congress in late 1968, the so-called # 1 Amendment. The new Constitution restored the powers of Congress back to those of 1946-1964 regime. According to its drafters, there should not exist legislative control over the policy-making process that

would mirror the control that the Executive Branch had under the military. There should have been a joint action of both branches of government in policy-making. [Pojo, 1994]

As well as all others previous Brazilian constitutions, the Constitution of 1988 reflected the concern in repairing the mistakes of the past, without the least sketch of a projection for the future.

The making of the Chapter of the Economical Order in that new Constitution is not an exception.

Retaking the economical optics little worked by the Constitution of 1988, on February 15, 1995, the President of the Senate and also of the Congress Senator José Sarney, when giving the opening speech of the 50th Legislature recognizes the bankruptcy of the state and alerts for the challenging task of Congress to promote a reform that puts Brazil back in line with the deep transformations registered in the world, in the last years. Continuing, he declares that "are necessary, indispensable structural changes to be implemented, so to permit the country to break the iron circle over an economic development model out of print, which attributed to the State a crucial economical agent's role.

Happily, there is a national consent that the Constitution of 1988, created a sum exaggeratedly high of responsibilities for the state without indicating the correspondents financing sources. Also it is not a secret that the durable economic stabilization depends on structural reforms that promote public sector modernization and enhance de-regularization in the Brazilian economy. Economic stabilization claims for political stability". (Chacon, 1997)

Definitely the game of structural and economic reforms should be played in the parliament field, not only at the executive premises anymore.

Congress acted by approving six major points for liberalizing the Brazilian economy in the first six months of the year. Four, out of those six points were key to Constitution revision and thus are also key to economic reform in Brazil. Their change has herald economic reform, their perpetuation meant that reform would have to wait. All were part of the Economic Order chapter of the Constitution.

5.0 – The Congress and Collor's Economic Plan

According to Scott Mainwaring, in Latin America, only the Argentine, Brazilian, and Colombian presidents have the ability to issue new laws by decree in practically any policy area. Brazilian presidents have the so-called provisional measures. These are decrees that lose effect if not converted into law within 30 days. President Fernando Collor de Mello (1990-92) used this power extensively in his first months at office, issuing provisional measures at a rate of about one every 48 hours in 1990, most famously the "Collor Plan" of economic stabilization. Many of his decrees were enacted into law, which suggest that he was not acting against the interests of Congress as frequently as the numerous decrees might imply. [Shugart and Mainwaring, 1997]

Not only President Collor, but also President Cardoso, used those decree powers to launch their economic stabilization plans.

The new government's [Collor, 1990] economic priorities included reducing the state's role in Brazil's economic life, curbing government spending, halting the inflationary spiral, attracting new flows of investment and technology, and inserting a rehabilitated and modernized Brazilian economy into the competitive mainstream of international life.

Privatization was part of a large program of reform and modernization of the state, which included several measures of stabilization, liberalization and de-regulation of the economy. Politically relevant, it involved the active role played by Congress in the discussion and approval of such measures, BNDES playing the role of PND's manager and more recently also acting as the manager of the "Fundo Nacional de Desestatizacao" - FND. [Mazzolli, 1997]

The basic measures on the Collor Plan were:

Anti-inflation measures : Introduction of the cruzeiro (Cr\$) as a new currency. One cruzeiro will be equivalent to one cruzado; Conversion of new-cruzado bank balances and deposit account into cruzeiros, will be limited to NCz\$ 50,000 on current accounts and saving accounts, and to 20% of overnight deposits; Unconverted balances are to be deposited with the Central Bank and will only be refunded in cruzeiros with monetary correction and interest of 6% p.a. in twelve installments commencing after 18 months (September 1991); Price freeze until April 30, except where government authorization for an increase is obtained. Subsequent automatic price adjustments, allowed every 30 days, limited to a pre-indexed amount set by the government at the beginning of each month; March salaries adjusted for February inflation. Subsequent increases in accordance with a pre-indexed minimum determined as of the 15th of each month and severe penalties for abuse of economic power through non compliance with price control legislation and for anti free market practices.

Measures to Reduce Government Expenditure: reduction in the number of Ministries from 23 to 12 and extinction of 24 state-owned companies.

Measures to Increase Government Revenues: extensive privatization program, to be partially funded by a compulsory deposit levy on financial institutions, insurance companies and pension funds; sale of government assets; increased tax revenues through extensive application of IOF (tax to financial transactions) increased IPI tax rates, increased income tax for activities, previously subject to reductions in the standard rates (exports and agricultural), elimination of incentive deductions from taxable income both regional and sectorial, changes in the calculation basis, for the social contribution tax, extensive indexing of Federal taxes and a new tax on large fortunes, to be levied on individuals and foreign owners of Brazilian assets.

Extensive measures designed to bring the informal economy into the opening, including: elimination of all investments instruments which do not identify the beneficial owner, prohibition of using bearer checks for payments of over 100 BTN and concentration of nonresident bank accounts in branches to be designated (Collor Plan, Collor, web site).

In sum, according to Schneider, the key features of that economic plan were: the economy's liquidity were reduced from over 30 percent of GDP to under 10 percent; cruzeiro became Brazil's currency; \$ 85 billion frozen in blocked accounts, savings accounts certificates of deposit, and order types of funds were also blocked; liquidity dried up initially from the same \$ 140 billion to only \$ 35 billion; raising in fuel and public utilities rates; rollement of private-sector prices back to the March 12 level, were they would be held for forty-five days. Moves were made to implement an administrative reform oriented to abolish several federal agencies. [Schneider, 1996]

The main objective of the program was to keep inflation down by transforming the huge prospective public-sector-operating deficit into a small surplus. Privatization, fiscal reforms, and improved tax collection were major factors of this effort, essential for credibility in re-negotiation of the foreign debt.

The strongest vigor and broader range of privatization came with the Collor's administration (1990 – 1992) which installed the "Programa Nacional de Desestatizacao" (PND) established by Law n. 8.031/90. This ambitious proposal included several big and important state enterprises. Its important to point out that PND was inserted in a broader context – contained in his political campaign and inaugural address – and summarized in the so-called "Projetao", to use an expression applied to his governmental plan. [Mainwaring, 1997]

The Collor Plan was quickly [one month] approved by Congress. It was introduced by Provisional Measure n. 168, of March 15, 1990. The drafter was Deputy Arnaldo Farias de Sá, from the state of São Paulo. Although congressman offered 924 amendments from both houses, the text approved by the Joint Committee and transformed into a PLV 31, 1990 was rejected. After exhausting negotiations between the executive and legislative, both sides came to an agreement to the approval of the text as it was offered to Congress. The original text presented by the Executive Branch, was put into effect by law 8.024,1990, inaugurating a new Era in Brazil's economic history.

The participation of Congress was concentrated on the debate of the stabilization plan, conducting public hearings and the sealing of an agreement, demonstrated Congress willingness to introduce institutional change

into the Brazilian political and economic system. It is important to remember the fact that Collor always had to deal with a coalition of political parties in Congress, which was always a major political obstacle to policy implementation by his administration.

Two years later, however, Collor's government ended, after the president was impeached in the wake of a series of accusations for misuse of private funds during his presidential campaign.

Vice-President Itamar Franco took office in October 2, 1992. His term was marked by political turmoil, with Congress involved in a major scandal due to corruption of some of its members in budget-related matters. In the economic front, inflation was not totally under control.

From the Cruzado Plan on, Brazil had experienced seven stabilization economic plans without success.

Then it was time for a new major economic stabilization effort.

6.0 – The Congress and the Real Plan

Having been elected by a landslide in the first round of the 1994 Presidential elections, Fernando Henrique Cardoso presented as one of his main goals the constitutional and statutory reforms that had not been possible during the Constitutional revision process. Immediately after the inauguration in January 1995, the new administration was able to concentrate on its economic reform agenda. The aim of these reforms was to establish an open market economy that would assure both economic stability and the continuing struggle against a return of hyperinflation. The president had been elected mainly due the success of the economic stabilization program (Real Plan) that had sharply reduced inflation and, in the same sense, state reform was necessary to ensure the anti inflation program continued to be successful. Nonetheless, the continuing success of the stabilization plan was based on fiscal responsibility and reduction of public expenditures.

The economic reform advanced steadfastly during 1995. Despite the political opposition's anti-reform program, the government was able to push through the legislature a number of constitutional amendments that did pretty much what the revision process had attempted to do, without any success, two years earlier. No political force in Congress has been able to oppose successfully the government's voting block composed of more than 370 Deputies and 60 Senators.

The materialization of the structural reforms – a major theme of the political campaign -began to occur during the honey-moon phase of his government, when Congress approved six major amendments of the Chapter of Economic Order of the Constitution of 1988: 1) the definition of national enterprise; 2) the end of the telecommunications state monopoly; 3) the opening for foreign companies to operate in inter-coastal shipping; 4) the end of the oil state monopoly; 5) the end of the piped gas state monopoly; 6) the opening for foreign investment in mining operation. These amendments transformed the historic role of the state in promoting Brazilian's economic development, finally bringing an end to the Vargas Era.

Once the core of the program was defined, it was necessary to obtain the support of the National Congress to promote alterations in the constitutional text.

To analyze the participation, particularly, of the Federal Senate in such process of liberalization of the Brazilian economy is the main target of this paper.

The means for attaining this new situation was the launching of a group of economic and political measures in 1994 to stabilize the economy, while maintaining the "openness policy" initiated by former President Fernando Collor de Mello, who did the footwork and established the basis for a new well rounded economic plan. At the end of June 1994, just prior to the launching of the Real Plan, inflation was running at the astonishing rate of 7.000% per year. According to the four most important price indexes, it reached an average rate of 47.7% in June, accumulating 758.8% in the first half of 1994. [Schneider, 1996]

Introduced on July 1st, 1994, when Fernando Henrique Cardoso was Finance Minister in President Itamar Franco's administration, the Real Plan had an immediate impact. Based largely on emergency fiscal measures, the de-indexation of wages, and the adoption of an initially fixed exchange rate, in Albert Fishlow words, the major points of that Plan were: a fiscal adjustment: a balanced budget for 1994; a new monetary unit, URV; Translation of the URV into the new currency; linkage of the Real with the US Dollar at an 1 to 1 ratio; and the suspension of many tariff barriers to force domestic products to become competitive.

In fact, that Plan achieved remarkable success in halting a dangerous escalation of inflation whose rates fell as follows:

Table 5: Rates of Inflation in Brazil – 1994/5

Period	Inflation rates (%)
Second half of 1994	17.9%
First semester of 1995	10.5%
Second semester of 1995	7.5%

Average inflation per month was 1.5% in 1995 and 0.9% in the first four months of 1996. This is of extreme significance when it is observed that the Brazilian accumulated average rate of inflation had, in 1996, reached its lowest figure since 1950, if measured by consumer prices. Economists considered the rate of 10% a year at the end of 1996, a sign of a solid, renewed economy. The rate was expected to remain around 1% in the coming months, closing at 10% for the whole year of 1997.

At the same time, through its positive impact on increasing purchasing power and effective market size, the Real Plan also contributed to an acceleration of economic growth. Real GDP, after rising by average rates of only 0.4 percent annually in 1989-93, jumped to a 4.4 percent average in 1994-96. [Www.iadb.org]

The Real Plan was introduced by Provisional Measure n. 1027, June 20, 1995. The reporter in the Joint Committee was Deputy Jose Anibal, from Sao Paulo State. All together, 135 amendments were presented by congressman from both houses to the original text. During the voting process, only 10 amendments presented by members of the opposition and situation parties were approved by the final drafter Senator Jose Forgaca, most of them regarding to the transparency of the privatization process.

Differently from the Collor Plan, Congress had a more active function in the approval process. Not only discussion the issue but also modifying the original proposal made by the government. It's important to note that the Real Plan, took one year to be finally approved by congress and subsequently transformed into law.

It is also important to note that both plans were strongly based on extensive privatization of state-owned enterprises, and for the first time with exhaustive discussion and approval by the Brazilian Congress.

7.0 - Privatization, common sense in both plans

By transferring strategic sectors of economic development, from state to private hands, the government indicates its strong commitment to switch the drive of economic development from government to the private sector, with all the political and economic risks implicit in any process of state reform.

During the Figueiredo term (1979 – 1985) Brazil drove a modest and not very successful privatization program, whose final result was a list of one hundred and forty companies that could be privatized, naming fifty that could be sold immediately. The net balance of this process was the transfer of twenty inexpressive companies to the private sector. Almost the same occurred in the Sarney administration (1985 - 1989), when the so-called Inter-Ministerial Council of Privatization was established. The board was formed by: the Ministers of Planning, of Finance, of Anti-Bureaucracy, of Industry and Commerce and other Ministers that were in charge of companies included in the privatization agenda. In fact, the outcome of that phase was not much better, once it limited itself to give back to the private sector some enterprises that were in the verge of bankruptcy before the BNDES intervened. That agency actually was operating like a sort of "hospital" for treatment of mismanaged state or private enterprises.

Privatization was now, part of a larger program of reform and modernization of the state, which included several measures of stabilization, liberalization and de-regulation of the economy. Politically relevant, it involved the active role of Congress in the discussion and approval of such measures, BNDES playing the role of PND's manager and more recently also acting as the manager of the "Fundo Nacional de Desestatizaco" - FND.

At this point, privatization can no longer be considered as a fashionable policy. It became a mechanism to be largely adopted all over the world and to be part of the new political and economic paradigm for all modern states. Privatization became more important than a mere finance operation, with consequences that redefine the role of the state in economic development and intends to improve the efficiency of the national economy itself. Although launched by Collor's administration some of the most important companies, like the Companhia Siderurgica Nacional – CSN, ironically was sold during the administration of President Itamar Franco – a politician very well known for his pro-state positions. Subsequently, during President Fernando Henrique Cardoso's first term, the "Programa Nacional de Desestatizaco" was maintained practically unchanged, showing his political will towards promoting state reform and redefining its role within the Brazilian economy. The main idea inserted in this move was to bring back the state to fulfilling its classic functions. Not by coincidence this political ideal is embodied in both economic plans as a final target in institutional change.

A total of 63 companies have been transferred to the private sector since the establishment of the National Privatization Program in 1990, as well as state and federal stockholding participation, most of them in the steel, chemical and petrochemical, fertilizer and electrical sectors. [BNDES]

Brazil is now stepping up the pace of its far-reaching privatization and concessions program. Through this program, Brazil's public sector at both federal and state levels has sold \$26.1 billion of corporate assets from 1991-97.

Significant further progress has been made last year. In July 1998, the government successfully privatized Telebras (Brazil's telecom system).

It seems to me that, as important as privatization itself is, the following step is to improve the government's capacity of dealing with its new regulatory agencies.

8.0 – Conclusion

It has been more than ten years that a new constitution was promulgated. It is also almost one decade since the country started its process of state reform. In those ten years the political and economic responsibilities of the Congress have been changing in order to reflect the new institutional design.

Congress was called in to debate over the implementation of major economic reforms that occurred in Brazil in the recent years: The Collor and The Real Plans. Although Congress participation in such themes differs from one plan to the other, it played a new and decisive role in the new economy of the country.

Regarding to the Collor Plan, Congress acted mainly as a political forum for debates over economic reforms and the introduction of neo-liberal economic policies. It also offered the opportunity to promote an ideological fight amongst right and left over statism and liberalism. Despite the fact that the congressmen had offered more than

one hundred modification proposals, the Provisional Measure was approved as it was sent by the Executive, showing little effective participation of both Houses in the matter.

In the case of the Real Plan, the situation was different. Congress introduced ten amendments to the original text, after rejecting more than two hundred others. It's true however, that the political circumstances were very different from one plan to the other. The second one stayed more than one year in Congress waiting final approval, in part because Congress was suspicious about heterodox economic policies after the failure of The Cruzado Plan and The Collor Plan. Yet, in both cases Congress demonstrated being susceptible to public opinion and presidential election results. Not by coincidence both presidents introduced major economic reforms during their honeymoon phases. Fernando Collor in the first three months of his administration and Fernando Henrique Cardoso in the first six months, like the case of changing of the Economic Chapter of the Constitution of 1998.

By no means it is true the assumption that Congress served only as a rubber – stamp power to the Executive economic initiatives. If, for one hand, it is true that congress approved even very unpopular economic measures embodied in both plans, it is also true that it exercised its power by introducing substantial modifications in the Real Plan, not to mention those regarding the privatization program.

Congress has been contributing to set a new economic scenario for Brazil, according to new domestic and international demands. This was possible in part due to the new responsibilities given to the legislative by the Constitution of 1988 and by the new democratic political environment now in place in Brazil. While the process of reform is not over yet, the Congress shall continue to play its essential role for the liberalization of the Brazilian economy.

Once the Provisional Measure shall continued to be used by the president of the republic, Congress also will continue to react to the executive power's initiatives. However, its power of intervenience is not restricted to the approval of such measures. There are more important duties to be performed by that political body. Constitutional changes, ordinary and infra-constitutional legislation are also very important issues to promote structural reforms. All of those activities need congressional approval, normally after extensive negotiations, not to mention the importance of Congress as the most relevant political forum for the discussion of major national themes.

In sum, either by discussing and negotiating different issues, as well as introducing new legislation Congress has performed its role as a crucial political player in the tough game of promoting institutional reforms. This is democracy as its best.

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