

Political Institutions and Fragmentation of the State:

A Study of Social Security Reform in Brazil

By Frank Brodie

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Introduction

On the evening of December 9th, 2003 the Brazilian Senate ratified a much anticipated reform on Social Security. The anticipation had been building for longer than the 225 days the reform had been tied up in congress, or even when the newly elected President Luiz Inácio Lula da Silva (Lula) had first announced his intent to reform the system. The social security system had long been in need of reform. Emerging in the 1920s, it has continuously been the object of corruption and pork barrel politics – almost always at the expense of Brazil's poor. Over the years the system had accumulated an increasingly large debt, as the number of retirees grew exponentially, while the numbers of those contributing were diminishing. In recent years the financial weakness of the system had grown to crisis levels, with the current social security deficit at nearly 5% of GDP.

Although previous presidents had promised reform, none had delivered. Lula is different from past Brazilian presidents in that he came from the *Partido dos Trabalhadores* (PT). Born out of the Metal Working unions of Sao Paolo, the PT is a unique entity in the Brazilian political spectrum. In a system fraught with self interest and corruption, the PT has prided itself on maintaining the highest levels of integrity and party discipline. Traditionally, socialist rhetoric has been an integral part of PT doctrine. However, the PT has become more moderate over the last decade as it gained support and won elected office at all levels of government. In 2002, when Lula finally won the presidency, the word socialism was notably absent from his platform. Despite this moderation, the PT continues to pursue a policy of progressive democratic reform.

Lula's social security reform was economically moderate, which is appropriate to reform a system that is inefficient and running a massive debt. Yet Lula remained politically progressive as he focused on how social security unevenly supports the wealthy and public employees, while

draining resources from those who need them most, the poor. Thus, it was not surprising that this reform was a centerpiece of Lula's campaign, and later, his presidential agenda.

What was ironic was that the reform, in its final form, was weak, had little impact on the real problems within the system, and was passed only with the extensive use of pork barrel politics – the very thing Lula campaigned against. Lula's official coalition comprised over half of the seats in government, suggesting an easy passage of legislation. However, as one looks at the process of legislation in Brazil in greater detail, it becomes clear that nothing is easy, least of all passing reforms. I argue that Brazil's political systems (institutions) make any deviation from the status quo difficult because these institutions create a fragmentation of the political process that can only be overcome by yielding undue concessions and employing pork barrel tactics.

I focus on two interlinked aspects of Brazil's political institutions, the electoral system and high levels of political decentralization, which taken together stymie attempts at reform at the national level. These institutions have created and facilitated a political culture that is based on personalized politics, narrow self-interests, and weak political parties. In turn, these effects have led to the development of a clientelistic relationship between actors and have made any deviation from the status quo nearly impossible.

This paper serves to demonstrate the debilitating effects Brazil's political institutions have on the legislative process. I first discuss the evolution of the radical PT of the 1980s to the more pragmatic and moderate party of the 2002 elections. This shows that the system is not moderating the reforms of radicals, but preventing meaningful and necessary reform. Then, I examine the effects of Brazil's political institutions and how rational actors are forced to behave within the system. To illustrate these points I provide a case study of Lula's attempt to pass

social security reform. Finally, I discuss the implications of Brazil's political institutions and Lula's experience.

The PT: Then and Now

In a new democracy becoming fraught with conservative elitist parties, the PT grew out of necessity by union laborers, to later become a progressive catch-all party for the marginalized sectors of Brazil. Amid growing ferocity in the battle for workers rights, Luiz Inácio Lula da Silva, the president of the São Bernardo Metalworkers union, recognized that union representation was insufficient to ensure a better life for Brazil's working classes (Nylen, 2000; Keck, 1992). "Workers were also citizens, with needs and interests outside of the workplace, and they needed to be represented as such in the national political arena" (Nylen, 2000; 129). The *Partido dos Trabalhadores* was formed on February 10, 1980; its mission statement read: "The PT is born of the will for the political independence of the workers, who are tired of being putty in the hands of politicians and parties committed to the maintenance of the current economic, social and political order... [the party] will be the real political expression of all those exploited by the capitalist system." The PT became more than just a socialist party for the workers; it was an umbrella party for all those who felt unrepresented in conventional politics (Nylen, 2000).

The PT distinguishes itself from the rest of the political parties in Brazil by maintaining strict party discipline in both issue voting and unified support for party members. This is achieved through extensive internal institutionalization that punishes party members for any deviations from the party program. Further, the PT prides itself on refraining from the pork barrel politics that otherwise defined Brazilian politics.¹ While the emphasis on discipline and

¹ The relationship between personalization and pork that are the norm in Brazilian politics and the political institutions discussed later in this paper.

integrity has remained static, as the party has matured it has moved to adopt more pragmatic and moderate platforms.

The PT's shift to the center is explained by changes in the Brazilian society, pressures on the PT's core membership, and the PT's experience in government. The PT was provided the opportunity to move to the center as both the *Partido da Social Democracia Brasileira* (PSDB) and *Partido do Movimento Democrático Brasileiro* (PMDB), traditionally centrist parties, became more conservative (Samuels, 2004). However, this alone is insufficient in explaining the PT's move to the center. Larger changes were occurring in Brazil that provided impetus for change.

By the late 1990's, union workers, who are the core of the PT's membership, faced new pressures from globalization, labor market deregulation, and the end of import substitution industrialization (Samuels, 2004). Unions became more focused on preserving existing jobs instead of an expansion of salaries and benefits. Even public sector employees, represented by *Central Única de Trabalhadores* (CUT), were becoming more pragmatic as evidenced by their acceptance of the necessity of social security reform (Samuels, 2004: 105).

In much the same way that the unions were moderating their demands and pursuing a more pragmatic approach, social movements were becoming less radical and more willing to work within the system rather than attempting to overthrow it. Hochstetler notes that by the 1990s, "new citizens' groups stepped closer to the state – lobbying it, accepting contracts from it, participating in its process" (2000: 165). Similarly, Samuels concludes, "social movement discourse and action have moved far beyond the sphere of civil society and into the state" (2004: 1008). While these changes in the PT's membership created a strong impetus for a shift to the center, equally strong impetus came from PT politicians themselves.

The experience of being in government is very different from that of being the opposition. As the PT gained offices at all levels of government, they became accountable to their constituents and had to deliver results. Similarly, those in office wanted to appeal to more of the electorate and adopt a “vote-seeking” strategy (Samuels, 2004). Accordingly, PT officials wanted to adopt a more pragmatic, moderate approach to meet these new demands of accountability and reelection strategy. Because of the changes in the PT membership, a new willingness of social movements to work within the system, and the needs of elected PT officials, there was considerable impetus for a shift to the center. Although parties frequently have difficulty in making this type of ideological shift, the PT proved adaptable to these new demands for a more moderate approach.

Counter to the existing literature on mass parties, the PT has proven to be flexible and responsive to change. The PT has resisted stagnation by maintaining a low level of entrenchment and making leaders accountable to the rank and file (Samuels, 2004). This is achieved through internal elections, and a structure that allows for internal factionalization while still holding a united front externally. Frequent internal elections allow party members to hold their leaders accountable and adapt their policy preferences over time, expressed in their vote. Samuels concludes that “moderates could influence the party’s upper ranks because of the party’s internally democratic institutions of participation and contestation” (2004: 1002). The PT’s evolution to a more moderate and pragmatic party was bottom-up change, but it was at the top national level that the greatest change was necessary for the PT to be able to win the presidency.

Although Lula did not have any socialist proposals in his 1998 presidential campaign, the party itself was still viewed as socialist, and thus lost, not even polling one third of the vote (Samuels, 2004; Carr, 2004). It was only in 2002 that Lula and the PT were able to fully make

the shift to the center without any ambiguity. In the beginning of the campaign, Lula wrote an open “Letter to the Brazilian People” (and ostensibly to the international community). In the letter Lula declared his intentions for market growth and social reform – an indication that this was not the PT that wanted to overthrow the capitalist system but rather fix the inefficiencies and inequities of the system.²

“[Brazil wants] to forge a new path that combines the growth of economic activity with consistent and creative social policies; a new path of structural reforms that truly democratize and modernize the country, making it more just, efficient and more competitive in the international market; a new path of tax reforms that unburdens production; agrarian reform that insures peace in the countryside; reforms that reduce our power shortages and our housing deficit; reforms in social security and labor laws; and prioritized programs against hunger and public insecurity” (Silva, 2002).

The Brazilian people responded to Lula and the ‘new’ PT with strong approval in the 2002 presidential elections. Lula received nearly half the popular vote in the first round of elections, and in second round runoffs, he was elected with over sixty percent of the vote.

In sum, although the PT still carries the stigma of a socialist party, or less extreme, a strong leftist party, it has in fact become a moderate party committed to economic growth through a free market. Moreover, the PT remains dedicated to the reform of Brazil’s elitist political process dominated by personalized pork barrel politics.

Understanding the transformation of the PT is crucial to framing the puzzle of why social security reform has proven to be so difficult and costly. It would be reasonable that a radical leftist party’s reform would be moderated by the system and necessitate concessions, but Lula and the PT of 2002 were centrist and the reform was moderate and pragmatic. What was the cause for such a dramatic weakening of the reform, and why did Lula adopt the tactics of pork barrel politics?

² Lula also emphasized his commitment to honor the countries debts and contracts, a signal to international markets that he would attempt to create a stable environment for investment.

Argument

The weakening of the social security reform of 2003 cannot be explained by the legislature moderating a radical proposal. Rather, it was the case of a moderate and necessary proposal being watered down and thus significantly reducing its impact. I argue that this process is best explained by looking to Brazil's political institutions, specifically, the electoral system and the high level of decentralization. The electoral system of open list proportional representation encourages politicians to cultivate personal votes, it creates weak parties that cannot discipline politicians, and consequently, politicians gain support by providing material benefits to their constituents instead of maintaining a strong ideological platform (clientelism). Access to these material benefits is best available at the subnational level due to the high level of fiscal and political decentralization in Brazil. Consequently, national level politicians cater to sub-national actors, and reforms that would impose costs on these subnational actors readily fail.

The social security system provides ample pork for politicians by distributing selective benefits, especially generous one for public employees. Not surprisingly, national politicians were unwilling to support any reforms that would reduce these benefits and cause them to lose the political support of those who would be affected, and because those public employees had some power within the system, their support was especially crucial. The only reason this reform was able to pass, albeit in a greatly weakened form, was because the social security system was on the verge of collapse. National politicians recognized that the collapse of the entire system would hurt them more than enacting minor reform on the current system. It is in this vein, as a stop-gap measure for survival, that the social security reform passed. It is evident that Brazil's political institutions have a significant impact on both the legislation passed and the political tactics employed.

Brazil's Political Institutions

Scholars identify the electoral institution of open-list proportional representation (PR) as having the most significant effect on the fragmentation of the state and the weakening of the democratic process (Weyland, 1996a; 1996b; 1996c; Ames, 2001; Mainwaring, 1991). Open-list PR requires voters to write in the name of their candidate on the ballot. There are several effects of this type of system, all of which reflect and reinforce a weakening of the political parties.

First, candidates' campaigns are personalized to ensure name recognition at election time, and due to high levels of party switching, candidates actively avoid party affiliation.³ Politicians, especially those who carry large numbers of votes, have the most power in an open-list PR system.⁴ As a result, the parties themselves maintain loose ideological bases and are tolerant of ideological deviations of the party program. Furthermore, because of the need to write in candidates' names, parties are unable to maintain party discipline by keeping politicians off the ballot. Thus, when the government attempts to legislate, votes need to be gathered from individual deputies rather than the party level. This process of vote gathering then becomes exceptionally expensive in political capital, pork and patronage.

A second effect of the proportional representation system is that it allows for many small parties to be represented. Further, there are a host of electoral rules that encourage the formation of small parties, by according them the same privileges (staff, facilities, television time) as any of the larger parties. While this encourages political diversity, it comes at a cost: a system of many small parties requires that multiparty coalitions be built at the national level in order to pass legislation. This leads to further dilution of even the loosest of ideological programs (Ames, 2001; Mainwaring, 1991). In sum, "electoral legislation has institutionalized a system that

³ The exceptions are the PT and PCdoB.

⁴ For example, if 25,000 votes are needed to capture a seat in the legislature and a single politician receives 100,000 votes, that provides three additional seats of the party's choosing in legislature.

encourages weak parties”, which in turn prevents any substantial reform agenda from progressing (Mainwaring, 1991: 26; Weyland, 1996a :5).

The highly personalized nature of political campaigns combined with a lack of strong ideological foundations within fragmented, undisciplined parties has led to pervasive clientelism within the Brazilian political system. This is because politicians, unable to offer a platform of ideology or change due to the nature of the system, offer tangible benefits to their supporters. Further, by embracing a local constituency rather than an ideological program, politicians can maintain support regardless of party switching. Unfortunately, by pursuing particularized benefits the poor are divided geographically by district and by employment sector, formal or informal⁵; each sector focuses on their narrow interests and not on overarching ideological goals (Weyland,1996c: 27; 1996a: 5). Moreover abject poverty forces the poor to accept only minimal benefits in exchange for their political support, effectively creating a second class citizenry and undermining the very foundations of democracy (Weyland,1996c: 5). Finally, clientelism also induces politicians to block equity enhancing reform because it would limit their access to distributional pork (Weyland, 1996a: 7).

This resistance to change and reform is made possible by the large number of veto players Brazilian political institutions create. A veto player is defined by “individual or collective actors whose agreement is necessary for a change of the status quo” (Tsebelis, 2002: 19). Thus, a veto point is a step in the political process when veto players’ agreement is necessary and they can exert their influence. The constitution disperses power both horizontally, between bureaucracies, congress, the judiciary and the executive, and vertically by giving excess political and fiscal power to the states (Montero and Samuels, 2004; Ames, 2001). This dispersal creates

⁵ The lack of jobs in the formal sector forces many (mostly urban) poor to rely on odd jobs, micro-entrepreneurship, and illicit work for a living –this type of employment is the informal sector.

an abundance of veto points and veto players. Since a large number of these veto players are elected, they resist any change to the status quo as described above. If legislation is undertaken, each player at each point undoubtedly extracts concessions, pork, or patronage for his agreement. Thus by the time any attempt at real reform reaches the end of the legislative process it has been watered down, laden with pork and patronage, and costs the bill's proponents significant political capital.

Finally, the federal nature of the political system plays a significant role in the inability to enact reform on the national level. Most of the fiscal distributive power in the Brazilian system is concentrated at the state level. Accordingly, instead of a party having a single, central decision making process at the national level, coordination occurs between all twenty-six state party leaders for large reforms such as social security (Mainwaring, 1991: 32). Moreover, because governors have large amounts of control over pork, national level deputies will look to state leaders on how to vote on legislation. This not only slows the process, but adds more informal veto players, each concerned for his own narrow interests.

Taken in sum, the Brazilian political institutions and the behavior they elicit from actors, creates what Ames terms "a deadlock of democracy". He concludes: Brazil's "political institutions create a permanent crisis of governability" (2001:3). Similarly, Weyland argues, "The theoretical expectation that political liberty will lead to more social equity...is unlikely to come true in polities plagued by pervasive organizational fragmentation. Of course, political liberty itself should be highly valued. Yet, unless it is accompanied by greater social equity, many poor people remain excluded from full democratic citizenship" (1996a: 17-18).

Case Study: Social Security Reform

*A Brief History of Social Security in Brazil*⁶

Social security in Brazil was not intended as a mechanism for redistribution or large-scale social reform. Rather, Brazil installed a social security system in the 1920s in response to pressures from a growing working class. However, the system subscribed to the contributive principle: social security was financed through contributions by workers and employers, not general tax revenue. This decision was rationalized by the perceived financial inability of the system to cover the large numbers of poor people who could contribute little or nothing. To be incorporated in the system, workers needed to have not only a steady source of income, but be included on the official labor registration, and provide documentation of 35 years of work. As a result, workers from the growing informal sector were excluded. In the inflationary economy of Brazil, businesses were able to invisibly pass off their contributions to consumers via price increases. Consequently, “the social security system favored better-off strata of the popular sectors; the poorest groups were left out and had to carry part of the burden” (Weyland, 1996c: 89). Effectively, the original social security system exacerbated inequality by further transferring wealth from the poorest sectors to the better-off.

Corruption in government and self-interested politicians ensured that bureaucrats and public sector employees would enjoy exclusive benefits. Furthermore, because of the nature of social security and its ability to selectively tax and benefit specific sectors of the population, its civic purpose was usurped by political ambition.

⁶ This short history is adopted from Weyland, 1996b, 1996c. For a more in-depth examination of Brazilian Social Security under both authoritarian and democratic regimes see Weyland, 1996c; chpt 4, 6.

As Brazil began its transition to democracy, the issue of social security reform remained important. It was a major agenda item for the *Assembléia Nacional Constituinte* (ANC) in the formation of the 1988 constitution. The ANC served as a forum in which a spectrum of interests (labor, business, etc.) could be heard and potentially affect policy. Naturally, the better-organized and better-off were heard the loudest. The result was not a significant deviation of the status-quo or an improvement in equity. The constitution provided an increase in generous benefits to the urban-working upper and middle classes. The rural poor managed some meager gains with the help of the *Confederação Nacional dos Trabalhadores na Agricultura* (CONTAG), an organization of agricultural workers interests. Whereas this national level representation allowed the rural poor to provide input in the debate on social security reform, the urban poor, lacked strong organization and could not advance their interests (Weyland, 1996a:11; 1996c:133-4,137). The benefits conferred in the ANC were financed by new taxes on business – the burden was then immediately passed on to consumers via price increases. Furthermore, “by enshrining a host of specific rules in the constitution, the victorious sociopolitical forces made it particularly difficult to reverse their gains” (Weyland, 1996b: 66). Again, the poor were forced to share the cost of a system from which they received no benefit.

Besides failing to alleviate inequality, the social security system constructed by the 1988 constitution was financially unsustainable. Expenditures increased dramatically in the 1990’s; from 1991-3 they jumped 46.4%, while contributions had only grown by 13%. By 1994, social security benefits absorbed 92.5% of revenues in the system. Presidents Fernando Collor de Mello (1990-1992) and Fernando Henrique Cardoso (1994-2002) attempted basic stabilizing reforms that focused mainly on maintaining financial solvency by cutting excess benefits and abuses of the system. Rampant bureaucratic politics, self-interested politicians, and elites unwilling to give

up their privileges prevented almost all progress. However, in 1999, Cardoso was able to pass minimum age requirements for the collection of pensions. This was an effort to curtail pension collection by healthy, well-off, workers in their late forties.⁷

The current social security program maintains separate systems for the judicial, military, public sector, and private sector employees. For retirement at full benefits, women must be 48 years old, while men must be 53. Public sector employees and civil servants retire on their last year's salary without any benefit ceiling. There is extensive corruption and fraud within the system with over R\$3 billion lost to fraud in 2002 alone (DFBR 11/21/03). The urban poor remain totally excluded from the system despite sharing the cost via increased prices. In sum, the social security system not only fails to correct inequality, but aggravates it by providing the better-off, especially civil servants, with excessive benefits while failing to serve larger more needy sectors.

Lula and Social Security

Upon entering office, the Lula government identified social security reform as “its top reform priority for 2003” (DFBR, 1/26/2003). This was especially timely as the social security deficit had grown to crisis levels. In 2001 the social security deficit was over 1% of GDP, R\$12.84 billion, a 27.4% increase over the 2000 deficit. The deficit continued to spiral out of control, more than quintupling to R\$70 billion in 2002 or 5.5% of GDP (DFBR, 1/2002, 2/2003; Credit Suisse First Boston, 2003:1). The reason for these dramatic jumps was an overall contraction of employment in both the public and private sectors and an increase of the minimum wage (benefits are determined as multiples of the minimum wage – R\$240).

⁷ In Brazil people begin working at a young age, so it was common for someone in their late forties to retire, having completed the required 35 years of work. This was a significant drain on the social security system with some pensioners receiving payments for 30 or even 40 years.

In January of 2003, just days after assuming office, Lula charged his newly appointed Social Security Minister Ricardo Berzoini to create a social security reform. The plan would incorporate equalizing pension plans for private and public sector employees with a pension ceiling of R\$ 1,561.00. This was a drastic departure from the policy at the time under which public sector employees retired on full salary. Under the reform, if public or private sector employees desired a higher pension they had to invest in a private pension plan. Further, the reform levied social security contributions from pensions – although current pensions would be ‘grandfathered in’ (DFBR, 1/12/03).

The sectors most hurt by the reforms began to threaten to exercise their veto power. On behalf of the judiciary, *Supremo Tribunal Federal* (STF) minister Marco Aurélio Mello declared that his “acquired rights”⁸ would not be infringed upon except by “revolution or a new constituent assembly” (DFBR 1/19/2003). The judiciary threatened that it would rule that the reforms were unconstitutional and thus effectively veto them. Lula was forced to adopt a ‘mixed’ system for determining pensions in which the ceiling is only applied for the years worked after the reform passed.⁹ This system minimizes any reform (and financial savings) for more senior employees, significantly reducing any immediate savings the reforms would produce.

Throughout February, Lula met with all 27 governors to enlist their support in his reforms – a testament to the influence they have at the national level. In return for their support Lula increased fiscal transfers, modified federal tax structures imposed on the states, and most significantly, restructured the repayment on federal loans covering the states’ massive debts. Thus, Lula was already forced to engage in the type of pork barrel politics of which he had been so critical of Cardoso. Beyond these concessions, Lula was also forced to amend and further

⁸ Acquired Rights – a phrase from article 5 of the 1988 constitution saying that benefits earned can not be taken by the state retroactively.

⁹ See Appendix 1

weaken the reform at the behest of the governors. On February 21st Lula and the governors issued his “Letter of Brasília”, which included a list of compromised positions on social security reform. The most significant of these are: the maximum pension level would be increased to R\$2,400, a private pension system would be established for public sector employees wishing to receive benefits above the ceiling, minimum retirement ages would increase from 48 to 55 for women and from 53 to 60 for men, and while pensioners would contribute to social security, it would be at a lower rate than active employees. Also, businesses’ social security tax would be based on gross revenue as opposed to payroll in an attempt to encourage greater formal sector employment (DFBR 2/23/03). Lula had successfully pacified the major veto players created by decentralization, the governors, but it came at the cost of increasing the benefit ceiling by 50%, further weakening the reform, and providing pork in the form of concessions on other items like tax reform and debt repayment.

Despite Lula’s already deep concessions, machinations continued to increase from public employees and the judiciary, the most affected sectors. In an effort to curb these negative sentiments Lula embarked upon a national media campaign to popularize and explain the necessity of the reforms. Further, the Planning Ministry approved a 1% wage increase for all federal employees plus a R\$60 bonus.

More troubling for Lula was that an unofficial survey conducted late in April found that as many as 50% of PT deputies disagreed with crucial points of the reform. In response to these findings PT national president, José Genuino, said he would take a vote on the reforms at the National PT Governing Board meeting and those who voted against them would be kicked out of the party; “the election is over, we [the PT] are all government now, we [the PT] cannot fail on the proposed reforms” (DFBR, 4/27/03). While party discipline is a key feature of the PT, Lula

worried that further concessions might lead radical deputies to cross party lines and vote against the reforms. Despite the exceptionalism of the PT within the Brazilian system, it is important to acknowledge that these radical deputies knew that as long as they continued to serve their constituents they would be re-elected, albeit not on the PT's ticket. Thus, Lula was torn between needing to make concessions to those veto players outside the PT, but feared too great of a compromise, and his base of party support would begin to erode.

On April 30th, Lula, marking his fourth month in office, ceremoniously submitted his reforms to congress. The process for the passage of these reforms is lengthy since they require an amendment to the 1988 constitution. First, within the Chamber of Deputies their constitutionality must be inspected by the *Comissão de Constituição Justiça e Cidadania* (CCJ), then by two special reform committees, and then receive a 60% 'yea' vote *twice* by a full chamber. Then the process is repeated in the Senate. If any changes are made, the revised reform is sent back to the Chamber of Deputies and the entire process is repeated. The numerous votes and approvals involved serve as veto points where actors can extract concessions and pork in exchange for support.

The reforms differed somewhat from what had been talked about over the past four months.¹⁰ Most significantly, Lula abandoned his 'mixed' system and did not impede on the acquired rights of all those currently retired -- only those retiring after the reforms passed would be affected. While this helped alleviate opposition, it meant that the deficit would be reduced much slower than previously planned - again. In May, PT 'radicals' tried to derail Lula's coalition building efforts. Deputy João Fontes released a transcript from 1987, with (then) Deputy Lula attacking (then) President José Sarney's plan at social security reform and calling the President "a big thief". Lula had actively been recruiting Sarney, now head of the senate and

¹⁰ For a complete list of the reforms see Appendix 2

leader of the *Partido do Movimento Democrático Brasileiro* (PMDB), into the government coalition. The PT voted to suspend Fontes indefinitely from the PT in the Chamber (DFBR, 5/16/03). Not only was reform being watered down by concession and derailed by opposition forces, but internal fracture was actively costing Lula political support.

Despite the constant political maneuvering and continued public condemnation of the reforms by the judiciary, and public sector employees, Lula's presidential approval rating remained strong: 78% with a 51.6% approval of the Lula government as whole. Moreover, two thirds of the public supported the proposed social security reform. In mid-May, the CCJ approved the constitutionality of the reform by a vote of 44 to 13. With almost no voting cohesion along party lines (except for the PT), it is clear that deputies followed their narrow interests – pork, patronage, gubernatorial influence, etc. – and disregarded the ideological (if any) base of their party (DFBR, 6/6/03).

The pork continued to flow from the government to quell opposition. First, in an effort to stem both public sector opposition and the flood of retirements that had begun, the government offered an 11% bonus for some of the federal employees willing to stay on; also hundreds of fellowship positions were created with generous stipends in an effort to retain retired professors in universities (DFBR, 6/13/03). In the same vein, Lula, through pork and patronage, induced several deputies from the PSDB and other opposition parties to join various government coalition parties (DFBR, 6/13/03). Lula's government had been very successful in this respect; as measured after six months in office, of the 66 party switches that had occurred, 21 had been from opposition to government parties, while only 3 were from government to opposition parties (DFBR, 7/4/03).

By July, as pressures continued to mount domestically in the form of strikes, public protest, and increasing dissension from within the PT, and internationally, as the IMF hinged its next US\$8 billion loan to Brazil on social security reform, Lula compromised. He agreed to retirement at full salary for current public sector employees (with a tax levy after R\$1,440) on the conditions that both the minimum retirement age and minimum time of service limits were increased (DFBR, 7/11/03).¹¹ The long term savings of each plan were calculated and compared – the original reform saved just over R\$52.4 billion, while the amended version would save R\$50.7 billion. However these calculations were only for federal employees and excluded the judiciary, and sub-national employees – there will be a significantly larger discrepancy in the savings after these adjustments are made (DFBR, 7/11/03). With another major deal cut in the name of passage, Lula continued to weaken a reform that already failed to deal with equity-enhancement and redistribution. Furthermore, there was a growing belief that Lula had departed from his progressive roots as he used pork and patronage to get his way, a tactic he had lambasted Cardoso for when he was in office.

The effect of the political institutions in creating so many veto players had become devastating, even the meager gains of the reform were being attacked by those who stood to lose from change. Just as Lula had somewhat quieted public sector resistance, the STF charged that the sub-ceilings for state judges were unacceptable – state supreme court judges would make less than first year ‘substitute’ federal judges.¹² The judiciary claimed that this sub-ceiling created ‘inequity’ within the judicial hierarchy, and threatened, again, to declare the reform unconstitutional (DFBR, 7/25/03). Furthermore, “In his usual ‘discrete’ fashion, STF President

¹¹ The minimum age for retirement in the public sector would be increased from 55 for women and 60 for men to 60 and 65 respectively. Also, minimum service would be upped from 25 years for women and 30 years for men to 30 and 35 years respectively. Finally there would be an increase from 20 years minimum service in the public sector to 25 years.

¹² The originally proposed sub-ceiling for state judges was 75% of federal judges.

Maurício Corrêa advised the Lula government that cases involving the federal government currently under deliberation by the federal judiciary (1,200 judges) total R\$ 3 billion. No blackmail intended, of course”(DFBR, 7/25/03). The governors however, were upset that Lula had deviated from their original “Letter of Brasilia” in the changes already made, and denounced any alteration in the sub-ceilings, threatening to withdraw their support. These conflicting pressures threatened to cost Lula passage either in the form of a judicial veto in the name of constitutionality, or by a loss of congressional support because of gubernatorial influence.

Despite these political predicaments, on July 23rd, the Chamber of Deputies Special Committee on Social Security Reform approved the amended reform, moving the reform ahead to the next hurdle, passage with a 60% majority, in the full Chamber of Deputies -- twice.

On August 4th, Lula dug in. He met with senior staff and coalition leaders, announcing that no further concessions would be made. He also mobilized the military police to detain caravans of angry civil servants from around the country converging on Brasilia; additionally, he moved the voting date up to ensure that physical confrontation would be avoided. Lula released R\$2 billion in frozen budget surplus funds to assistant deputies in their decision making by funding projects in their municipalities (read: pork). Also, Lula delayed many 2nd, 3rd and 4th echelon federal appointments until after the vote (read: patronage). Coincidentally, the system of registering federal disbursements on-line in real time was offline all day (DFBR, 8/8/03).

As the vote approached, Lula, despite his declared hard line stance, struck an 11th hour deal with the STF and other opponents. The salary sub-ceiling for state judges would be raised to 85.5% of STF judges’ salary ceiling, contribution exemption ceilings for public servants’ pensions would increase to R\$1,200, and survivors’ pension exemption ceilings would increase to R\$2,400 (with a 50% reduction thereafter).

The political capital needed to even bring the social security amendment to a vote was astronomical. The lack of party discipline in the Brazilian system forced Lula to attract each deputy's vote individually. Furthermore, all those in public office were so focused on their narrow interests that they were virtually unwilling to cede any ground. While in most political systems this would be of less consequence, the number of veto players, points and high barriers to passage allowed almost every actor to extract either concessions or pork from the government.

At 12:45 am on August 6th, a roll call vote was taken. The social security reform passed with a vote of 358 'yea' to 126 'nay' with 9 abstentions and 20 deputies absent. Overall government voting discipline was very high, all over 60%, while the opposition parties split their votes, with voting discipline below 50%.¹³

Eleven days later, the Chamber of Deputies gave second round approval to the social security reform, although this was not without further concessions. The 50% reduction on survivors' pensions (above the limit of R\$ 2,400) was lowered to 30%, the time of service in the worker's last public job required to guarantee the retirement benefit equal to the last salary was lowered from 10 to 5 years, and the exemption from social security contributions on benefits was raised from R\$ 1,200 to R\$ 1,440 (DSBR 8/15/03). While government officials publicly announced even in its latest altered version the reform would save R\$49 billion over the next twenty years, independent analysts calculate that the annual savings would be no greater than R\$1.1 billion per year (DFBR, 8/15/03).

As the Senate vote approached in late November, the INSS released more distressing data: the accumulated social security deficit for the beginning of 2003 was R\$ 16.5 billion, up 26.2% from the same period in 2002. Furthermore, during this period in 2003, revenues dropped by 5.4%, as a result of depressed salaries and continued high unemployment (DFBR, 10/31/03).

¹³ See Appendix 3

By all accounts, unless reform was implemented, the social security system was headed for imminent collapse.

These statistics loomed heavily in the background as Lula began to court opposition senators for their vote. Lula needed the opposition senators as his standing government coalition was insufficient to provide the three fifths (49 votes) needed to pass the amendment. Lula, without much resistance, relinquished R\$400 million in development funds to pull the votes of 11 PSDB senators.

Even this last round of pork barreling didn't stop the opposition from putting forward a parallel amendment, which loosened the ceilings on salaries and benefits for public servants. Again, Lula negotiated with opposition senators and agreed to make further concessions by accepting the parallel amendment. Late on November 27th, the social security amendment passed the first round senatorial vote 55 – 25, with six votes more than required by the constitution.

Despite this progress approval of the Lula government was steadily declining. From early January when Lula had a 56.6% approval rating, he had fallen to 41% by the beginning of December (DFBR, 12/12/03).

Finally after 225 days of negotiation, compromise, but most of all, concession, the social security amendment passed the second and final senatorial vote 51-24 (6 abstentions). Although barely above the necessary 49 votes, Lula had finally succeeded in passing his first reform.

Discussion

The changes, concessions and pork barreling that were needed to pass the social security reform, not only cost Lula and the government in the short term, but also significantly reduced any potential savings in the long term. Lula's original proposed reform placed a R\$1566 ceiling

on the retirement benefits for public servants – previously they were retiring at their full salary. In the final version, the ceiling was R\$2,400, but only for new public servants, anybody already receiving a pension or with years in the system would receive their original benefits. Furthermore, the ceiling didn't apply to the judiciary; their benefits would only be reduced to 90.5% of their salary. The only area in which Lula was able to hold his ground, was the increase of the minimum retirement ages to sixty years old for men and fifty-five for women – with thirty five and thirty years respectively in the formal work force. Perhaps if social security reform did not require a constitutional amendment, if the process of amending the constitution did not require so many votes and approvals, if the electoral system didn't generate undisciplined parties, if clientelism was not the norm, if control of pork and patronage was not causing rampant bureaucratic turf wars, and if the fragmentation of both the political system and society did not lead to the pursuit of only narrow interests and disregard for national good, *then* maybe the reform would have been stronger. In reality however, Credit Suisse First Boston estimates the reform will have an actual savings of 0.35% of GDP in its first year, and potentially up to 0.5% of GDP – equivalent to a reduction of less than 10% in the 2002 social security deficit of 5.5% of GDP (2003:1).

Clearly, the numerous concessions took their toll on the social security amendment, and instead of genuine reform, what passed through congress was more of a last minute life-saving measure. It is for this reason, to keep the system afloat, that the amendment passed at all. Prospect theory can be employed to explain this behavior. It states that when actors could potentially suffer a loss, such as the clientelistic politicians would if the social security system collapsed, they become more accepting of risk-taking, such as allowing some basic reforms to keep the system working. During the Cardoso presidency – which failed to pass social security

reform – these same actors were more averse to change because they felt collapse was not imminent and wanted to delay until the last possible moment to maximize their gains.

Conclusion

Samuels discussed Lula and the PT's new-found pragmatism in terms of an ideological shift to the center as the result of endogenous forces from within the party. This paper has argued that this pragmatism also includes the use of pork barrel politics and excessive concessions as the result of the exogenous force of Brazil's political institutions. While this type of politicking has always been a part of Brazilian politics, it was expected from the elitist, self-serving politicians that have long governed the country. The effect of the system only became so brutally evident when a disciplined leftist party was reduced to these same tactics. Effectively, the political institutions dictate both policy outcome and political behavior in Brazil.

As the PT attempted to function within the system by becoming pragmatic, in both senses, they began to alienate their base. Although the shift to the center was a bottom-up change, increasing numbers of deputies, mayors and other party members have become disenfranchised with the PT and its new centrist platform. The internal costs of becoming a successful mainstream party are significant, and the results are inadequate – a weak, pork-laden reform.

Democratic institutions are created in order to ensure the system functions efficiently and equitably. Clearly, in Brazil their use has been perverted. They function to stymie change, and allow those in power to drain resources from the system. They benefit the minority at the expense of the large majority. Brazil's political institutions fragment the legislative process and as a result block equity enhancing reform.

In Brazil, it is clear that winning the executive office is insufficient to implement reform. Rather, bottom up change must be pursued. The PT is already very engaged in this process. There has been a continuously increasing number of PT mayors throughout Brazil. Mayors have significantly more autonomy than national legislators and can effect meaningful change within their towns. Moreover, the PT pursues a policy called “participatory democracy” which entails the education and recruitment of community members into the political process. This enfranchises citizens and strengthens support for meaningful reform (Nylén, 2003; 1997).

It would seem that Brazil’s political institutions beg for reform, given their effects on the legislative process. If one were able to change these institutions they would want to implement a system that strengthens party discipline by changing to a closed list electoral system and discourages pork barrel politics through mechanisms of transparency and accountability. Unfortunately, just as in the social security reform, numerous institutional barriers and veto players would need to be overcome in order to achieve this reform.

This paper has shown the detrimental effects of a fragmented democracy on attempts at reform. I have argued that Brazil’s political institutions place pressures on actors to adopt clientelistic strategies that force the use of pork barreling and concessions in order to pass legislation. The consequences of this system are a fragmentation of both the electorate and legislature. Taken together this prevents the passage of meaningful reform.

Appendix 1 – Calculation of Benefits Under Lula’s Mixed System

If an employee had worked for 30 years before the reform his pension would be calculated as follows:

	Original Benefit	Years in System	Adjusted Benefit
Old System:	R\$ 10,000.00	x 30/35	R\$ 8,572.00
New System:	R\$ 1,561.00	x 5/35	R\$ 223.00
			Total Benefit R\$ 8,795.00

The employee would lose R\$1,205 in benefits under Lula’s new mixed system.

Appendix 2 – List of Social Security Reforms as Submitted by Lula April 30, 2003
Taken from DFBR 5/2/03

- 1) The private and public social security systems were maintained separate;
- 2) The military was partially included in the norms for civilian public servants; survivors' pensions will be reduced by 70%. The same ceiling for salaries and retirement benefits. The government will prepare a legislative package for other specific points on the military system within 10 days [increase contribution from 7.5.% to 11%, and longer minimum service periods]
- 3) The benefit ceiling for the social security system will increase from R\$ 1,561.56 to R\$ 2,400.00. The 11% contribution on these benefits will thus increase from R\$ 171.71 to R\$ 264.00. Social security collections will increase by R\$ 1.074 billion per year.
- 4) Minimum age – the minimum ages for retirement would increase: women 48 → 55 and men 53 → 60. Those who wish to retire before these new age limits would suffer a 5% benefit reduction for each year, up to 35%. As an incentive for those who are able to retire but decide to continue working until age 70, their social security contribution would be zero.
- 5) Survivors' pension reduction – 30% reduction of the salary/benefit of the worker, for those who retire after the amendment goes into effect. A legislative “window” would be left open for further reductions in “special cases”.
- 6) Private complementary pension funds – the government hopes that Congress would authorize municipal, state and federal governments to establish these private pension funds for **new** public servants, hired after the reform is approved.
- 7) Contributions by retired public workers and the pensions of their survivors will be 11% of benefits over R\$ 1,058.00 and over R\$ 2,400.00 for those who retire after the amendment goes into effect.
- 8) Ceiling for salaries and benefits – would be fixed at R\$ 17,170.00 (the current highest salary at the STF).
- 9) Sub-ceiling – lower ceilings would be set for state and municipal governments. For the states, the ceiling would be the governor's salary.
- 10) Parity – for those who retire after the amendment goes into effect, the parity between salaries of active public servants and the benefits of retirees will cease. Benefits would be increase by the annual inflation rate.
- 11) Proportional retirement – no longer allowed for those who joined the public service after 1998. For those who have service in the private and public sector retirement benefits will be calculated in separate proportions.
- 12) Time limits – public servants must have completed at least 20 years in the public service and 10 years in the current function to retire.
- 13) Full benefits – retirement benefit equivalent to the last salary would only be permitted for those who retire before the amendment is approved. After that, this “old” system would be applied to the time accumulated before the change, and the “new” system applied to the remaining time.
- 14) Retirement “toll” – the “toll” applied those retiring after 1998 would remain in force → a 20% increase applied to the years required to complete 35 years for men and 30 years for women.

Appendix 3 –Chamber of Deputies Voting Results 6th Aug. 2003
 Taken from DFBR 8/8/03

Social Security Party “Scoreboard” – PEC 41 – Round 1

Party	“Yea”	“Nay”	Abstain	No-Show	Total
<u>Lula Coalition</u>					
PT	80(86.02%)	03	08	02*	93
PTB	39(78.00%)	08	00	03	50
PL	38(95.00%)	00	00	02	40
PSB	24(82.76%)	05	00	00	29
PPS	17(94.44%)	00	00	01	18
PDT	09(64.29%)	04	00	01	14
PCdoB	07(63.64%)	04	00	00	11
PMDB	44(67.16%)	18	01	04	67
PP	31(64.58%)	13	00	04	48
PV	04(67.67%)	01	00	01	06
Total	293(77.93%)	56	09	18*	376
<u>Opposition</u>					
PFL	33(47.83%)	36	00	00	69
PSDB	30(50.85%)	28	00	01	59
Prona	00(00.00%)	06	00	00	06
Total	63(47.01%)	70	00	01	134
<u>Other</u>	02(67.67%)	00	00	01	03
<u>TOTAL</u>	358(69.79%)	126	09	20*	513

* - Chamber President Dep. João Paulo Cunha (PT-SP) did not participate (Art. 17 internal rules).

Source:

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SEBRAE, Legislative Liaison, 8th August 2003.

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