

From the *Diretas Já* to the *Passe Livre* street demonstrations: 30 years of citizen-led institutional consolidation in Brazil

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I. INTRODUCTION

After almost 20 years of military dictatorship in which public manifestation was severely repressed in Brazil, citizens came back to the streets to demonstrate their disapproval with government policy and to demand the return of democracy. The movement aimed at changing the electoral system to allow for presidential elections by direct universal suffrage: *Diretas Já*, iconically represents the widespread popular will of the country in 1984.

On March 31st, 1983 the small city Abreu e Lima, in the state of Pernambuco in Northeastern Brazil, was where the first street demonstration in favor of direct Presidential elections in Brazil took place. At that time, the country was still under military rule, led by military president João Figueiredo. The president had been indirectly elected for a 5-year term by a manipulated Congress. The *Diretas Já* movement grew amid government hostility.

The military dictatorship that took the power in the coup d'état of 1964, could not find the usual support to repress the *Diretas Já* Movement, due to the debt crisis and its consequences on domestic inflation and unemployment rates. As a result of growing public disapproval, it culminated at 1.5 million people manifestation in São Paulo on April 16th, 1984. Thirty years after the first *Diretas Já* Movement protest, fully democratic Brazil was shocked by the strong, violent protests against rises in public transportation prices that took over a million Brazilians to the streets on June 20th, 2013.

The main goal of this article is to discuss the fundamental moments of the 30-year period that changed Brazil, focusing on the institutional consolidation process in the country and how popular manifestation influenced these developments. It first presents

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basic evidence of the significant economic, demographic, social and political changes the country went through over the past 30 years. Then, the evolution of the main institutions and the main actors in that process is discussed in further detail, focusing on the role of citizen manifestations, the new “Citizen Constitution” of 1988, and the administrations of presidents José Sarney, Fernando Collor de Mello with Itamar Franco, Fernando Henrique Cardoso, Luiz Inácio Lula da Silva and present president Dilma Rousseff.

II. BASIC EVIDENCE ON THE EMERGENCE OF A “NEW BRAZIL”

Over the past 30 years, Brazil changed significantly with a strong increase in urban population, per capita income and other social indicators, as presented in Table 1. The reduction of inflation associated with social policies allowed for important reduction in poverty and increase in middle class participation.

Table 1. Brazil in 1983 and 2013: Two different countries

Indicator	1983	2012 (2011*)	Change
Political regime	Military	Democracy	+∞
Population	130,455,659	198,656,019	52%
Rural population (% of total population)	32	15	-17pp
Rural population growth (annual %)	-45	-89	-44pp
Urban population (% of total population)	68	85	19pp
Life expectancy at birth, total (years)	63.8	73.6	10 years
Mortality rate, infant (per 1,000 live births)	66.7	12.9	-54pp
Immunization, DPT (% of children ages 12-23 months)	60	94	34pp
Immunization, measles (% of children ages 12-23 months)	68	99	universal
Adjusted savings: education expenditure (% of GNI)	3.1	5.5*	2.4 pp
GDP growth (annual %)	-3.41	0.87	4.3 pp
GDP per capita, PPP (constant 2005 international \$)	6557	10264	57%
Inflation, GDP deflator (annual %)	140.2	5.34	+∞
Adjusted net national income (annual % growth)	-3.41	3.68*	7.09 pp
Telephone lines	6.3 million	44.3 million	603%
Telephone lines (per 100 people)	4.8	22.3	362%
Crop production index (2004-2006 = 100)	47	135*	87
Food production index (2004-2006 = 100)	40	130*	90
Livestock production index (2004-2006 = 100)	34	120*	86
Agriculture value added per worker (constant 2005 US\$)	1330	5035	279%
Energy production (kt of oil equivalent)	80084	249200*	211%
Domestic credit provided by banking sector (% of GDP)	57	111	95%
Total reserves (% of total external debt)	4.6	84.7	81pp
Net foreign assets (current LCU)	-11	528 bi	+∞
Interest payments on external debt (% of GNI)	5.04	0.67	-4pp
Total debt service (% of GNI)	7	2	-5pp
Short-term debt (% of total reserves)	312.7	8.7	-304pp
Foreign direct investment, net inflows (% of GDP)	0.8	3.4	2.6pp

Source: The World Bank, World Development Indicators.

Over this period, Brazil reduced its annual inflation rate from a peak of around 3,000% in 1990 to single digit numbers in all but one year since 1998. Curbing inflation allowed the country to walk the path of prosperity as its per capita GDP increased almost 50% from 1992 to 2011. Its public debt decreased from over 60% of GDP in 2002 to about 35% of GDP in 2012 and its foreign reserves jumped from a mere 17 billion in 2002 to near 380 billion in 2012. The employment rate decreased from around 11% in January 2005 to 5.5% in January 2013 and interest rates on the Brazilian Global Bonds soared from 13% in July 1999 to 2.7% in September 2012.

Brazil has become a “middle class country” in 2011 with about 52% of its population in the “new middle class”, as a result of socioeconomic improvement.

School attendance has drastically improved and, in 2011, over 97% of kids at age 14 or below were attending school, increase from a mere 70% in 1977. While in 1992 only about 30% of Brazilians at age 22 had completed 9 or more years of schooling, by 2011 this percentage raised to over 72%.

III. THE MAIN ACTORS AND THEIR CONTRIBUTIONS

The *Diretas Já* Movement and Sarney's Election, 1983-1984

The *Diretas Já Movement* was the most important civil demonstration, both in regards to duration (over a year of demonstrations from March 1983 to April 1984, when it attained its peak) and to territorial extension (from small cities like the aforementioned Abreu e Lima to the megalopolises like São Paulo). In spite of its strength, it was not able to make Congress pass a Constitutional amendment to implement the immediate direct election of the President. Nevertheless, its most important message became clear to the Brazilian elite: citizens wanted a complete transition to democracy.

What followed was the indirect Congressional election. The Military had to accept the full result of the indirect Congressional election that followed the *Diretas Já Movement*. In that indirect poll the civilian president Tancredo Neves was elected. Besides being a civil president, Tancredo represented a coalition that opposed the Military Regime (MR), including a new party (*Partido da Frente Liberal* - PFL). The new party was formed by dissidents of the supportive party to the military: the Partido Democrático Social-PDS, led by the elected Vice-president José Sarney. The elected president Tancredo Neves died before taking office and the former military dictatorship ally, Vice-president José Sarney, who was considered a traitor by the MR, become the first civilian president after 1964.

José Sarney: Institution-building in the Shadow of Two Giants, 1985-1990

The new appointed president took office in the shadow of two giants: elected President Tancredo Neves, and Ulisses Guimarães “father and great hero of the *Diretas Já Movement*”; president and main leader of the former opposition party; and the main supporter of Sarney’s governing coalition *Partido do Movimento Democrático Brasileiro* -PMDB. The supporting party, PMDB, was not fully aligned with and held little confidence in Sarney, as he a former ally of the military dictatorship and, as a consequence. As a result, PMDB gave only partial support to the new president.

In the economic perspective, the main legacy of Sarney’s administration was restructuring government accounts, specifically separating and isolating the fiscal and monetary accounts. In 1964 the Central Bank of Brazil was founded by the MR, resulting from a long process of separation of commercial banks and monetary policy initiatives (recommended by the international community after World War II). In spite of its authoritarian power, the MR was unable to fully implement this separation between commercial banks and monetary policy. The sequential facts lead to a consolidation of the separation of commercial banks and monetary policy, as follows.

Banco do Brasil (the commercial public bank) maintained the prerogative to use printed money, withdrawing without counterpart and forcing money issuing by Central Bank to bailout its credit operations. This mechanism was disassembled in 1986, together with several additional safeguards aimed at reducing or eliminating the possibility of money creation to support fiscal policy. The government created the National Treasury Secretariat (*Secretaria do Tesouro Nacional* – STN) and moved all fiscal accounts to STN, the so-called “monetary budget” was extinguished, remaining solely with the fiscal budget. Furthermore, the federal budget was centralized under the administration of the Office of General Budgeting administration. All individual bank accounts of Federal government organizations (about 500 commercial accounts) were unified into a unique account managed by the Central Bank (*Conta Única*).

Sarney inherited from the MR an economic environment characterized by high inflation, external debt crises and financial restrictions. This led to several failed price freezing heterodox policy attempts at stabilizing the economy, all while there was an increase in public debt. The unsuccessful attempts of stabilizing prices reduced return rates and the credibility of public bonds. In order to keep financing the government, the Sarney administration created the Overnight Interest Rate Bond, which rapidly became the major part of domestic public debt. In 1988, the New Constitution forbade the Central Bank to buy government bonds¹. The rise in domestic public debt, the difficulty to roll over debt and overnight interest rate bonds and even a moratorium on the country’s external debt led to a chaotic economic environment precisely in the year of the first direct presidential elections in 1990.

In the political arena, the new government worked to disassemble the authoritarian institutions inherited from the MR, especially: (i) restructure the police organizations (used to repress, torture and silence opposition); and (ii) eliminate censorship. Additionally, one of the main political legacies of the Sarney government was to follow the popular will and summon a National Constituent Assembly, elected by the popular vote, to write a new democratic constitution to replace the authoritarian one that had been imposed by the military in 1967.

The features of the new Constitution of Brazil, 1988

President Sarney, converted to democracy only by the end of the military rule, sought fewer changes in the new Constitution, and initially proposed the new elected Congress have the constitutional power to examine a proposal of the Constitution. However, strong popular movements, as well as strong monitoring of the work of the Constituent Assembly, forced the new Congress² to discard the Constitutional Project and write the new Constitution from scratch. Starting as a derived power, the new Congress earned the prerogative to write a new Constitution for the country³. The process of writing the new Constitution worked as a pyramid, with 24 Subcommittees at its base, each one examining a specific area of interest. There were 8 Committees, each one containing 3 Subcommittees. The 8 Committees sent a report to a Systematization Committee, which was in charge of compiling the separate Constitutional propositions and submitting a full Constitutional project to the entire National Constituent Assembly.

All representatives participated in a Subcommittee and a Committee. To illustrate, suppose a representative chose to be a member of the Subcommittee of Health and Security, part of the Committee of Social Order. He could then propose a bill related to public health. The Health Subcommittee would then examine this draft bill alongside all other proposals of the same subject (Health and Security). This Subcommittee would then prepare a report to the Committee of Social Order. The Committee included other two bodies: Labor and Minorities Rights. All the members of these bodies would gather and examine the report, and formulate a new report. The new report with a consolidated Constitutional Law proposal (containing aspects of Health and Security, Labor and Minority Rights) was then sent to the Systematization Committee. The Systematization Committee would then put together all propositions of all Committees and send a final consolidated report to the Constituent Assembly (all elected representatives) with the new Constitutional proposal. The sophistication of the internal organization of the Constituent Assembly was a consequence of strong social mobilization and popular participatory process aimed at influencing the resulting Constitution.

Social movements understood that the Constituent Assembly could change any social rule. For instance, the role of the States in the Federation could be either

strengthened or weakened; even the number of years of the presidential term was decided at Constituent Assembly level; the Judiciary's power could also be reinforced or restricted. As a consequence, Brazil lived a period of strong social mobilization, political participation and lobbying to influence its new *Magna Carta*. Never in Brazilian history had there been such a strong social mobilization aimed at insuring that citizen interests be written into the constitutional text. There were 122 projects presented to the Systematization Committee direct from civilian organizations that had gathered over 12 million signatures. The writing of the new constitution was, in fact, an extension of the popular street mobilization of the *Diretas Já Movement*.

The 1988 Constitution became a mechanism of social bargaining and consensus building. Since it was written during the aftermath of over 24 years of the MR, it strongly reflected the trauma of the Brazilian society with an authoritarian regime and, thereby, included strong guarantees of freedom of speech, religious belief, political ideology, etc. Furthermore, it carefully protects citizens against possible arbitrary behavior from the State, and establishes important social rights such as education, public health, social security, etc. Precisely for that reason it has been called the "Citizen Constitution".

Furthermore, the 1988 Citizen Constitution defined the rules of the political game to be played in Brazil henceforth. Important institutions, that formed the basis for the subsequent institutional consolidation in Brazil, were established, notably: (i) the independent Public Ministry that has become essentially a fourth national power; (ii) administrative and fiscal decentralization that made present-day Brazil one of the most decentralized federations in the world; (iii) the foundations for a universal public health system – *Sistema Único de Saúde* (SUS); (iv) social security for the poor; and (v) competitive, meritocratic selection exam mechanisms for all public positions, which is currently fostering the professionalization and the selection of highly qualified public servants, which explains why Brazilian civil service has been ranked top in Latin America (Zuvcanic et al. 2010).

Fernando Collor de Melo: The first president elected by direct suffrage since 1960, 1990-1992

The failure of the Sarney government to stabilize the economy destroyed the political capital of all politicians associated to the administration. In particular, the former *Diretas Já* hero, Ulisses Guimarães, lost popularity and had very weak performance as a presidential candidate. Brazilian society opted for a fresh political view, and chose young Fernando Collor de Mello among 22 candidates as the first elected president with 28% of the votes, in the first direct election for president in the country in 30 years (Brazilians had instated direct votes for presidency since 1989, six years after the beginning of the *Diretas*

Já Movement). President Collor political platform promised to modernize the country, curb inflation, reduce corruption, and the high wages of a few public servant categories.

Fernando Collor was sworn in as President on March, 1990, in an unfavorable social-economic context: inflation had reached almost 2,000% in the previous year and 84% in the very month he took office. The country was undergoing a process of hyperinflation. Public debt was at its highest level, indexed daily and unsustainable. Most of the country's financial asset were based on public debt and could be transformed into money and consumption in one day, which led to severe pressure on prices. In his speech as President he said he had only "one bullet to kill inflation".

The *Plano Collor* was a set of measures aimed at curbing inflation by drastically reducing liquidity in the country. These measures were based on his government's view that unconventional mechanisms should be used to avoid hyperinflation and complete economic disorganization. The Finance Team under Collor understood that most of the public debt was monetary and could become consumption instantly. Furthermore, any sudden lack of confidence could trigger an inflationary disaster. Therefore, there was a clear sense of urgency in macroeconomic policies.⁴ The Collor administration used all its political capital to impose a one-time unpopular freeze of all Brazilian financial assets, including current account balances. Every Brazilian could only have access to a small proportion of her frozen assets every month, until the frozen assets were completely returned to society.

In addition to freezing financial assets, Fernando Collor also froze 80% of prices of goods and wages; modified the indexation factor in the savings accounts (making it more forward looking); reduced current public expenditure; closed large numbers of inefficient public agencies; and dismissed public servants, increased the price of some public utilities; started a privatization process of large public companies, among other initiatives. Furthermore, Collor reduced fiscal incentives as well as agricultural subsidies. His administration's goal was to reduce public deficit as well as the strong effect of public utility tariffs on relative prices.

Collor also started a comprehensive program to eliminate non-tariff barriers and strongly reduce import tariffs. The main objective was to reduce markups and force product modernization, by exposing the national industry to external competition. In the beginning of Collor's administration the maximum tariff (effective for a large number of products) was 105%. This was reduced to 40% by the end of his official term (as highlighted by the circular object).⁵ The average tariff on imported goods fell from 35.5% in 1989 to 11.2% in 1995.

Collor administration's interventionist attitude occurred at a political cost. He lost support from citizens who had their life savings suddenly frozen, from labor organizations and businessman alike that had to face fierce foreign competition and the general population who did not see the benefits of his economic policies. Indeed, after a strong

reduction from 84% in March to 7.5% in May, monthly inflation started to grow again, reaching over 18% in December. In the beginning of 1991 he implemented a second stabilization plan, but at this time his political capital was too low. His unpopular minister of finance resigned in May 1991.

In the middle of 1991, there was a series of corruption scandals connected to Collor. For the first time after the *Diretas Já* Movement, Brazilians, mainly students with their faces painted with national flag- “*caras pintadas*”, returned to the street to protest against the President. His main political campaign platform, curbing inflation and corruption, had failed. The modernization of the economy needed more time to start showing results. Without political support or economic success, his mandate became unsustainable. Popular demonstrations had a very important role in the process that led to the impeachment of President Collor, by simultaneously pressuring and legitimizing the Congress. The impeachment of Collor followed all procedures established in the newly approved Constitution and served to consolidate its institutional role. Furthermore, it helped consolidate the new democracy by strengthening the role and the supremacy of the National Congress. The non-intentional consolidation of the Legislative power in Brazil may be, in fact, one of the most important legacies of the Collor administration.

Democratic Continuity: Vice President Itamar Franco takes over, 1992-1994

The substitution of Fernando Collor by Itamar Franco was another step to consolidate the new institutional framework after the MR. The 1967 Constitution did not allow the vice-president to substitute a president when the later was unable to complete his term; In 1969, when President Costa e Silva was forced to remove himself from office due to health problems in 1967, his Vice-president was not able to step in, causing an institutional breakdown. In contrast, in 1992, the substitution of President by Vice-president followed the steps determined by the new Constitution.

Itamar Franco took office amid political and economic distress: inflation rate reached 1.110% in 1992. In the political institutional arena, Franco implemented the constitutional plebiscite on government structure. Brazilians had the chance to choose between a presidential and a parliamentary regime and between a republic and a monarchy. Although Itamar favored a parliamentary regime, he did not try to influence the popular vote, and Brazilians confirmed their preference for a presidential republic. He also pursued investigations against Congressional representatives in the Budget Committee in Congress accused of corruption.

In the economic arena, Itamar did not hesitate to fire unsuccessful ministers and, after three unsatisfactory performances, Itamar Franco invited Fernando Henrique Cardoso (FHC) to be his Minister of Finance. FHC was granted total autonomy to fight inflation, and assembled a team of exceptional economist, building what became the most

important legacy of the Itamar Franco Government: the Real Plan. Different from other plans, the Real Plan was founded on building trust. It was announced to Brazilians previous to implementation, and planned out to occur in three phases: (i) fiscal adjustment; (ii) the full indexation of the economy with the introduction of an account (indexed) currency (URV); and (iii) the substitution of the cruzeiro (old currency) and URV (account currency) with the real (new currency). In the third stage (iii) there was also a restrictive monetary policy, through the control of money supply, coupled with an increase of reserves requirement, implementation of money targets, a new exchange rate regime (that targeted 1 real to 1 dollar in the roof and float to lower values). Lessons learned from several failed stabilization plans implemented throughout the past years (especially the Cruzado in 1986), were incorporated into the Real Plan. Its main strategy included clearly announcing future actions, leading to a more credible government and, thereby, avoiding social frustration of being caught by surprise and being deceived. The high quality economic engineering and the popular support obtained by the Real Plan, led to a successful stabilization plan. After years of failure, deception and frustration, Brazilians had become distrustful of the capacity of any Executive incumbent to control inflation. The Real Plan proved them wrong. Just as the impeachment of Collor was important to consolidate the Constitution as the main rule of Brazilian society and Congress as an autonomous and important power, the Real Plan was important to consolidate the Executive as an efficient and effective power.

Due to the success of Real Plan, FHC was elected the new president of Brazil in first turn of the following elections with 54,3% of voters against 8 other candidates. The electoral connection worked in Brazil and citizens rewarded FHC for the successful fight against inflation led by him. A new era of low inflation had started.

Fernando Henrique Cardoso (FHC): Institution-building in an adverse environment, 1995-2002

The objective of the Fernando Henrique Cardoso government was to implement reforms to consolidate the price stability that initiated with Real Plan. In order to achieve sustainable price stability, several reforms were needed, especially those aimed at reducing uncertainty about the real numbers behind public deficit and debt. FHC was the first Brazilian president to be elected for office in two consecutive terms, from 1995 to 2002.

FHC faced an important domestic financial crisis in 1995, that could have led to severe negative results, had it not been treated properly at the time, with the implementation of the PROER, a program to restructure the financial system. Prior to the Real Plan, Banks could make easy profit with floating inflationary revenues from current account deposits.⁶ After the Real Plan, this facilitated profit making mechanism ended and

several banks had difficulty adjusting to the new scenario of price stability. The Brazilian Central Bank acted promptly to change the structure of the system by increasing the responsibility of managers and owners in order to reduce systemic risk.⁷

Likewise, the state owned banks, which had in several cases been used as mechanisms for political purposes and run significant deficits that had to be bailed out by the Central Bank, could not survive in the new environment and a program to clean up the state owned banks was implemented with the PROES.⁸ Some of these state banks were closed, some sold and a few continue to operate at a lower scale. The federal government absorbed state public debt in order to implement a deficit reduction deal with the states, which had important impact on the control of inflation. With this agreement, FHC government set the base for fiscal stability in the states with two fundamental mechanisms: (i) bailing out the highly indebted states in exchange for severe fiscal discipline requirements; and (ii) the privatization of the state banks.

FHC also implemented a large-scale privatization program including the Brazilian telecom industry, the electricity production sector, the steel industry, among others. These initiatives allowed for significant private investments and huge productivity gains.

Institutionally, he designed and created independent and autonomous regulatory agencies for the newly privatized sectors. FHC implemented state reforms, fostered professionalization of the public sector (through the construction public-sector careers), and created the “Controladoria Geral da União” aiming at corruption control.

FHC focused public policy on education, health care and social policy. During his first term, public education became universal with almost 100% of all kids up to 14 years of age attending school. He created the FUNDEF (Elementary and Middle-school Funding Program), which reduced wage inequality and school funding inequality throughout the country.

In order to enforce school attendance FHC created the federal program *Bolsa Escola*, a conditional cash-transfer program to the poor. The program required that all children in the household have school attendance and medical follow up. This was the base, although at a lower scale, of the *Bolsa Família* instated years later by President Lula.

The CPMF (Contribuição Provisória sobre a Movimentação ou Transmissão de Valores e de Créditos e Direitos de Natureza Financeira) tax on monetary transactions was introduced as a means of increasing investments in public health. Furthermore, FHC passed the law on generic drugs that allowed drug prices to reduce significantly and universalized the national AIDS program, a free public treatment program for AIDS that was awarded several distinguished international honors.

In the beginning of his second term, Brazil was shaken by several international financial crises that forced an adjustment in the monetary regime. FHC then introduced the inflation-targeting regime and gave autonomy to the Central Bank to control the price

level based on an inflation target, a floating exchange rate and the interest rate (SELIC) instruments.

Furthermore, FHC administration passed, the Fiscal Responsibility Law in 2000. The law enforced fiscal responsibility at sub-national level and is considered one of the greatest institutional improvements regarding fiscal accounts - a huge support to long run price stability. Furthermore, his administration started implementing a policy of increased primary surpluses to signal the soundness of government finances.

On the political arena, FHC administration passed the reelection constitutional amendment.

In spite of successive international crises such as the Asian, the Russian and the Mexican financial crises, FHC administration was able to build the main economic institutions that consolidated price stability and created the basis for the country to prosper in the following years in a sustainable way.

However, the bank reform in the first term, fiscal adjustment and privatization created serious political criticism by the nationalistic opposition, mainly by the Labor Party (*Partido dos Trabalhadores* – PT), which won the 2002 elections.

Luiz Inácio da Silva (Lula): First Blue-Collar Worker President, 2003-2010

Luiz Inácio da Silva (Lula) was victorious at a runoff election against José Serra (FHC party candidate). Before becoming a politician, Lula was a blue-collar worker in the metallurgy sector. Lula suffered an accident at work and lost a finger in his right hand. His victory symbolized the hope for a better country for the lower classes that still suffered from poverty in Brazil.

During his first term, Lula and his Minister of Finance Antonio Palocci decided to maintain the macroeconomic framework set by FHC, based on fiscal primary surpluses, a floating exchange rate regime and an inflation targeting monetary regime. The consistency in economic policy allowed Lula to gain confidence of the international community and domestic investors.

He was the Brazilian president from 2003 to 2010 for two consecutive terms. One of Lula's important contribution to the nation in his first term was to understand the need to consistency between governments, in that the main reforms put forward by the previous government were maintained and even deepened, in order to harvest their economic and social benefits, in spite of the fact that he was coming from the left-wing opposing party PT.

Lula faced a strong confidence crisis during the first months of his term and acted quickly. He appointed Henrique Meirelles, former CEO of the BankBoston Corporation and a strong supporter of monetary discipline, as the chairman of the Brazilian Central Bank, and Antonio Palocci, a strong supporter of fiscal discipline, as the Minister of

Finance. Expectations quickly turned in favor of the Lula government and, in great part due to a favorable international environment characterized by huge purchases of Brazilian commodities from China, the country continued to grow at a steady pace.

As a consequence, Brazil's country risk reduced significantly, allowing the country and its companies to finance themselves abroad at lower interest rates. As a result, the country was able to reduce its financial debt and together with high domestic interest rate, it created an additional incentive to capital inflow. International reserves accumulated to the point where the country became a net creditor in the international market for the first time in decades. The country risk reduced further, helping to consolidate price stability and international confidence in Brazil and its government.

The Lula government sent to Congress a public sector retirement constitutional reform reducing rights that increased sustainability of public servant pensions in long run.

Lula emphasized social policy and strongly expanded the original *Bolsa Escola* program, unifying it with other government programs under the name of *Bolsa Família*. The *Bolsa Família* program became a huge political, economic and social success. Together with the gains of price stability and investor confidence, the *Bolsa Família* was one of the most important contributors to reducing poverty and fostering the economic dynamism that expanded the new Brazilian middle class. Also based on price stability and major microeconomic reforms, the Lula government was able to consolidate and further expand the credit market, to emphasize South-South trade, as well as infrastructure investment. Credit over GDP doubled during his administration from 25% to almost 50%, helping expand the economy, based on consumption and investment.

During his second term, Lula faced the spillover effects of the world financial crisis and reacted to it with a series of countercyclical policies that included temporary tax relief on consumption, expanded credit by public banks and higher government expenditure. As a result of those policies, the lower country risk and the net creditor situation, the government avoided recession in 2009 with a slightly positive GDP growth and a quick recovery in 2010 with a GDP growth of 7.5%.

On the institutional side, the Judiciary went through a significant reform with the creation of the Conselho Nacional de Justiça (CNJ) that has been contributing to the improvement of Justice Provision in Brazil. However, Lula's government weakened independence of the regulatory agencies, and strongly interfered with the Brazilian National Oil Company-Petrobrás.

Lula left the country apparently in a much better shape than when he had taken office. The unemployment rate, for example, fell from 12.2% to 6% since the beginning of his government and he was able to elect his successor, Dilma. However, the price of the countercyclical policies in terms of fiscal deficit and inflation was only felt in the following presidential term.

Dilma Rousseff: First Female President, 2011 to present

Dilma Rousseff is the first woman elected Brazilian president. She was elected with Lula's support and succeeded him on January 2011. The country was facing several challenges: inflationary pressures, reduced budget surplus and remaining spillover effects of the world financial crisis. In order to signal her determination to develop the country, Dilma started her term implementing budget cuts and increasing interest rates. Additionally she claimed that she would fight corruption in her government, gaining the support of the Brazilian middle class.

Her government continued supporting and expanding the *Bolsa Família* Program and choose as its main objective the fight against poverty. The new government emphasized investment in infrastructure and set forward a program of privatizations (concessions) of airports and other infrastructure projects. It passed an important Port Modernization Law in Congress and signed the Information Access Law that increased transparency in government actions and will have deep reach on society. Furthermore, although with delay, the new regulation of the "sub-salt" oil exploration has been defined and the first auction was successfully carried out on October 21, 2013.

The government, however, changed its macroeconomic policy, somewhat abandoning the policy based on primary surpluses, flexible exchange rate and inflation targeting. It sought to stimulate the economy by lowering the basic interest rate that reached a historic low annual rate of 7.25% in October 2012, while the government expanded expenditure. A program of tax reduction to a group of strategic industries that was successful in the past did not show great effect. On the contrary, it exposed a discretionary stimulus that increased the fear of future returns in the industry.

An expansionist fiscal policy was done in spite of high inflation pressures and increasing balance of payment fragility. The Dilma government policy also used public banks to induce a general reduction in market interest rate spreads and stimulate consumption. Her government tried to revive the success of anti-cyclical policy implemented by her antecessor (Lula) in 2009/10, but the lower unemployment rate was signaling restriction on the supply side.

Additionally, Dilma's government adopted a less predictable and less entrepreneur-friendly approach to policy and scared away new investments. Furthermore, the soft monetary policy and the expansionary fiscal policy did not reverse the negative growth trend and Brazil ended 2012 with a surprisingly low GDP growth rate of a mere 0.9%. The new government continued weakening the regulatory agencies and implemented several protectionist trade policies.

The use of "creative accounting" by the Dilma government in order to comply with the targeted primary budget surpluses created a sense of no government commitment. This creative accounting included the use of resources from the country's sovereign fund, the

abatement of the funds transferred to the National Development Bank (BNDES), the use of future sub-salt revenues from Petrobrás, inter alia.

The June 2013 street protests

On June 2nd, 2013 the government of São Paulo city announced a raise in R\$0.20 (about US\$0.09) on public transportation price (from R\$3 to R\$3.20, around US\$ 1.35 to US\$1.44). Immediately, spontaneous protest occupied the streets. The manifestations represented the first wave of strong spontaneous street protests since the impeachment of president Collor. Starting with a small number of participants, they quickly reached the mark of a thousand people and were met with violence by the police.

That violence engendered renewed support from diverse people and, within a few weeks it spread over the entire national territory with very diverse demands, from lowering the prices of public transportation to demanding better quality of public services, the end of corruption and criticizing the high cost of the soccer arenas for the coming World Cup in 2014. Even low inflation and the defense of inflation target were points sought out through the protests. On June 20th, there were manifestations in over 388 cities with over one million people in the streets.

The phenomenon took most Brazilians by surprise, politicians and citizens alike. The present protests had no clear unified demands, no centralized command and no political affiliation. In fact it was spontaneous and apolitical. They shook the political establishment and civil society. President Dilma went on national television to justify and explain her government's position in response to the popular demands.

The protests had important immediate consequences. First, Congress started working at a faster pace. Within a few weeks the Constitutional Amendment 37 –which aimed at limiting the scope of the action of the Public Ministry– was rejected, an important victory against corruption. Other approved initiatives were: cuts in the World Cup infrastructure budget; an important anti-corruption law; and the bill that reserved the revenues from the “sub-salt” oil production to be used only in education and health care expenditure. Second, Dilma's government monetary policy changed and the interest rate started rising again to face the inflationary pressures. And there are signs indicating that fiscal policy has become more austere with the reduction of the transfers to the BNDES from R\$45 billion to R\$35 billion in 2011.

The country that saw its citizens in the street asking for direct vote for president and participating in the making of the new Constitution, that saw its students on the streets asking for the impeachment of President Collor, now sees its citizens, country-spread, on the streets asking for better public services, less corruption and lower inflation. These new protests however present levels of violence not seen in previous manifestations. How can we explain that change, how can we explain such protests in a country that is worldly

known as a peaceful and even somewhat passive society? A consensus for the explanation of this phenomenon is yet to be formed. However, it is worth to mention a few possible answers.

First, one should note that this phenomenon might be less common in other Latin American countries than in Brazil. Machado, Scartascini, Tommasi (2011) have studied street protests in Latin America and concluded that “where institutions are strong, actors are more likely to participate in the political process through institutionalized arenas, while where they are weak, protests and other unconventional means of participation become more appealing.” In other words, if citizens doubt their institutions’ effectiveness, especially their political representation, they will go to the streets to force changes, as seems to have been the case in Brazil. Indeed, the consistent budget manipulations started during the Lula administration, but more clearly done in the Dilma administration with the use of creative accounting, the low GDP growth of 0.9% in 2012, the never-ending *Mensalão* corruption scandal trial, among others, might have generated an overall distrust of the population with respect to the country’s institutions, which may explain the protests in line with the aforementioned reference.

Second, in an anticipatory article published in 2011, FHC explains the social short circuit theory, that states that in society, as in electrical systems, an electrical wire that loses its insulation may generate an unexpected short circuit any moment, but the short circuit is, in fact, a consequence of long-lasting careless maintenance of the electric system. The Brazilian government has been adopting unsound economic policies throughout Lula’s second term until the present. The rise in public transportation cost, the inappropriate police handling of the first street protest and the advent of easy social network information spread in a country where the middle class has become more present and demanding, might have generated the conditions for the social short circuit to occur.

Third, Francis Fukuyama made that point more precise when he analyzed the Brazilian protests as a manifestation of a more general and widespread phenomenon that he calls “the middle class revolution”. In several countries, a new middle class has emerged. That middle class is better educated, more demanding on the government and ethical behavior, and is eager to consolidate its citizenship. In Brazil, they are also very inflation-averse, as many of them are indeed vulnerable and can easily fall back into poverty if price levels increase. Therefore, the protests can be seen as a consequence of the failure of the government to fulfill this new middle class’ rising expectations of a more effective and ethical handling of public policy.

We could add a fourth explanation to this phenomenon. The previous popular manifestations were based on the established middle class. First asking for democracy and the right to elect the president, second to have a new democratic Constitution and then to impeach a president that did not fulfill his promises (commitment to lowering inflation and fighting corruption). Those demonstrators did not depend much on public goods

provision. The new political actors include people that were below the poverty line just a few years ago, the former poor and the new middle class. This part of the population depends upon public goods and they feel in their daily routine the consequences of bad quality public goods such as public transportation, public health and public education. For an important part of these new actors, high inflation could send them back below the poverty line. These new actors of the Brazilian popular demonstrations know immediately the effect of bad policies in Brazil and, thereby, are less patient or lenient, requiring a faster response from the government.

If this interpretation is accurate, then we might expect that the street protests will not end anytime soon, and will remain violent. The positive consequence is that these protests will force the public institutions and their administrators and governments to offer society better quality public goods and services, which could be an important step for Brazil to finally enter the selected group of advanced economies.

IV. CONCLUSION: THE CHALLENGE AHEAD

The main goal of this article was to discuss the fundamental moments of the 30-year period that changed Brazil, focusing on the institutional consolidation process in the country and how popular manifestation influenced these developments.

The paper presented evidence that the population was present in the street in the most fundamental moments, such as the *Diretas Já* Movement, demanding the right to elect their president, the mobilization around the National Constituent Assembly, the impeachment of president Collor and since June of 2013, the recent street protests. All these movements ask for improvement of public policy, political rights, honesty in politics, among others.

The paper presented the evolution of the main institutions and the main actors in that process, focusing on the role of citizens' demonstrations, the new "Citizen Constitution" of 1988, and the administrations of Presidents José Sarney, Fernando Collor de Mello with Itamar Franco, Fernando Henrique Cardoso, Luiz Inácio Lula da Silva and present President Dilma Rousseff.

Since 1993 Brazilians have selected a unique and fortunate trio of Presidents that have reflected their political priorities of controlling inflation, investing in education, reducing poverty and inequality, and consolidating democracy. The electoral system has worked as a control mechanism that has pushed elected Presidents in the direction of fulfilling citizen demands.

It appears that, whenever feeling unheard, citizens went to the streets to pressure the government, as they did before, during Collor impeachment and more recently during the street protests in Dilma's term. Institutions have consolidated and a system of institutional

checks and balances is taking root in the workings of the three powers and the Public Ministry. Investors (national and international ones) and the global financial markets have added a very important degree of control on the government fiscal management, especially after the Brady Plan for debt renegotiation in the 1990s.

Due to the policies implemented since the Real Plan that curbed inflation, Brazil has been able to grow in a seemingly more sustainable way, taking over 30 million people out of poverty and making progress in education. In fact, although we can't find empirical evidence yet, the authors believe that part of the recent income gains in Brazil is a consequence of productivity gains due to education. That progress in income and education, however, has brought about a new type of citizen, the "new middle class". These citizens are more watchful of government policy choices and more demanding in terms of public goods provision. This is the Other New Brazil or the Newer Brazil that the political class will need to face from now on in order to maintain its hope for political survival.

¹ Central Bank could only buy treasury bonds to renew its portfolio.

² The same people were elected to representative in the Parliament and in the National Constitutional Assembly.

³ Original Power gives the representatives the power to change every aspect of the prevailing legal structure. Normally it happen when there is a revolution that overthrows the old legal system. Derived power is limited; for example, the Congress can alter the Constitution with 2/3 of voters, but cannot alter fundamental principles.

⁴ See Carvalho (2006) to more details on the "Collor Plan".

⁵ Since Collor was impeached, his vice-president, Itamar Franco, took over and finished his term.

⁶ Banco Central do Brasil, "Nota Técnica" 11/2000. There are indications that the bank system lost around 4% of GDP of float revenue with the end of inflation.

⁷ See Gonçalves (2007) and Banco Central do Brasil, (<https://www.bcb.gov.br/?PROER>)

⁸ See Maia and Perez (2001)

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