Abstract

This thesis examines economic policy stability in Argentina and Brazil, where by “policy stability,” I mean “the level of fluctuation in policies.” It seeks to answer the question of why over the past twenty years Brazil has witnessed a remarkably higher degree of policy stability than Argentina.

I argue that Argentina and Brazil experienced different levels of policy stability for two reasons. Firstly, Argentina had significantly weaker institutions of horizontal accountability than Brazil. Because congress and the judiciary were weaker in Argentina, there were fewer veto players, thus making policies at the whim of an executive who could change them rapidly with few obstacles in the way. Secondly, Brazil witnessed greater policy stability because of the higher level of compromise and negotiation in its political system. I place a particular emphasis on the party system, and argue that the higher level of consensus-building among Brazilian political actors is due in large part to the fragmented nature of the country’s party system, which: a) forced political actors to work together in coalitions, and b) obliged presidents to seek support for their initiatives beyond their own party. Policies that are the product of extensive compromise and negotiation are more likely to endure in the long term because they are both more moderate in nature and better designed to adapt to the changing needs of the country.

After linking these two independent variables to policy stability on a theoretical level, I use three representative case studies to illustrate this link, namely pension reform, monetary policy, as well as privatization/nationalization schemes.
The Politics of Policy Stability: Explaining the Levels of Volatility in Economic Policymaking in Argentina and Brazil between 1990 and 2010

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Chapter I: Introduction

At the beginning of the 1980s, Argentina and Brazil began transitions from bureaucratic-authoritarian military regimes to democracies. For both countries, this was a period of great uncertainty, and in addition to economic fears, many worried that the nations might slip back into military dictatorships. Although the military would never come back to power, life was not easy for Argentine and Brazilian citizens. The Latin American debt crisis wrought havoc on both countries, and the “lost decade” was characterized by high inflation, lower real wages and austerity. In the political domain, the countries were equally turbulent, and while Argentina experienced a political crisis in 1989 which led to the resignation of President Raúl Alfonsín, Brazil experienced a crisis in 1992 where President Fernando Collor was impeached.

Although various elements common to post-military Argentina and Brazil are worthy of examination, the focus of this thesis will be on policy stability. In a comparison of the levels of policy stability in Argentina and Brazil over the past two decades, an intriguing puzzle becomes evident. Although at the beginning of the 1990s Argentina had a more institutionalized party system and a more stable economy than Brazil, over the course of the past twenty years, Brazil has witnessed a remarkably higher degree of policy stability. By “policy stability,” I mean “the level of fluctuation in policies.” For example, if a country suddenly decides to nationalize major banks, this would be deemed policy instability. However, if a nation maintains a consistent economic model over an extended period of time, this would imply policy stability. While in Argentina laws and
governance models would change radically in a relatively short period of time, the policies enacted by its neighbor to the north for the most part have not been reversed. In this thesis, I will attempt to solve this puzzle and provide the answer for why throughout the past twenty years Brazil has exhibited significantly more policy stability than Argentina, and will narrow my focus to policies in the economic realm.

The importance of policy stability

Before continuing further in our examination of policy stability in the two countries, it is important to understand the significance of this area of study. The main reason why policy stability is valuable is because it is critical to economic growth and investment (particularly foreign investment). Investors want to ensure that they recover the money they put into a venture, and thus want the security that the “rules of the game” will not change. Scartascini, Stein and Tomassi go so far as to argue that a low-quality but stable set of policies is in fact more beneficial than a high-quality but constantly fluctuating set of policies. They write that “the predictability of the incentives created by a trade regime, or lack thereof, is generally of much greater importance than the structure of these incentives. In other words, a distorted, but stable set of incentives does much less damage to economic performance than an uncertain and unstable set of incentives generated by a process of trade reform lacking credibility.”

The notion that policy stability affects economic growth and foreign investment is also supported through numerical studies. Based on an index of

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1 Scartascini, Stein, Tomassi 2008; p.4
policy stability provided by Pereira, Singh and Mueller, a regression has been set up comparing policy stability with average economic growth over the past twenty years in a sample of 13 Latin American countries. The results indicate that as policy stability increases, economic growth will on average rise as well (see Figure 1). Another regression was performed where in another sample, policy stability was compared with Foreign Direct Investment as a percentage of GDP. The result yielded a clear correlation, and as policy stability increased, so did the levels of Foreign Direct Investment (see Figure 2).

**Figure 1: Relationship between policy stability and economic growth (2000 to 2009)**

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2 Data obtained from Pereira, Singh and Mueller 2011 and World Bank, World Development Indicators
Explaining variation in policy stability

In this thesis, I will argue that Argentina and Brazil experienced different levels of policy stability for two reasons. Firstly, Argentina had significantly weaker institutions of horizontal accountability than Brazil. Because congress and the judiciary were weaker in Argentina, there were fewer veto players, thus making policies at the whim of an executive who could change them rapidly with few obstacles in the way. Secondly, Brazil witnessed greater policy stability because of the higher level of compromise and negotiation in its political system. I will place a particular emphasis on the party system, and argue that the higher level of consensus-building among Brazilian political actors is due in large part to the fragmented nature of the country’s party system, which: a) forced political

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3 Data obtained from Pereira, Singh and Mueller 2011 and World Bank, World Development Indicators
4 Note: Although it is likely that policy stability leads to higher levels of foreign direct investment, there is a possibility that the causal relationship might work the other way. It might be the case that in fact high levels of foreign direct investment encourage governments not to change policies, as is the case in countries like Peru.
actors to work together in coalitions, and b) obliged presidents to seek support for their initiatives beyond their own party. In contrast, because of the lack of fragmentation in the Argentine party system (where unified government is not uncommon), compromise and negotiation has been virtually inexistent, and even in the cases where policies did go through congress (as opposed to through decrees), presidents often relied on their working majorities in order to avoid extensive debate. Policies that are the product of extensive compromise and negotiation are more likely to endure in the long term because they are both more moderate in nature and better designed to adapt to the changing needs of the country.

In Chapter II, I will provide the theoretical foundation of my argument, and will link policy stability to the strength of institutions of horizontal accountability and the level of consensus-building in the party systems. After linking these two independent variables to policy stability on a theoretical level, in the subsequent three chapters, I will use three representative case studies to illustrate this correlation, namely pension reform, privatization/nationalization schemes of state-owned enterprises, as well as monetary reform. In the final chapter, I will briefly address two alternative explanations, and conclude with an analysis of the theoretical contributions of this thesis.
Chapter II: Linking policy stability to the strength of institutions of horizontal accountability and the level of consensus-building

This chapter will link policy stability to the strength of institutions of horizontal accountability and the level of consensus-building on a theoretical level. In the first part of this chapter, I will begin with a discussion of the dependent variable, and from both a qualitative historical analysis and quantitative numerical analysis justify my claim that throughout the past twenty years policy stability was higher in Brazil. I will then elaborate on how this outcome is particularly puzzling considering that: a) Argentine political parties were significantly more institutionalized than their Brazilian counterparts, and b) Argentina was better off economically at the beginning of the 1990s and it seemed that a popular consensus had finally emerged as to the “right” economic model. Afterward, I will analyze the first root cause of this divergence between the countries, namely the strength of institutions of horizontal accountability. Finally, I will discuss the second root cause, namely the level of consensus-building that exists.

Assessing policy stability

Argentina

Since the late 1980s, Argentina’s economic policies have been highly volatile, and this can firstly be seen through the collapse of the heterodox plan of Raúl Alfonsín (the first democratically-elected president following the military dictatorship) which combined the creation of a new currency, the austral, with
price and wage freezes. The plan failed, with inflation reaching over 3000% in 1989\textsuperscript{5}; Alfonsín’s successor, Carlos Menem, drastically changed course, commencing one of the most neoliberal economic models seen in Latin American history. He combined orthodox economic measures with the privatization of the pension system and many state assets including the national airline, the rail system and utilities. The centerpiece of Menem’s plan was the creation of the Currency Board (through the Convertibility Plan), which pegged the Argentine peso 1:1 with the US dollar. During his tenure as president, Argentina became one of the most business-friendly countries in Latin America, and after many years of both economic and political volatility, the nation seemed to finally have achieved stability. Nevertheless, following the 2001 economic collapse, many of the reforms that were commenced under Menem were rolled back by the successive administrations of Néstor Kirchner and his wife, Cristina Kirchner. The privatization program was reversed, and in addition to the renationalization of the national airline, what is particularly remarkable is that within a time span of less than 15 years, the pension system was privatized and renationalized again. Additionally, the orthodox monetary policies which had been adopted in the 1990s were abandoned in favor of a loose monetary policy, causing inflation to rise to almost 30% today.

\textit{Brazil}

While Brazil also started out with a certain degree of policy instability in the late 1980s, by the mid-1990s, the economic policies became significantly

\textsuperscript{5} World Bank. World Development Indicators
more durable. After the military dictatorship ended in 1985, the first democratically-elected government led by José Sarney attempted a sweeping currency reform. A new currency, the cruzado was created, along with price and wage controls. Just like in Argentina, this policy collapsed, and by 1990 inflation had reached almost 3000% per year. A new leader, Fernando Collor was then elected, who attempted a series of radical neoliberal reforms aimed at reducing inflation, including freezing bank accounts. These reforms however failed, and President Collor was later impeached by Congress on corruption charges.

Afterward, under presidents Itamar Franco and Fernando Henrique Cardoso, a comprehensive monetary reform known as the Real Plan (which created a new currency, the real) was successfully adopted to help stem inflation, along with policies which promoted privatization and the creation of a business-friendly environment. In the late 1990s, Brazil also experienced an economic shock as a result of the Russian debt default and the Asian Financial crisis; yet, unlike in Argentina where the economy collapsed and the neoliberal policies were reversed in the 2000s, throughout this turmoil in which the real lost two-thirds of its value, the Brazilian economic model proved resilient. In the 1998 election voters rejected the more leftist ideas of the PT Party in favor of continuing Cardoso’s neoliberal policies, and the Brazilian response to the crisis thus consisted of austerity measures such as tax hikes rather than an abandonment of the economic model. Even during the presidency of Luiz Inácio Lula da Silva (Lula), a trade unionist from the PT who became head of state in 2003, despite fears that he would reverse many of the neoliberal policies begun under Franco and Cardoso,
he did not turn to socialism, preferring instead to implement social policies on the margins. Levitsky and Murillo describe the concept of durability as the ability of policies/institutions to survive crisis, and using this indicator, the policies generated in Brazil throughout the 1990s were significantly more durable than those created in Argentina in this period.  

The following diagram illustrates the diverging trajectories of Argentina and Brazil over the past twenty years:

Figure 3: The diverging trajectories of Argentina and Brazil

**Late 1980s:** both Argentina and Brazil adopt heterodox monetary reforms which failed. In the case of Argentina, a new currency, the *austral* was created in 1985, yet inflation surpassed 3000% in 1989. In Brazil, a new currency, the *cruzado*, was created in 1986, yet inflation almost reached 3000% in 1990.

**Early-Mid-1990s:** both Argentina and Brazil flip-flop and adopt orthodox, neoliberal policies. Argentina pegged its currency 1:1 with the US dollar between 1991 and 1992, and began a mass-privatization program; Brazil introduced the Real Plan in 1994 and also began the privatization of numerous state-owned industries.

**Late 1990s-Early 2000s:** both Argentina and Brazil experience economic shocks

**2000s-present:** Argentina abandons the neoliberal policies of the 1990s

**2000s-present:** Brazil continues the neoliberal policies of the 1990s

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6 Levitsky, Murillo 2009
The Fraser Index of Economic Freedom

One way in which it is possible to quantitatively assess the degree of policy stability in Argentina and Brazil is through the Fraser Index for Economic Freedom, which uses several indicators to rate countries on the degree to which the nation’s environment is business-friendly. This index is particularly valuable in determining the degree of economic policy stability, since it helps to control for fluctuations in economic growth and external shocks. High levels of fluctuation in economic freedom would indicate a high degree of policy instability, whereby low levels of fluctuation in economic freedom would indicate little policy instability.

According to the index, Brazil since 1990 has consistently ranked between the 90th place and the 110th place in terms of economic freedom, whereas Argentina has seen more fluctuation. Although it was in the 96th spot in 1990, by 1995 it had moved to the 32nd spot. However, by 2003 it had fallen back to the 99th spot and in 2009 it was ranked 119th of 141 countries. The following table compares the scores on the economic freedom index for Argentina and Brazil. The final row includes a term which I define as “total volatility,” which is the sum of all the changes in economic freedom values from the years listed in the table.
Figure 4: A comparison of economic freedom in Argentina and Brazil since the 1990s

<table>
<thead>
<tr>
<th>Year</th>
<th>Brazil</th>
<th>Argentina</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>4.3</td>
<td>4.7</td>
</tr>
<tr>
<td>1995</td>
<td>4.5</td>
<td>6.8</td>
</tr>
<tr>
<td>2000</td>
<td>5.9</td>
<td>7.2</td>
</tr>
<tr>
<td>2005</td>
<td>6.3</td>
<td>5.9</td>
</tr>
<tr>
<td>2009</td>
<td>6.2</td>
<td>5.9</td>
</tr>
<tr>
<td>Total volatility</td>
<td>2.1</td>
<td>3.8</td>
</tr>
</tbody>
</table>

As this table indicates, Argentina has witnessed significantly more policy instability than Brazil, with a total volatility almost two times higher (3.8 vs. 2.1).

Why the different outcomes of Argentina and Brazil are puzzling

The diverging outcomes in policy stability are particularly unexpected and intriguing considering the historical weakness of political parties in Brazil, particularly as compared to Argentina. In Argentina, the two main parties, the Peronist Party (also known as the PJ, Justicialista or Justicialist Party) and the Radical Party (also known as the UCR, Radical Civic Union, or Unión Cívica Radical) were both highly institutionalized by the early 1990s. The Peronist Party had its roots in the 1940s labor movement, and as a result of its strong ties to unions and mass appeal, Peronism continued to be one of the strongest forces in Argentine politics for decades after Peron was exiled in 1955. Even though various military regimes attempted to destroy the Peronist movement, sometimes using brutal tactics (particularly during the “Dirty War”) such as kidnappings and torture, Peronism survived and regained control of the presidency in 1989. Today,

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7 Data obtained from the Fraser Institute
8 Note: 2009 was the last year for which data was available
as Levitsky argues, “the PJ remains deeply embedded in working- and lower-class society through linkages to a variety of (formal and informal) organizations.”

The second major force in Argentine politics during the twentieth century was the Radical Party, which is one of the oldest political forces in the country, whose roots can be traced to its founding in 1891. Since then, its support base has largely been among the middle-to-upper classes, particularly in urban areas such as the city of Buenos Aires.

Whereas Argentina had a long history of two highly institutionalized parties, Brazil by contrast came into the 1990s with a very weak party system. This sentiment is echoed by Mainwaring, who claims that “in post-1985 Brazil, the party system has been weakly institutionalized…Weak party roots in society were manifested in low levels of party identification, limited party voting, sharp discontinuities in patterns of party support, and in citizens’ statements that party does not determine their vote.”

In the 1994 election, the top three parties were the PMDB, PFL and PSDB (27.2%, 22.2% and 13.6% of the seats in the Senate respectively). As a successor to the MDB party (which was the only party in addition to the pro-government ARENA party that was allowed to function during the military dictatorship), the PMDB was officially formed in 1980. Unlike the Radical Party or the Peronist Party in Argentina, the PMDB has almost no ideological or electoral basis and operates in an undisciplined manner around clientelism. Although the PFL and the PSDB do have an ideological basis unlike the PMDB (the PFL is a center-right party and the PSDB claims to be center-left),

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9 Levitsky 2003; p.62
10 Mainwaring 1999; p. 135
11 Montero 2005; p.55
they were new parties which lacked the strong institutional frameworks that were in place in the case of the Radical and Peronist parties in Argentina. While the PFL was founded in 1985, the PSDB was only created in 1988. In a 1996 publication, Kurt Weyland expresses particular concern about the lack of institutionalization within the Brazilian party system, and writes:

> With rare exceptions, democratization has not prompted Brazil’s parties to acquire firmer organization and program commitment. To the contrary, parties have become even more fluid in recent years. Several new parties have emerged, especially through splits away from the opposition front against the military regime, which became the Party of the Brazilian Democratic Movement (Partido do Movimento Democrático Brasileiro—PMDB). The movement of politicians in and out of parties has assumed enormous proportions. Party loyalty has remained low. In their effort to attract new followers, few parties champion ideological principles or specific programs.\(^{12}\)

The differing outcomes of Argentina and Brazil are also particularly interesting considering that in the 1990s, it seemed that Argentina was a model for Latin America in economic terms. On the surface, it appeared that not only had Argentina solved its problems with inflation, but also that a consensus had been reached by the population on what the economic model should be for Argentina. The strong economic growth as well as the popularity of the government at the time reinforced this notion. Nevertheless, in Brazil no such economic and political consensus seemed to have appeared, and this lack of direction for the country was further reinforced through the weak parties which dominated both houses of congress.

In short, I have attempted in the past three parts of this chapter to demonstrate two points. Firstly, I have shown how although by the late 1980s and early 1990s Argentina and Brazil both had unstable policies, throughout the past two decades there has been relative stability in the latter. I have also made the

\(^{12}\) Weyland 1996; p.72
case for why this outcome is puzzling considering the stronger economy and
greater party institutionalization in Argentina. In the next following two parts, I
will provide insight into this puzzle through an examination of the two
independent variables.

**The difference in institutional strength between Argentina and Brazil**

In this section, two institutions will be examined, namely congress and the
judiciary. I will firstly describe the mechanism through which the strength of
these two institutions affects policy stability, and then illustrate the weakness of
these institutions in Argentina relative to Brazil. The weakness of Argentine
institutions is summarized by Levitsky and Murillo when they write that
“Argentina followed a path of institutional instability after 1930. Decades of
regime instability, in which both rules and rule-making processes were repeatedly
overturned, had a powerful effect on actor expectations. Owing to the frequent
collapse, suspension, or purge of institutions as important as the constitution,
Congress, and Supreme Court, Argentines came to expect instability.”

*How congressional and judicial strength impact policy stability*

In his work titled, “Veto Players,” George Tsebelis argues that stronger
veto players such as congress and the judiciary increase policy stability by making
it more difficult for political actors to change the status quo. He writes that “the
size of the winset of the status quo has specific consequences on policymaking:
significant departures from the status quo are impossible when the winset is

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13 Levitsky, Murillo 2009; p.123
small—that is, when veto players are many—when they have significant ideological distances among them and when they are internally cohesive.”

Tsebelis’s notion is also supported by Pereira, Singh and Mueller, who argue that “because strong legislatures will have greater ability to serve as a veto to presidential prerogatives, legislative power and policy stability should have a positive relationship. The correlation between these two variables is 0.738, indicating that stronger legislatures may act as effective checks on the executive.” This idea is also described by Ames who claims that “a larger number of veto players increases the stability of policy…in sum, the veto-players framework yields important insights for Latin America in general and Brazil in particular. Excesses of veto players as well as greater ideological distances between veto players both decrease the chances of significant legislation.”

In adding to the argument proposed by Tsebelis, it is important to briefly make the distinction between veto players on paper versus in practice. Although constitutionally a president might have very strong powers, in practice he/she may work actively with other institutions of horizontal accountability in order to pass legislation (as in the case of Chile). On the other hand, although some presidents might be constitutionally endowed with very weak legislative authority, in practice they might play a significantly stronger role (as in the case of Mexico).

With regards to our two cases, in theory Brazil has a stronger presidency than Argentina. In their article for the Inter-American Development Bank, Payne et al numerically quantify the strength of various presidents in Latin America, and

14 Tsebelis 2002; p.2
15 Pereira, Singh, Mueller 2011; p.68
16 Ames 2001; pp. 13, 17
Brazil’s executive received a significantly higher score than Argentina’s, with an overall index value of 0.60 compared to 0.47. The following table drawn from data in the above article shows the degree to which the constitution grants various powers to the executives, and on almost all accounts (with the notable exception of the veto), Brazil’s president is substantially more powerful.

**Figure 5: An examination of the constitutional powers granted to Argentine and Brazilian executives**

<table>
<thead>
<tr>
<th></th>
<th>Decree</th>
<th>Budget</th>
<th>Total proactive power</th>
<th>Veto</th>
<th>Partial veto</th>
<th>Exclusive initiative</th>
<th>Total reactive power</th>
<th>Total legislative power</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>1.00</td>
<td>0.91</td>
<td>0.96</td>
<td>0.15</td>
<td>0.15</td>
<td>0.67</td>
<td>0.38</td>
<td>0.60</td>
</tr>
<tr>
<td>Argentina</td>
<td>0.33</td>
<td>0.45</td>
<td>0.38</td>
<td>0.85</td>
<td>0.85</td>
<td>0.00</td>
<td>0.48</td>
<td>0.47</td>
</tr>
</tbody>
</table>

Despite the stronger constitutional powers granted to the Brazilian president, as will be shown in the next section, in practice the Argentine executive has been significantly stronger than the Brazilian counterpart, and while Argentine presidents since Menem have made heavy use of their decree power to bypass the legislature, all Brazilian presidents since Collor actively worked with congress (even though Brazilian presidents on paper have more substantial decree powers). Similarly, although the constitutions of both countries guarantee the independence of the judiciary through lifetime tenure for judges, as we shall see, in practice the Argentine Supreme Court has been highly politicized whereas in Brazil it is a very effective institution of horizontal accountability.

The difference between the strength of institutions of horizontal accountability in theory vs. in practice is also expressed by O’Donnell, who in his

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17 Payne, Zovatto, Diaz 2007
1994 paper on delegative democracy,\textsuperscript{18} implies that the strength of institutions such as congress and the judiciary is determined by a long process of institutionalization rather than simply a set of rules dictated by the constitution. In order for the rules and procedures on paper to also apply in reality, a “time dimension”\textsuperscript{19} is required in which these rules become routinized, and politicians both come to expect their colleagues to follow certain procedures and are aware that any attempts on their part to deviate from them will result in negative repercussions. O’Donnell summarizes this concept when he writes that following the process of institutionalization:

Institutional leaders and representatives come to expect behaviors within a relatively narrow range of possibilities from a set of actors that they expect to meet again in the next round of interactions. Certain agents may not like the narrowing of expected behaviors, but they anticipate that deviations from such expectations are likely to be counterproductive. This is the point at which it may be said that an institution (which probably has become a formal organization) is strong. The institution is in equilibrium; it is in nobody’s interest to change it, except in incremental and basically consensual ways.\textsuperscript{20}

As I will show in this thesis, while in the case of Brazil the rules and procedures elaborated in the constitution are institutionalized, in Argentina they have been largely ignored by the main political actors over the past twenty years.

The argument of this section is summarized in the diagram below, and in the next two sections, the strengths of congress and the judiciary in practice of Argentina and Brazil will be examined in detail.

\textsuperscript{18} A delegative democracy is a regime in which although the president is elected democratically, during his/her term in office, he/she in practice governs like a dictator
\textsuperscript{19} O’Donnell 1994; p.98
\textsuperscript{20} O’Donnell 1994; p.97
**Figure 6: How institutional strength influences policy stability**

Institutions of horizontal accountability or “veto players”

- A stronger judiciary *in practice*
- A stronger congress *in practice*

It is more difficult for the executive to change the policies in place

Greater policy stability

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*Congress*

The Argentine congress is weaker than its Brazilian counterpart first of all in terms of technical capacity. Unlike in Brazil, where congressmen have a wide variety of research tools at their disposal, congressmen in Argentina do not have the resources needed to carry out their duties. The lack of resources of the Argentine congress was described in an interview with federal deputy Alfonso Prat Gay, who in explaining that congressmen lack even the physical space necessary to work, argued that “congress is merely a trampoline for the next project of the executive rather than a body which seriously represents the people.”

In another interview, Patricio Merlani, the Chief of Staff of Prat Gay, 

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21 Author’s interview with Alfonso Prat Gay.
mentioned that federal deputies are given a budget of merely $5,000 per month to pay for staff. This forces many politicians in the Argentine congress to contribute their own money toward financing their mission, placing them at a particular disadvantage relative to the executive, which possesses significantly greater resources.

On the other hand, Brazilian deputies are given significantly greater funding, with a budget of around $35,000 (R60,000) per month to pay for staff, more than seven times the Argentine figure. Recently, there has been a motion in parliament to further raise this sum by 33%, and while the budget for the Brazilian congress has been continuously increasing, between 1995 and 1998, the Argentine Congress faced steep budget cuts as part of a nationwide move to trim federal expenses. The only organ which experienced a growth in the budget over this period was the Senate, yet this growth was offset by an increase in the size of the body. Because of the budget limitations, congressmen in Argentina cannot in most circumstances hire more than three to four aides, whereas in Brazil legislators can hire up to twenty-five. Between 1993 and 2000, the total number of congressional staff in Argentina declined by 13%, and the breakdown of figures is shown below:

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22 Author’s interview with Patricio Merlani
23 DIAP 2011
24 Veja 2011
25 Corrales 2004
26 Corrales 2004
Another area in which the technical capacity of the two congresses differs is in relation to external bodies that advise congress. While in Brazil there is an Office of Technical Advisors with over 500 employees to help congressmen carry out research, in Argentina there is no such body. In particular, Argentina lacks a budget office, and because of the lack of an organization which can evaluate the costs of programs independently of the executive, any discussion surrounding the budget between the executive and legislative branches is instantly unequal. While currently a bill has been proposed to introduce a congressional budget office similar to that of the United States, this legislation has not yet reached a congressional committee.

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27 Corrales 2004
28 Hallerberg et al 2009; p.306
29 Author’s interview with Alfonso Prat Gay.
Critically, the difference between the technical capacities of the two congresses lies in the experience of legislators. The rate of reelection in the Argentine Chamber of Deputies is only 20\%,\textsuperscript{30} whereas in Brazil this figure stands at over 50\%.\textsuperscript{31} One of the main causes for the divergence in the rate of reelection of these two congresses is the electoral system. In Argentina, the system that is used is closed-list, thus giving party bosses significant power. Providing party leaders with more influence creates a higher rate of turnover for two reasons: firstly, legislative seats are often treated as political rewards for party bosses to distribute to their most loyal allies, and as Corrales argues, party leaders have “an interest in rotating the individuals who occupy those seats so as to always have an ample supply of rewards to offer to party friends.”\textsuperscript{32} Secondly, as Jones mentions, party bosses often feel threatened by rising politicians, and in order to safeguard their positions of strength within the political system, they rotate the candidate list every four years so as to lower the risk that another politician rises to challenge them.\textsuperscript{33} This argument is summarized in the diagram below:

**Figure 8: How the closed-list system in Argentina impacts congressional turnover**

| The closed-list electoral system in Argentina | Party leaders have significant power, and they have incentives to rotate the individuals in congress | Congressional turnover is higher and there are fewer career legislators |

\textsuperscript{30} Jones 1998  
\textsuperscript{31} Samuels 2008  
\textsuperscript{32} Corrales 2004; p.6  
\textsuperscript{33} Jones 1998
Nevertheless, in the Brazilian open-list system (which will be discussed in greater detail in the next section), party bosses have significantly less power, and as a result the turnover rates are lower. This concept is neatly summarized by Samuels, who writes:

The critical difference is that in many of these countries [including Argentina] party leaders (provincial or national) decide not only who gets on the ballot but also the placement of candidates on the ballot. Thus even if deputies in those countries have static ambition, their own preferences are less relevant, and party leaders’ preferences are more important. That is, in other countries the reason turnover is higher is precisely because national party leaders control incumbents’ careers. In Brazil, individual candidates make the decision to run or not, and voters ultimately decide candidates’ placement on the list, making the “re-election dynamic” more like what we see in the US.34

In addition to the fewer resources that the Argentine congress possesses and the lesser experience of the legislators, Argentine congressmen have fewer incentives to “do their homework.” As was described earlier, legislators are highly dependent on party bosses, particularly for what will come after their term expires. By the end of their term, most legislators will want to maintain a career in government, and hope to either run for reelection or move on to other prestigious positions within state institutions. In either of these two scenarios, maintaining a solid relationship with party leaders is critical, and thus during their time in congress legislators will often adhere to the party position. In other words, it is not in the interest of congressmen to take positions independent of their party, as is common practice in countries such as Brazil and the United States where it is not unusual for legislators to “step across the aisle.” As a result, legislators have little incentive to research and be informed on the bills they vote for, since their sole goal is to please the party leadership who will ultimately be critical for their future careers. Corrales agrees with this notion, and writes that “absent a

34 Samuels 2008; p.14
recommendation (or mandate) from the provincial party boss to vote against the national party, the legislator has no incentive to deviate. The legislator, then, has little incentive to be informed about the bills he or she is voting on. Under such electoral incentives, legislators have no incentive to work hard to improve their visibility in the eyes of the voters, or to develop legislative policy expertise.\textsuperscript{35}

In addition to a lower technical capacity, the Argentine congress has largely failed to act as an effective check on the president, and this was especially visible throughout the leadership of President Carlos Menem. One of the most common methods through which Argentine presidents bypass congress is the Decreto de Necesidad y Urgencia ("Necessity and Urgency Decree," abbreviated DNU or NUD), and even though between 1853 and 1989 only 25 Necessity and Urgency Decrees were issued, between 1989 and 1993 Menem issued 336 decrees.\textsuperscript{36} Among the items that he helped to pass through decree power included taxation, salaries, public debt, and privatizations. For example, both the national airline, Aerolíneas Argentinas, as well as the national telecommunications company, Entel, were privatized by decree. The Kirchner presidential team continued to use Necessity and Urgency Decrees to bypass traditional Congressional mechanisms, and for example Néstor Kirchner issued an average of 60 DNUs a year (270 total).\textsuperscript{37} In the case of most of the decrees, congress failed to assert its role, and Rubio et al argue that oftentimes "congress received a mere notification of what was being implemented."\textsuperscript{38} For the most part, congress

\textsuperscript{35} Corrales 2004; p.7
\textsuperscript{36} Rubio et al 1998; p.53
\textsuperscript{37} La Nación. April 13, 2008.
\textsuperscript{38} Rubio et al 1998; p.40
failed to take any action on the decrees, and in the few instances where it did act, it proved ineffective. Rubio et al summarize that “congress took no action at all in response to more than 90 percent of the NUDs issued by President Menem between 1989 and 1993...Moreover, in the few cases where congress did act—particularly when it resisted executive initiatives—its incapacity relative to the executive was exposed.”

In their article, Spiller et al describe the weakness of the Argentine congress when they write that “legislators are transient and do not specialize or acquire much policy expertise; Congress does not play an active role in the policymaking process (at most, it plays the role of a blunt veto player); Congress pays little attention to oversight activities; and crucial political and policy bargains are struck in a less institutionalized manner, outside the national legislature.”

On the other hand, in Brazil the congress plays a more active role in policymaking, and is certainly not a rubber stamp. Figuereido and Limongi describe the president in Brazil as being “constrained by the separation of powers,” and the strength of congress in Brazil is most visible in the impeachment of President Fernando Collor in 1992. After largely bypassing the legislature through executive decrees, the Senate in 1992 used the full extent of its powers to impeach the president on accounts of corruption. This event further strengthened the power of congress, since it helped to institutionalize its role as an active institution in policymaking. In their book, Llanos and Marsteintredet also

39 Rubio et al 1998; p.53
40 Spiller and Tommasi, 2005; p.50
41 Figuereido and Limongi 2000; p.151
make the point that the Brazilian congress had been continuously functioning since 1946. Indeed, even though a military government was in power from 1964 until 1982, Congress was never shut down. Llanos and Marstentredet argue that “congress [in Brazil] functioned as an effective oversight institution, not only during the impeachment of Collor, but on many other occasions thereafter.”

The qualitative account of the difference in strength between the two congressional bodies is also evidenced in several numeric analyses. In the book, *The Politics of Policies*, by the Inter-American Development Bank, various numerical indicators are provided which show that the Brazilian congress is stronger than its Argentine counterpart. To measure the strength of congress, the first indicator is the “Confidence in Congress” index and Argentina has one of the lowest values in Latin America, and is only trailed by Nicaragua, Ecuador, Peru, Bolivia and El Salvador. Although Argentina has a low value of 20.7 on this index, Brazil has the *third-highest* value at 34.8. Another indicator of congressional strength is the “Effectiveness of Lawmaking Bodies” index, and here Brazil scored second-highest in Latin America (only after Chile) whereas Argentina scored second-lowest. Finally, on the Congressional Capabilities Index, Brazil scored a value of “high” whereas Argentina scored a value of “low.” As well, Brazil is significantly ahead of Argentina in terms of the average experience of legislators (which is 2.9 years for Argentina compared to 5.5 years for Brazil), as well as in terms of “technical expertise” and a “place to build a career.”

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42 Llanos and Marstentredet 2010; p.125
43 Stein and Tommasi 2005
In terms of the judiciary, the Argentine Supreme Court has largely failed to act as an effective veto player to the executive. This sentiment is also echoed by Spiller and Tomassi, who claim that “throughout the twentieth century, Argentina’s Supreme Court did not constitute a reliable check on political power.” The roots of the weakness of the Argentine Supreme Court lie in the 1940s, during the tenure of Juan Perón. Prior to the 1940s, the Supreme Court had been an extremely stable institution, with tenures for justices similar to those in the United States. Nevertheless, one of Peron’s first acts was to purge the Supreme Court of three of its five members, which Spiller and Tomassi claim to have had “a lasting impact.” Helmke agrees that Perón’s purging of the Supreme Court represented “a watershed in court-executive relations,” and subsequently, the various governments, both military and civilian, followed the precedent set by Perón and since the 1940s, every Argentine government with the exception of the De La Rúa presidency had a “working majority” of the Supreme Court in its favor. Helmke also attributes judicial weakness to the frequent changes between military and civilian regimes that occurred throughout the past half-century in Argentina. Every time the country would transition from democratic to military regimes, the new government would purge the previous Supreme Court and appoint judges willing to take an oath of allegiance toward the governing junta. After the country transitioned back to democracy, these judges would then resign,

44 Iaryczower, Spiller, Tommasi 2002; p.703
45 Spiller and Tommasi, 2005; p.57
46 Helmke 2005; p.63
47 Spiller and Tommasi, 2005; p.57
and this created what Helmke terms the “informal institution of insecure tenure.”

Under the new democratic regime that began in 1983, there are two mechanisms through which the executive has able to maintain control over the Supreme Court. Firstly, judges that pass unfavorable verdicts risk executive backlash that includes impeachment; secondly, the executive wields significant influence in the appointment of new justices. Executive interference in the judicial system is certainly not limited to the Supreme Court, and a UNHCR article describes that “personal influence and interference in the judiciary by the provincial executive was frequent in various provinces, including La Rioja, Salta, San Luis and Santa Cruz.”

With regards to the impeachment of justices, during May of 2003, President Kirchner pushed for impeachment proceedings against several members of the Supreme Court, including the Court’s president. By September of that year, four justices had resigned from the Supreme Court among impeachment proceedings.  

In terms of the appointment of judges, in a move that paralleled President Franklin D. Roosevelt’s attempt to pack the US Supreme Court in 1937, after an unsuccessful effort to convince the existing justices to resign, Menem succeeded in expanding the number of justices from five to nine. Although the former members had been appointed by the previous president, Raúl Alfonsín, Menem

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48 Helmke 2005; p.65
49 UNHCR 2012; p.6
50 UNHCR 2012
51 Rubio, Goretti 1998; p.36
was now free to appoint judges loyal to him. The independence of courts in the judicial appointment process continued to be encroached even under the administration of Néstor Kirchner, and for example he promoted a law that increased executive control over the Magistrates’ Council, which is responsible for appointing and removing federal judges.⁵²

On the other hand, the Brazilian justice system by almost any account has more independence than its Argentine counterpart. In their paper, Glopan, Gargarella, and Skaar support this notion when they write that “endowed with a high level of independence by the Constitution of 1988, the Brazilian judiciary has provided an effective check on the executive, thereby fulfilling its accountability functions vis-à-vis the other two political powers.”⁵³ Indeed, the 1988 Constitution provided justices with not only life-tenure, but also high salaries. The process for appointing judges was also very independent, and with the exception of justices in the superior courts, there would be no interference from either the executive or legislative branches.

A particular event that strengthened the Brazilian courts following the 1988 constitution was the case of one of the decrees in Collor’s economic stabilization package. In order to combat inflation and stimulate economic growth, Collor passed a series of decrees which would bypass congress. In particular, in May of 1990, Collor issued a decree which permitted the president of Brazil’s highest labor court to reverse any wage increases accorded to unions through the courts (in class action lawsuits) if in his/her view they would

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⁵² Levitsky, Murillo 2008
⁵³ Glopen, Gargarella, Skaar 2004; p. 118
stimulate inflation. Although the Chamber of Deputies rejected this decree, Collor reissued it. Nevertheless, the Supreme Court struck down the law, and Collor did not contest the ruling. Just like in the case of the impeachment of Collor when congress asserted and strengthened itself, Gloppen et al mention that “this episode enhanced the authority of the judiciary and strengthened its position in the democratic institutional system then being shaped. It was particularly important because it took place at a time when the three branches of government were redefining their respective role in the new democratic context.”

One of the measurements which can be used to assess the independence and strength of the Brazilian judiciary is the number of federal laws which it has overturned. Between the launching of the new constitution in 1988 and 2002, the Supreme Court of Brazil overturned over 200 federal laws. By comparison, in the United States, where the Supreme Court’s institutional strength is rarely disputed, throughout all of its history, it has only overturned 135 federal laws. The strength of the Brazilian Supreme Court is neatly summarized by Matthew Taylor who argues that:

The most significant and real threats to reform arose in the courts and not in Congress: of the 10 most important political initiatives of the Cardoso administration, all were contested in some way in the courts, and seven of the 10 were either altered or significantly delayed by the STF [Supreme Court]. In other words, not all government proposals were contested in the courts, but the most important and contentious proposals were, and with some success.

On the set of indices established by the Inter-American Development Bank to measure the strength of the courts, Argentina also scored extremely

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54 Gloppen, Gargarella, Skaar 2004; p. 169
55 Gloppen, Gargarella, Skaar 2004; p. 169
56 Taylor 2007
57 Taylor 2007
poorly whereas Brazil scored relatively well. On an index called “Judicial Independence,” Argentina scored a 1.8, and was only trailed by Venezuela, Nicaragua and Paraguay. On the other hand, Brazil had the third-highest score of 3.9 (only Chile and Uruguay were ahead). As well, although the constitutions of Brazil and Argentina both guarantee lifetime tenure for justices, in practice between 1960 and 1995 in Argentina the average tenure was only 5 years, whereas in Brazil it was much higher at 10 years. 58

In short, up to now we have established that Brazil witnessed a higher degree of policy stability because it possessed both a stronger congress and a stronger judiciary. In the next section, the second independent variable, namely the degree of consensus-building in the party systems will be explored.

The difference in the levels of consensus-building in the Argentine and Brazilian political systems

In the past section, I partly attributed the difference in policy stability between Argentina and Brazil to the variation in the strength of congress and the judiciary. Nevertheless, in addition to stronger institutions of horizontal accountability, Brazil witnessed greater policy stability because there has been a higher degree of consensus-building in its political system. In this section, I will begin with a discussion of the mechanism through which the levels of compromise and negotiation impact policy stability. I will then highlight the importance of party systems and show how fragmented party systems lead to a greater propensity for consensus-building; afterward I will quantitatively illustrate

58 Stein and Tommasi 2005
how the Brazilian legislature since the 1990s has consistently had a higher degree of fragmentation than the one in Argentina. Finally, I will explore how although the political science literature of the 1990s was pessimistic about the prospects for a functional democracy in Brazil considering the high levels of fragmentation, a solution was implemented, coalition-building, which has had positive effects not only on policy stability, but also on the overall quality of governance.

*How the degree of consensus-building in the political system impacts policy stability*

The level of consensus-building among a country’s executive and legislative branches directly impacts policy stability in two ways. Firstly, in an environment of extensive compromise and negotiation, it is more probable that the legislation that is passed will be of higher quality and therefore more likely to better respond to the country’s needs in the long term. Secondly, legislation that is the product of extensive bargaining between a nation’s different political actors is less likely to be radical in nature. Because it is less likely to be radical, it is less probable that successive governments will want to change it. For example, the more moderate neoliberal program of President Fernando Henrique Cardoso which was adopted by a coalition of a variety of parties proved to be far more resistant to change than the radical right-wing program of President Carlos Menem. The argument presented in this section can be summarized in the diagram below:
Figure 9: How the degree of consensus-building impacts policy stability

An environment in which political actors compromise and negotiate with each other

Legislation will be of higher quality

Legislation will be more moderate

There is more policy stability

*Party system fragmentation and its importance in consensus-building*

One of the main factors that accounts for the differences in patterns of consensus-building in Argentina and Brazil is the fragmentation in the legislature. In a highly fragmented party system where oftentimes no party holds a majority or near-majority of seats in either chamber of the legislature, it is virtually impossible to achieve unified government, a situation where the president’s party holds a majority in both houses of congress. In order to avoid deadlock, parties and executives are thus forced to work together in coalitions, oftentimes of multiple parties of differing ideologies. In order to find common ground, political actors would need to undertake extensive compromise and negotiation, where parties would make tradeoffs in exchange for support for a part of their proposals. This notion is supported by Cheibub, who claims that “legislative fragmentation exerts a strong pressure on political parties—in parliamentary and presidential
states both—to form coalition government.” Coalition-building is particularly common in European countries, and has also been implemented in some Latin American congresses. On the other hand, in a legislature with little fragmentation where unified government is common, there is less of a need for coalitions and consensus-building.

The levels of fragmentation in the Argentine and Brazilian party systems can be seen through an analysis of the composition of the two legislatures over time. In the figures below, I have included the percentages of seats held by Argentine and Brazilian parties in both houses of congress in three time periods over the past twenty years. The first set of graphs shows the composition of the legislature at the beginning of the 1990s; the second set of graphs shows the composition of the legislature at the beginning of the 2000s; and the third set of graphs shows the composition of the current legislatures.

**Figure 10: the main political parties in the Argentine Chamber of Deputies following the 1991 election**

<table>
<thead>
<tr>
<th>Party</th>
<th>Seats (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Justicialist Party</td>
<td>40.2</td>
</tr>
<tr>
<td>Radical Civic Union (UCR)</td>
<td>29.0</td>
</tr>
<tr>
<td>Coalición Civica ARI</td>
<td>5.0</td>
</tr>
<tr>
<td>Total share of top 3 parties</td>
<td>74.2</td>
</tr>
</tbody>
</table>

**Figure 11: the main political parties in Brazilian Chamber of Deputies following the 1990 election**

<table>
<thead>
<tr>
<th>Party</th>
<th>Seats (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Party of the Democratic Movement (PMDB)</td>
<td>19.3</td>
</tr>
<tr>
<td>Partido da Frente Liberal (PFL)</td>
<td>12.4</td>
</tr>
<tr>
<td>Workers’ Party (PT)</td>
<td>10.2</td>
</tr>
<tr>
<td>Total share of top 3 parties</td>
<td>41.9</td>
</tr>
</tbody>
</table>

59 Cheibub 2007; p.82
### Figure 12: The main political parties in the Argentine Chamber of Deputies following the 2003 election

<table>
<thead>
<tr>
<th>Party</th>
<th>Seats (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Front for Victory (FPV) and Peronist Party (PJ)</td>
<td>50.2</td>
</tr>
<tr>
<td>Radical Civic Union (UCR)</td>
<td>21.0</td>
</tr>
<tr>
<td>Coalición Civica ARI</td>
<td>5.1</td>
</tr>
<tr>
<td><strong>Total share of top 3 parties</strong></td>
<td><strong>76.3</strong></td>
</tr>
</tbody>
</table>

### Figure 13: The main political parties in the Argentine Chamber of Deputies following the 2002 election

<table>
<thead>
<tr>
<th>Party</th>
<th>Seats (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers’ Party (PT)</td>
<td>17.7</td>
</tr>
<tr>
<td>Partido da Frente Liberal (PFL)</td>
<td>16.4</td>
</tr>
<tr>
<td>Party of the Democratic Movement (PMDB)</td>
<td>14.8</td>
</tr>
<tr>
<td><strong>Total share of top 3 parties</strong></td>
<td><strong>48.9</strong></td>
</tr>
</tbody>
</table>

### Figure 14: The main political parties in the 2012 Argentine Chamber of Deputies

<table>
<thead>
<tr>
<th>Party</th>
<th>Seats (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Front for Victory (FPV) and Peronist Party (PJ)</td>
<td>36.2</td>
</tr>
<tr>
<td>Civic and Social Alliance (ACyS) and Radical Civic Union (UCR)</td>
<td>32.3</td>
</tr>
<tr>
<td>Republican Proposal (PRO) and allies</td>
<td>15.7</td>
</tr>
<tr>
<td><strong>Total share of top 3 parties</strong></td>
<td><strong>84.2</strong></td>
</tr>
</tbody>
</table>

### Figure 15: The main political parties in the 2012 Brazilian Chamber of Deputies

<table>
<thead>
<tr>
<th>Party</th>
<th>Seats (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers’ Party (PT)</td>
<td>17.1</td>
</tr>
<tr>
<td>Party of the Democratic Movement (PMDB)</td>
<td>15.2</td>
</tr>
<tr>
<td>Social Democratic Party of Brazil (PSDB)</td>
<td>10.5</td>
</tr>
<tr>
<td><strong>Total share of top 3 parties</strong></td>
<td><strong>42.8</strong></td>
</tr>
</tbody>
</table>
Brazil: coalition-building as a response to the perils of multiparty presidentialism

Throughout the early to mid-1990s, a large proportion of political science literature viewed the fragmentation in the Brazilian legislature as a severe liability to the democratic process and predicted deadlock in the policymaking arena. For example, Barry Ames wrote that “Brazil has a great many parties and that number in itself may frustrate the adoption of policy innovations.” What particularly worried many political scientists including Mainwaring and Shugart was the combination that existed in Brazil of multiparty presidentialism. In his 1993 piece, Mainwaring writes that “the tendency toward executive/legislative deadlock and immobilism is particularly acute in multiparty presidential democracies, especially with highly fragmented party systems…Immobilism and sharp conflict between the executive and the legislature, with potentially deleterious consequences for democratic stability and/or effective governance, often result.” The commonly held view was that because in multiparty presidentialism the president’s party would not have a majority in congress, this would lead to political deadlock which in extreme cases could threaten the democratic regime. In another article, Mainwaring specifically addresses the party system in the context of Brazil and writes that “Brazil has institutional arrangements that are generally unfavorable to democratic governance…[including] a highly fragmented party system that is polarized at the

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60 Ames 2001; p. 18
61 Mainwaring, Shugart 1997
62 Mainwaring 1993; p.215
elite level, and presidentialism...Even if democracy survives, it will, with this institutional combination, be feckless.\textsuperscript{63}

As shown in figures 10 through 15, unlike in Argentina where two to three parties/alliances effectively control Congress, Brazil has a plethora of smaller parties. The high number of parties in Brazil can be attributed to the country’s electoral system, where there is a combination of high district magnitude with a low minimum threshold. What also compounded the problem in Brazil was the nature of the proportional representation system, since during elections, open lists are used as opposed to closed lists.\textsuperscript{64} While in closed lists one is limited to voting for a particular party, in open lists one can choose among the candidates within each individual party. Essentially, representatives from the same party compete against each other, thus creating further fragmentation within parties.

The fragmentation resulting from open-list proportional representation not only manifests itself during the election season when candidates from the same party must differentiate themselves, but also after the election is over. As a result of open lists, it is difficult for Brazilian party leaders to enforce discipline on legislators. In a closed list system, if a certain deputy were to defect from the central party platform, he/she could be punished by being placed near the bottom of the list in the upcoming election. Nevertheless, in Brazil this mechanism to enforce order is not effective since candidates cannot be rank-ordered. As a result, when having to choose between party interests at the federal level versus the interests of their local constituencies, Brazilian politicians have an incentive to

\textsuperscript{63} Mainwaring 1997; p.392
\textsuperscript{64} Neto 2002
choose their local districts that will ultimately be reelecting them several years down the road. Mark Jones agrees with this notion, and claims that “both Brazil and Colombia come closest to the United States in terms of the incentives to and ability of members of congress to represent district interests over those of the party.”65 In addition to the open list proportional representation system, Brazilian parties also have weaker overall discipline as a result of the lower rate of turnover. Because Brazilian deputies can expect to obtain a second term, they do not depend on party leaders as much as those in Argentina for employment following the end of their time in office, and thus have greater liberty to take positions independent of their parties. Neto summarizes the pessimistic attitude of many political scientists toward the fragmentation in the Brazilian legislature when he writes:

[Political analysts of the 1990s] virtually concurred that the country’s party system was chaotic and unwieldy, and...these observers characterized the parties as highly undisciplined in the legislative arena, further aggravating the problems of fragmentation. They also saw the country's economic plight as associated with political parties' failure effectively to aggregate preferences and to form stable governing majorities.66

Despite the dire predictions of many scholars in the 1990s about the future of Brazilian democracy as a result of fragmentation both between parties and within parties, the late 1990s and early 2000s disproved this hypothesis. During the 1990s and 2000s under the successive governments of Cardoso and Lula, Brazil stabilized contrary to the opinions of many political scientists because political parties matured and learned how to form coalitions. Power describes coalitions as a “mathematical response to the problem of permanent minority

65 Jones 1995; p.195
66 Neto 2002; p.129
presidentialism, and is a way of putting together legislative majorities.⁶⁷ One particular feature of Brazilian coalition-building is that presidents routinely amass more support among both houses of Congress than they would normally require to pass legislation. For example, after winning the presidency last year, Dilma Rousseff amassed a coalition with 328 out of 513 seats in the Chamber of Deputies, which is greater than the 60% figure needed to pass constitutional amendments.⁶⁸ Achieving more seats than is required to pass a piece of legislation is also an effective strategy to counter the fragmentation that exists in congress and the risk that a legislator may defect from the position of party leaders.

There are several ways in which Brazilian presidents have been able to encourage the formation of coalitions. The first mechanism involves crafting an electoral platform which would appeal to a broader range of parties. This process would theoretically cause not only the president’s party to moderate, but also the other parties that would like to be included within the coalition. Secondly, presidents encourage the formation of coalitions by handing over positions in government to members of the opposition parties. They range from positions in the presidential cabinet to positions at state-run companies. Mainwaring and Scully note that “this partitioning of government begins at the highest level (cabinet positions and heads of major public enterprises and executive agencies) and continues on down to minor public appointments and resources in backward towns and remote regions.”⁶⁹ For example, in the second half of his presidency, Lula allocated 40% of his cabinet positions to members of his coalition, and

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⁶⁷ Power 2010; p.25  
⁶⁸ Brookings 2011  
⁶⁹ Mainwaring et al 1997; p.74
currently Dilma Rousseff is allocating 54% of her cabinet positions to her coalition partners. ⁷⁰ Neto summarizes the success of coalition-building in Brazil when he writes:

Coalition agreements are the source of Brazilian presidents’ high rates of legislative success. On average, Congress approved 71.0 percent of the executive-initiated bills in 1989-98…Brazil has a European style of party government, which generates patterns of governance as effective as those observed in stable multiparty democracies. ⁷¹

In short, contrary to the political scientists of the 1990s who believed that multiparty presidentialism would lead to impasse and potentially a breakdown of democracy, this system has proven to allow for efficient governance with stable policies formed by parties that are willing to compromise toward a moderate platform. The stabilization of the Brazilian multiparty presidential model is best summarized by Power, who writes:

By the mid-1990s, Brazil was widely viewed as a problematic case of multiparty presidentialism. Part of this was certainly due to the objective underperformance of the newly democratic regime, especially in the 1987–1993 period, which featured low growth, hyperinflation, and unpopular executives. The situation changed rather dramatically with the Plano Real in 1994, which ended hyperinflation, and especially after the inauguration of Fernando Henrique Cardoso as president in 1995. The Cardoso alliance (based largely on the PSDB [Party of Brazilian Social Democracy] and PFL [Party of the Liberal Front]) was the first sustained experience with successful coalition government since the Kubitschek period. Both horizontal (executive–legislative) and vertical (president–governors) political relationships seemed to be much better coordinated than before, and the president soon registered some impressive achievements in financial stabilisation, structural adjustment, and administrative reform. ⁷²

Weaker incentives to form coalitions in Argentina

In contrast to Brazil, in Argentina there was never as great a need to form coalitions. Unlike in Brazil where unified government is impossible considering the fragmentation in the party system, unified government is common in Argentina, and as Spiller describes, “Argentina’s politics tend to generate unified,

⁷⁰ Brookings 2011
⁷¹ Neto 2002; p.133
⁷² Power 2010; p.21
rather than fragmented governments.”

Parties are also significantly more cohesive in Argentina, since as a result of the higher rates of turnover, congressmen wishing to secure lucrative employment following their tenures will almost always adhere to the position of party leaders. In his paper, Power introduces what he terms the “Index of Coalitional Necessity,” and among all Latin American countries, Brazil was at the top of the list with a value of 63.65. On the other hand, Argentina had a significantly smaller value, at 16.54. As is shown in figures 10 through 15, the main two parties/alliances together hold over 50% of the seats in both the Chamber of Deputies and Senate, whereas in Brazil not even the top three parties combined hold 50% in either house.

In the few cases where coalitions were formed, they did not last long in Argentina. The most salient example is the Alianza which took place during the De La Rúa government, where the Radical Party formed an alliance with the recently-created FrePaSo party. Nevertheless, the coalition quickly broke down less than two years after it was formed following both the disastrous presidency of De La Rúa as well as corruption scandals within the Senate. The inability in Argentina to form coalitions is also evident in the recent presidential election, where the opposition was unable to unite against the Peronists.

In addition to the inability to form coalitions, the relationship between opposing Argentine political parties is in fact so tense that their members are unable to even sit down with each other and work out compromises for individual

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73 Spiller 2002
74 Notes: The Index of Coalitional Necessity is obtained by multiplying the effective number of parties by the inverse of the percentage of seats held by the president’s own party, then dividing by 10 for ease of interpretation. (Power 2010)
pieces of legislation being passed. Unlike in Brazil and the United States where it is common for legislators from across the political spectrum to sit down and sort out their differences in pursuit of common goals, in Argentina bipartisanship is virtually inexistent. Merlani explained that the Peronist Party last year did not once sit down with the opposition in order to try to negotiate a bipartisan agreement, and that in the Argentine congress the opposition is largely seen as “the enemy,” making any form of cooperation, not to mention coalitions, impossible. This sentiment is echoed by Jones, who in describing Argentina claims that “presidential legislative majorities or near-majorities are tremendously important.” He goes on to further claim that in addition to not cooperating with each other, parties in Argentina are willing to sacrifice the national interest just to smear their opponents. He writes that:

Presidential legislative support is important because with it a president is able to govern, while without it there is often a tendency toward governmental paralysis and gridlock. Presidents with healthy legislative support are considered to be well positioned to implement their policies and programs. Presidents who lack such support must face an opposition which often attempts to frustrate the president’s policies (e.g. blocking them in congress) for the sole purpose of damaging the political image of the president…The political maturity of the opposition is not as developed as in countries like the United States…The lack of a legislative majority in Argentina is not the same as in the United States where politicians sit down and work out differences. In Argentina the lack of a presidential majority often leads to impasse.

In this section I have attempted to link the degree of consensus-building among political actors to policy stability. I have also established the importance of party system fragmentation, and while Brazil’s fragmented party system encouraged coalition-building, in Argentina where unified government is common, any form of cooperation between parties is almost inexistent.

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75 Author’s interview with Patricio Merlani
76 Jones 1995; p.54
77 Jones 1995; p.54-55
Alternative Explanations

There are two alternative explanations for the difference in the degrees of policy stability in Argentina and Brazil, the first being that this difference is due to the extent of economic crisis, and the second being a voluntarist explanation related to the quality of presidents. I will address these explanations in the concluding chapter of the thesis, and show how in fact the degree of economic crisis is in itself a symptom of policy instability. I will then admit that while the quality of presidents did play an important role in the diverging outcomes of Argentina and Brazil, it is secondary to the two structural variables of this thesis.

An introduction to the three case studies

In short, I have presented in this chapter a theoretical framework linking my two independent variables, institutional strength and the degree of consensus-building in the political system, to policy stability. I have also emphasized the role of party system fragmentation in encouraging coalition formation in the legislature. In the following three chapters, I will take this framework and demonstrate how it applies to three case studies, namely pension reform, privatization/nationalization schemes, and monetary reform. I will show how reforms during the 1990s were not only more extreme in Argentina, but also how they were dramatically reversed in the 2000s. On the other hand, I will describe how in Brazil, while the reforms were slower and not as extensive as in Argentina, they remained stable through today and did not get reversed. I will emphasize that the process of reform in Brazil was the product of extensive
consensus-building between executives and legislators (who were forced to form coalitions and negotiate because of the high levels of fragmentation in the legislature), whereas in Argentina policies were almost wholly the product of the executive, with little input from congress. In the case of Argentina, I will show that even when reforms did go through the legislature, the debate was not thorough, and the opposition was largely ignored as the executives relied mainly on their working majorities.
Chapter III: The politics of pension reform

This chapter will examine pension reform in Argentina and Brazil over the past two decades. I will provide an overview of the approval process in both countries, and then show how the differences in institutional strength and the patterns of consensus-building shaped the diverging outcomes.

Different outcomes in pension reform

Brazil and Argentina diverged widely in terms of pension policy in the 1990s and 2000s, and a clear metric that can be used to judge the degree to which pension reforms were radical is the extent to which they moved toward privatization or nationalization. I would describe a reform as “partial” if significant changes were enacted which however fell short of privatization or nationalization; a “radical” reform would be one which involved either privatization or nationalization. Following this scale, Argentine reform would be considered radical in both the 1990s and 2000s, whereas Brazilian reform would be considered only partial. While Argentina in the 1990s partially privatized the pension system, the newly-created private pension funds were renationalized less than 15 years later. Brazilian reforms in 1990s and 2000s sought to both raise the retirement age and limit benefits, particularly for public-sector workers. However, the pension system in Brazil was never privatized and reforms were made within the pay-as-you-go model. The following table provides an assessment of pension reform in Argentina and Brazil:
Figure 16: Assessing the radicalness of pension reform in Argentina and Brazil

<table>
<thead>
<tr>
<th></th>
<th>1990s</th>
<th>2000s</th>
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<tbody>
<tr>
<td>Argentina</td>
<td>Radical (the pension system was partially privatized)</td>
<td>Radical (the pension system was renationalized)</td>
</tr>
<tr>
<td>Brazil</td>
<td>Partial (benefits were reduced and time of service increased)</td>
<td>Partial (benefits for public sector workers were sharply reduced)</td>
</tr>
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Pension reform in Argentina in the 1990s: a radical change in direction

Throughout the past century, Argentina had one of the most comprehensive and generous pension programs in all of Latin America, and in addition to the fact that pensioners earned between 70 and 82% of their base salaries.\(^78\) Raúl Madrid notes that “disability and survivorship pensions were relatively easy to obtain, and the pension system allowed workers to retire at a relatively young age.”\(^79\)

Nevertheless, several critical problems started to become exposed during the 1980s. Firstly, the evasion of social security payments became extremely common, and by the end of 1980, 50% of eligible workers failed to make payments toward the social security fund.\(^80\) The evasion rate was particularly high among workers who were self-employed. Funding for the Argentine pension system was also severely strained following the economic crisis of the late 1980s, when many turned to the informal sector of the economy.\(^81\) The informal sector is composed of the employment relationships that are not governed by an official

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\(^78\) Mesa-Lago 1994; p. 145  
\(^79\) Madrid 2003; p.101  
\(^80\) Madrid 2003; p.102  
\(^81\) Madrid 2003; p. 102
contract, and includes positions such as street vendors, nannies, and taxi drivers. Informal sector workers neither pay taxes to the government nor contribute to the public social security plan, and the result is a decrease in the funding base for the pension system. In the early 1990s, the rate of informal sector employment was extremely high, standing at one third of the labor force.\footnote{Panorama Laboral 2010; p.63} What further compounded the problem was the fall in the Argentine fertility rate (which was already one of the lowest in Latin America) combined with an increased life expectancy. Although the ratio between contributors and pensioners was only 1.62:1 in 1990, it was estimated that to be able to continue to finance the existing pension scheme in the long term, an unachievable ratio of 4:1 would be required.\footnote{Mesa-Lago 1994 p.151}

The model for funding pensions in Argentina until the 1980s had been what is known as a “pay-as-you-go” system, in which individuals do not set aside money to invest throughout their working careers in order to draw on a pension later. Rather, under such a system pension payments are financed through two means, namely 1) the contributions of current employees, and 2) extra taxes. Normally, under a functional pension system, the contributions of current employees would produce enough revenue to be able to cover almost all of the pension payments, without the need for supplemental taxes. Nevertheless, in Argentina by 1990 only 65\% of pension payments were covered by the contributions of current employees, with extra taxes (on gas and public utilities)
needed to cover the remaining 35%. Because of the deteriorating pension situation, the Argentine government allowed inflation to eat into the revenues of pensioners, causing widespread discontent among the population. As a result, many pushed for reforms, and this sentiment is summarized by Madrid when he writes:

The growing problems of the pension system put intense pressure on the Argentine government to undertake a major reform of the system. The large pension deficit diverted resources from other government programs and exacerbated the overall fiscal deficits that the Argentine government ran. Policymakers as well as the public as a whole routinely cited the situation of the pensioners as one of the most important problems facing the country. Politicians feared that the rising discontent had the potential to impact their electoral chances.

Because of the aforementioned problems, the privatization of the Argentine pension system came to be viewed as the ideal solution, particularly after the perceived success of the Chilean model adopted under the Pinochet regime. The privatization of the pension system was also supported by institutions such as the World Bank, the IMF, and the Inter-American Development Bank, as well as by a group of neoliberal economists in the Menem administration, which included Domingo Cavallo (a Harvard-trained economist), the Minister of the Economy and Walter Schulthess, the Secretary of Social Security. Palermo and Novaro also argue that because of the perceived weakness and inefficiency of state institutions, policymakers believed the market would provide the best solution to areas such as pensions.

On the surface, it might appear that pension reform under Menem was a negotiated process as opposed to a unilateral act performed by the president.

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84 Mesa-Lago 1994; p.150
85 Madrid 2003; 104
86 Madrid 2003; p.111
87 Palermo and Novaro 1996
Indeed, as Katharina Muller notes, “Menem decided to negotiate pension privatization with Congress instead of passing it by emergency decree—even though this implied trading immediate reform for interminable negotiation.” In this chapter, I will show how on a superficial level it seems that the reform was the result of intensive negotiation between the different branches of government; however, I will then illustrate how in reality, the process was still heavily dominated by an executive with a low willingness to compromise.

The first phase in the negotiation process involved Carlos Menem submitting the bill for consideration to a committee in the Chamber of Deputies on June 5, 1992. The bill was stalled in this committee for eight months, and only after a series of negotiations did it finally get approved. One of the decisive factors that led some members of the committee to vote in favor of the bill was the decision of the CGT (the main Argentine labor confederation) to support the creation of private pensions. Another important factor that sped up the process was the pressure from investors, who were growing increasingly nervous as negotiations dragged on.

After leaving the committee in February of 1993, the bill was subject to a vote in the Chamber of Deputies. However, at this point in time although Menem’s own Peronist Party was the largest in congress, it controlled slightly less than half of the seats (116 out of 257). As a result, in order for the legislation to pass, there were two important preconditions, namely that 1) the Peronist Party

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88 Muller 2003; p.28
89 Madrid 2003; p.130
90 La Prensa. February 7, 1993
91 La Prensa. February 20, 1993
had to be almost perfectly united, and 2) it was necessary to obtain some votes from opposition parties. After two weeks of intense negotiations, the executive made several concessions to congress, including most importantly a clause stating that participation in the private pension system would be optional.\textsuperscript{92} It is important to mention however that Menem was able to craft this concession in such a way that it would be very difficult for a person to stay within the state system.\textsuperscript{93} As well, a concession was made to female legislators that allowed the retirement age for women to be set at 60 (as opposed to 65 for men), the reason being that working women practically had two jobs, one being at the workplace, and the other being at home taking care of the children. In the end, a quorum was achieved in the Chamber of Deputies and the legislation passed, albeit in a version slightly different than what the executive had initially hoped for. After passing the Chamber of Deputies with relative difficulty, the piece of legislation moved to the Senate, where the circumstances for passing were significantly more favorable. Menem’s PJ party controlled the vast majority of seats in this chamber, and thus the legislation passed with virtually no modification.\textsuperscript{94}

Despite the seemingly high degree of compromise and negotiation that occurred in the passage of the pension privatization bill in Argentina, upon closer examination the dominance of the executive becomes clearly visible. Although Menem would have preferred to bypass the legislature and implement the reform by decree, he chose to go through congress because this would make investors more confident to invest in private pensions. This opinion is echoed by the Latin

\textsuperscript{92} Madrid 2003; p.132  
\textsuperscript{93} Latin American Weekly Report. May 6, 1993; p. 195  
\textsuperscript{94} Madrid 2003; p. 134
America Weekly Report, which describes that “President Menem has apparently been persuaded to drop his threat to introduce private pension funds by executive decree. Investors interested in what promises to be a most lucrative business let it be known that this would entail too much judicial insecurity for them to take the plunge.” Muller also expresses this sentiment, claiming that “this move had been advocated by Schulthess, who stressed the need to provide a solid legal basis for future investors in the private pension business.”

The dominance of the executive comes across at every stage in the approval process, starting with the period when the bill was debated in committee. After being stalled for eight months, during the month before the bill was passed, a reshuffling occurred in the committee, which the executive was able to take advantage of. In January of 1993, Federal Deputy Federico Clérici died, whom according to Isuani et al “until that moment had been the leader in the movement to reform the original bill, incorporating elements pertaining to voluntary participation in the system, in sharp contrast to the initial project proposed by the executive branch.” At the same time, a Peronist legislator, Deputy Felipe Solá resigned in order to become the Secretary of Agriculture, and while the Peronist leaders in the committee (who were allied to Menem) quickly found a replacement for Solá, Clérici’s seat remained vacant. The second gross violation of procedure occurred when voting on the final version of the pension reform bill had to take place in committee. Although a quorum was legally required, the

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95 Latin American Weekly Report. April 15 1993; p.179
96 Muller 2003; p.28
97 Isuani and San Martino 2005; p.51
98 Isuani and San Martino 2005; p.51
Peronist leadership of the committee allegedly forged the signatures of several members whom records show to have been absent from the meeting. Although procedure necessitated a roll call vote, at the time, a list of the names of the deputies who voted for and against the bill was not published, and the leader of the committee simply declared that he possessed an adequate number of votes for the bill to pass.\footnote{Isuani and San Martino 2005; p. 53} As a result of these violations, Deputy Alfredo Bravo noted that:

During the irregular proceedings of the approval process, the following transgressions occurred: a) the attendance list was not made public, and this omission made it impossible to verify if the signatories were in fact present at the meeting; b) during the session in which the bill was approved, voting and debating was not done according to articles 90 and 92 of the regulations of procedure; c) the agreement was not signed publicly by the members present in the room where the discussions had occurred.\footnote{Isuani and San Martino 2005; p.53}

During the second part of the passage of pension reform, the debate in the legislature, the dominance of the executive is visible in two ways. Firstly, although the bill had been approved by legislators on September 23, 1993 as Law 24241, following the passage, the executive was free to change the provisions of the bill by decree. Even though compromises had been negotiated between the executive and the legislators, following the passage of the bill the president was free to renege on any of these concessions. For example, when the bill was being debated, one of the key provisions which enticed many legislators to vote “yes” was the requirement that the state-run portion of the pension plan (which competed directly with the private funds) have a guaranteed yearly return rate on funds deposited by the contributors. Nevertheless, private businesses were opposed to this provision since they perceived that the guaranteed returns to the state pension funds would provide unfair competition to the private funds that did
not have access to state resources and which were at the mercy of the markets.\textsuperscript{101}

During the passage of the bill, Menem had promised that he would not veto this piece of legislation; however, after the bill was passed, he eliminated this provision by decree.\textsuperscript{102} In a way, Menem can be considered to have cheated the legislators who voted to pass the pension reform bill believing that it would contain this provision. This decree provoked a strong backlash in both houses of congress, particularly among the Radical Party, who attempted to overturn it.\textsuperscript{103}

The low institutional strength of congress however prevented the body from taking any measures to sanction Menem for the evident lack of fair-play that occurred. An article in the Latin American Weekly Report states:

Congress, irked at what they saw as an about-face on a prior agreement, simply sat on the bill and did nothing. In early May, President Carlos Menem decided to ignore congress, and issued an executive decree suppressing the dollar guarantee. Even leading members of the PJ were indignant at what amounted to overstepping the executive's powers. Congress has the option of overturning the decree by passing a law, but the government is gambling that the PJ bloc will be unwilling to engage in a confrontation just when Menem's re-election bid is getting under way in the constituent assembly. The calculation may be correct. Leading PJ congressmen have been suggesting that the best course of action would be to come up with 'an alternative' to the Banco de La Nación's dollar guarantee before overturning the decree.\textsuperscript{104}

When an Argentine president passes a decree, if congress desires to overturn it, \textit{both} chambers of the legislature must agree. In other words, the president needs the support of only one of the chambers of congress in order to pass legislation, and this is virtually guaranteed considering that since the return to democracy, the PJ has usually controlled the Senate.

\textsuperscript{101} These fears in a way also parallel those that many had with the “public option” in the healthcare reform debate in the United States, where insurance companies were worried that a government-run insurance plan would put private companies out of business.
\textsuperscript{102} Madrid 2003; p. 135
\textsuperscript{103} La Prensa. May 4, 1994
\textsuperscript{104} Latin American Weekly Report. May 19, 1994; p.214
The second, more subtle way in which Menem manipulated the legislative process for pension reform in his favor was through the support of his Justicialist Party, which held the vast majority of the seats in the Senate and a near-majority in the Chamber of Deputies. The following graph illustrates Menem’s indirect control of the legislature.

**Figure 17: The mechanism through which Menem indirectly controlled the legislature**

![Diagram showing control structure]

The issue of PJ support of Menem’s policies is addressed by Corrales, who writes that “much has been written about Menem’s use of decrees. Less attention is given to the fact that the PJ rarely complained.”

Menem was able to ensure that PJ legislators would vote for pension reform by maintaining strong relationships with governors. As was mentioned in the introduction, party leaders have tremendous power in Argentina, and because of the closed-list system, they wield significant control over the future careers of legislators. Governors are among the strongest party leaders in Argentina, and have substantial influence in the party.

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105 Corrales 2002; p.176
lists from their provinces. Menem thus realized that in order to pass pension reform, he would have to please the governors, which he achieved through two means. Firstly, Menem respected their autonomy, and tolerated the fact that many governors did not support his neoliberal policies.\textsuperscript{106} Corrales argues that in the “mutual autonomy”\textsuperscript{107} in executive-provincial relations, “for the most part, Menem decided (or was forced) to accept non-Menemist PJ leaders at the provincial level, and Cavallo was often forced to accept non-neoliberal economic practices at the provincial level…Provincial governors paid in kind: except on a few occasions Peronist governors never went too far in challenging Menem.”\textsuperscript{108}

Secondly, Menem negotiated deals with governors in which the executive would provide material resources in exchange for governors asking legislators from their provinces to support executive proposals.\textsuperscript{109}

Levitsky also proposes an explanation for Menem’s control of the PJ by focusing on the structure of the party. Bearing in mind the disorganized and fragmented nature of the Peronist Party, since there was no established career path for politicians, many sought to bandwagon with the president in an effort to advance up the party hierarchy. Secondly, because the leadership within the party was weak, Menem was able to either ignore these leaders and impose his own policies, or pack the leadership with figures loyal to him. Thirdly, because of the

\textsuperscript{106} Corrales 2002; p.175
\textsuperscript{107} Levitsky 1999
\textsuperscript{108} Corrales 2002; p.175-176
\textsuperscript{109} Jones 1998; p.13
fragmented nature of the PJ, it was difficult for opposition factions to organize against Menem.\textsuperscript{110}

The third way in which Menem had the upper hand over congress was through his threat to implement the reform by decree if necessary. An article published by the Argentine newspaper, \textit{La Prensa} in March of 1993 claims that “President Carlos Menem gave a ‘final opportunity’ to the Chamber of Deputies to pass the new pension reform bill, and that if it did not pass it would go through by decree.”\textsuperscript{111} The president also added that the decree was already prepared and would be signed immediately if congress failed to achieve a quorum. Although Menem theoretically allowed congress to debate the bill, in reality the terms of the debate were highly unfavorable to opposition legislators, who knew that if they failed to pass the legislation, it would nevertheless still eventually go through in a presidential decree. In a sense, it can be argued that Menem forced legislators to pass some version of the law, since as Jones adds, “if Congress did not pass a bill…Congress would miss any opportunity to influence the content of the bill.”\textsuperscript{112}

Finally, like in the case of the discussions that took place in the congressional committee, throughout the process of debate in the Chamber of Deputies, Menem used questionable tactics which included pushing for last-minute changes to the bill.\textsuperscript{113} As a result, many congressmen lacked exact details and financial analyses, and as Madrid notes, “these last-minute negotiations meant not only that legislators did not have any up-to-date financial analyses of the

\textsuperscript{110} Levitsky 2003; p. 144-145
\textsuperscript{111} \textit{La Prensa}. March 13, 1993
\textsuperscript{112} Jones 1997; p.288
\textsuperscript{113} Madrid 2003; p.132
impact of the reform, but also that many legislators were not even certain of the exact contents of the bill.\textsuperscript{114}

**Pension reform in Argentina in 2008: a quick and dramatic reversal**

The process of pension renationalization that occurred in 2008 bears many parallels to the privatization scheme in 1994. In fact, President Cristina Kirchner faced an even more favorable environment than Menem, since at this time her party, the PJ, held a majority in both houses of the legislature. As a result of the congress which did not seriously challenge her proposal, she was able to get the piece of legislation passed in an extremely short time period; after announcing her intention to nationalize the pension system on October 21, by early November the bill had cleared the Chamber of Deputies, and was finally signed into law on November 21. The opposition was barely consulted on the reform proposal, and according to the newspaper, \textit{El País}, opposing legislators only managed to extract 15 concessions, of which merely two were somewhat significant.\textsuperscript{115} Despite demonstrations which brought thousands of people to the streets in Buenos Aires, substantial concessions were not made on the broad themes of the reform bill.

In total, over 25 billion dollars in over 10 separate funds were taken back into government hands, directly affecting 9.5 million workers.\textsuperscript{116} The dual system was ended, and all workers were required to contribute to a mandatory pay-as-you-go system similar to the one that had existed prior to 1994. What is remarkable however in the case of Argentina is that the pension fund was

\textsuperscript{114} Madrid 2003; p.132
\textsuperscript{115} El País. November 5, 2008
\textsuperscript{116} AFP. November 20, 2008
renationalized in a period of less than 15 years, and according to the newspaper, *El Clarín*, “the intention of the president clearly was to create a complete break from the neoliberal policies of the 1990s.”\(^{117}\) Although the official position of the government was that the pension funds were being nationalized to prevent heavy losses for pensioners amidst the 2008 financial crisis, the losses of 20% in that one year are more than adequately compensated by the average annual return of 13.9% since the system was put in place in 1994.\(^{118}\) The figure of 20% is also smaller than the figure for the US, which stood at 26.2% (the US certainly did not eliminate its 401K savings plan).\(^{119}\) Critics of the reform argue that in fact the government nationalized pensions in order to create a piggybank to use to cover the increasing budget deficit, and particularly debt payments. For example, in an interview, PRO Deputy Federico Pinedo claimed that “the government is using the savings of the people to pay off the public debt.”\(^{120}\) Critics of the reform also argued that the renationalization of the pension fund was flawed since it did not have a long-term vision and was rather based on a short-term crisis in markets.\(^{121}\)

Throughout the process of reform, Cristina Kirchner’s PJ party possessed 129 seats in the Chamber of Deputies,\(^{122}\) giving her a strong working majority considering that within the legislature there were also a variety of small, regional parties which are easily coopted as a result of their vulnerability to patronage from the executive (e.g. the ARI Party from Tierra del Fuego and the Movimiento

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\(^{117}\) El Clarín. March 21, 2008  
\(^{118}\) Moffet 2008  
\(^{119}\) OECD 2008  
\(^{120}\) La Nación. November 6, 2008  
\(^{121}\) El Clarín. October 21, 2008  
\(^{122}\) Inter-Parliamentary Union 2008
Popular Neuquino\textsuperscript{123}. As well, there were several smaller left-wing parties including the Socialist Party whose vote was virtually guaranteed for this reform.\textsuperscript{124} In the stage of the process which involved approval in the Chamber of Deputies, the time devoted to debate was merely 14 hours.\textsuperscript{125} Many deputies from the opposition complained about the lack of time, and according to one deputy, “we did not have sufficient time for the discussion. We were discussing in a rapid way how the government could rob the money of retirees.”\textsuperscript{126} In the end, the piece of legislation passed with 160 votes in favor and only 75 votes against (with no votes coming from the opposition Radical Party, PRO Party, nor Coalición Cívica), moving to the Senate where the PJ party had an even more comfortable majority.

After the 11 hours of “debate” that took place in the Senate on November 20, the legislation was approved with few modifications by a vote of 46 to 18.\textsuperscript{127} In a televised debate, Senator Estenssoro from the Coalicion Cívica protested that “this type of reform cannot be done in 15 days. If there is a discussion in the Senate and the Peronist senators are not willing to even change a comma, what type of congress and what type of democracy are we talking about?”\textsuperscript{128} It is also important to mention that this legislation directly challenged the right to property,

\textsuperscript{123} La Nación. November 20, 2008
\textsuperscript{124} La Nación. November 6, 2008
\textsuperscript{125} El Clarín. November 7, 2008
\textsuperscript{126} La Nación. November 6, 2008
\textsuperscript{127} La Nación. November 20, 2008
\textsuperscript{128} La Nación. November 14, 2008
as noted by Senator Ernesto Sanz.\textsuperscript{129} Despite the obvious legal issues with the decision, the law never faced significant hurdles in the courts.

**Brazilian pension reform in the 1990s: a slow, moderate approach**

The Brazilian pension system has historically shared numerous similarities with its Argentine counterpart, not only in terms of its public nature, but also in terms of its generosity.

The origins of the Brazilian pension system lie in the 1930s era, when the then-president Getúlio Vargas created the system of *Previdência Social* to cover the organized sectors of the urban working class. Two distinct problems, however, were palpable in Vargas’s model: firstly, coverage still excluded vast groups such as the rural workers (70\% of the population), the urban informal sector and the urban self-employed. Secondly, there were gross inequalities in the quality of coverage between different insured groups (for example, the military and civil servants had superior coverage).\textsuperscript{130} The Brazilian pension system moved toward more universality of coverage under the military regime, where pensions were expanded to rural workers as well as domestic civil servants. The new categories of workers covered under the pension scheme had an enormous impact: although in 1970 only 27\% of the population was covered by social security, only one decade later this number tripled to 87\%.\textsuperscript{131} Despite the increase in coverage, upon entering the 1990s, numerous inequalities remained in the system. As a relic of the Vargas era, the most salient inequality was the extremely generous benefits

\textsuperscript{130} Malloy 1979
\textsuperscript{131} Madrid 2003; p.140
received by public sector workers, and Madrid concurs with this statement when
he writes that “the military and state and federal employees continued to maintain
separate pension systems, which provided substantially higher benefits to their
members.”\textsuperscript{132}

Overall, the benefit structure for Brazilian pensions was extremely
generous. Although the retirement age was set at 65 for men and 60 for women,
workers could choose to retire based on time of service. Women could retire after
working 25 years, and men could retire after working 30 years; as a result there
was a sizeable number of retirees who were in their late 40s and early 50s. Upon
retirement, each worker would receive at least 70\% of their base salary, with 1\%
being added for every year worked beyond the retirement age, and 6\% added for
every year worked beyond the required time of service. As a result, it was very
frequent for employees to receive a pension that represented 100\% of their base
salary.\textsuperscript{133} Just like in the Argentine case, these pensions were financed by
contributions from current workers as well as certain taxes (in this case sales
taxes). However, many viewed such a system as unsustainable, and by the mid-
1990s, there started being a deficit, and the problem was compounded by the fact
that during the period when the pension system ran surpluses, the government had
failed to save up the extra cash. The problems with the pension system are neatly
summarized by Madrid, who writes:

\begin{quote}
In 1995, the main pension system ran a deficit for the first time in many years. The size
of the pension deficit was expected to increase rapidly in the years ahead, owing to the
projected aging of the Brazilian population. The growing financial problems threatened
the Brazilian government’s economic program, which depended on keeping government
spending in check…The Brazilian government was therefore under considerable pressure
\end{quote}

\textsuperscript{132} Madrid 2003; p.140  
\textsuperscript{133} Madrid 2003; p.141
to reform its pension system, but considerable disagreement on what sort of reform to enact.134

Despite the significant structural problems that existed with the Brazilian pension system, no radical changes such as the privatization that occurred in Argentina were ever undergone. Rather, many of the changes that took place were slow (pension reform was undertaken over a five-year period between 1998 and 2003) and only gradually tackled the problems present in the pension system. The pension reform process thus occurred in three phases: during the first phase, in 1998 a constitutional amendment was approved, which contained three principal provisions. Firstly, a minimum time of service for retirement was established at 35 years for private-sector workers; secondly, a ceiling of ten minimum wages was placed on private-sector benefits; thirdly, a minimum retirement age was created for public sector workers. A law passed in 1999 further solidified the reform by tying the benefits private workers would receive to their life expectancy at retirement, thus giving workers an incentive to be employed until age 70. Finally, in 2003, the recently-inaugurated president Lula passed another constitutional amendment which was directed mainly at civil servants, whose pensions were widely perceived to be overly generous. In 2002, even though civil servants comprised only 13% of pensioners, they consumed 42% of the benefits, and the new reforms were meant to both raise the retirement age of public workers as well as bring the benefits in line with those received by private sector employees.135

134 Madrid 2003; p.143
135 Brooks 2009
During the 1990s when reform began, pension privatization models similar to those of Argentina and Chile were discussed, yet never bore fruit because of the difficulties in navigating through institutions such as congress and the judiciary. Additionally, there were constitutional barriers to reform, since many of the pension benefits were “hard-wired” and described in great depth in the 1988 constitution. The greatest barrier to reform was the legislature, and this concept is described by Raúl Madrid when he writes:

Control of the legislature was crucial to the enactment of social security reform in Brazil because the government’s reform proposal was highly controversial…The Brazilian party system is highly fragmented, which has deprived the ruling party of legislative majorities in recent years…The small proportion of seats held by the ruling party and the weak party discipline prevailing among the governing coalition made it very difficult for the Cardoso administration to assemble sufficient votes to pass the social security reform bill.

The process through which Cardoso passed the 1998 constitutional amendment lasted over three years, beginning in 1995 when he submitted the first draft of the bill to the Committee on the Constitution and Justice of the Chamber of Deputies. After months of negotiations between Cardoso’s party, the PSDB, and his coalition partners as well as the opposition, the bill was finally cleared and sent to a special congressional committee. Although Cardoso’s coalition held the majority of seats within this committee, internal disputes between the PSDB and the other allies such as the PFL erupted (for example, the president of the committee who was a member of the PFL opposed the pension reform bill), thus causing a further five months of delays. The opposition from left-wing parties such as the PT was also intense, and they used several delaying tactics to slow the

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136 Madrid 2003; p.149
137 Madrid 2003: p.154, 157
138 Madrid 2003; p.157
139 Madrid 2003; p.158
approval process of the bill, including even an attempt to suspend the committee
debate for 30 days.\textsuperscript{140} The bill finally reached the full Chamber of Deputies after
the special congressional committee was dissolved,\textsuperscript{141} where at first Cardoso
suffered a humiliating defeat. Although the president had personally negotiated
the terms of the pension reform with the CUT, the principal labor confederation in
the country, these negotiations broke down on March 5 when the CUT president
Vicente Paulo Da Silva withdrew his support.\textsuperscript{142} Despite the break with the union,
the President of the Chamber of Deputies and PMDB ally of Cardoso, Luís
Magalhães, decided to bring the amendment up for a vote anyway. Nevertheless,
Cardoso failed to secure the three-fifths majority he needed to pass constitutional
amendments, and although 308 votes were needed for the amendment to go
through (60\% of 513 deputies), 294 deputies voted in favor, 190 voted against,
and 8 abstained.\textsuperscript{143} What is particularly remarkable is that many of the dissenting
votes were from Cardoso’s own coalition, with 40 from the PMDB and 9 from
Cardoso’s own PSDB.\textsuperscript{144} Cardoso largely blamed the defeat on the fact that the
vote occurred during an election year, and on an optimistic note he claimed that
“perhaps the deputies who voted against this bill for electoral reasons will change
their minds in the future.”\textsuperscript{145}

Following his initial defeat, Cardoso presented to congress a slightly less
ambitious amendment for pension reform. This time, however, Cardoso began to

\begin{itemize}
\item \textsuperscript{140} Latin American Weekly Report. February 8, 1996; p.195
\item \textsuperscript{141} Madrid 2003; p.158
\item \textsuperscript{142} Latin American Weekly Report. March 21, 1996; p. 128
\item \textsuperscript{143} Folha de São Paulo. March 7, 1996
\item \textsuperscript{144} Latin American Weekly Report. March 21, 1996; p.128
\item \textsuperscript{145} Folha de São Paulo. March 7, 1986
\end{itemize}
engage in pork-barrel politics to persuade legislators to vote for the bill, and an article from the Latin American Weekly Report describes the government's “recourse to what is delicately termed fisiologismo, or pork-barrel politics, to reverse its defeats over social security reform.”\textsuperscript{146} The reform proposal suffered a setback however during late April, when a Supreme Court judge suspended the congressional debate by arguing that because the initial bill was defeated in March, it would be inappropriate to reintroduce it during the same congressional session.\textsuperscript{147} Nevertheless, on May 8, the full Supreme Court debated the issue and overturned the ruling of the previous judge, thus allowing debate to continue.\textsuperscript{148} As the legislative process dragged on, several amendments were made that eliminated the most important elements of Cardoso’s original bill, including a provision requiring civil servants to be at least 55 years of age in order to retire, a provision which would have prevented retired civil servants from receiving pension increases proportional to those of the salaries of current public sector workers, and a provision which would have eliminated special pensions for university professors.\textsuperscript{149} Even though the bill passed, an article by the Latin American Weekly Report emphasizes that “the amendments mean that few of the government's original proposals remain in the draft legislation, which had already been thoroughly emasculated.”\textsuperscript{150}

Facing defeat, Cardoso resubmitted a modified version of the piece of legislation to the Senate which included many of the provisions that had been

\textsuperscript{146} Latin American Weekly Report. April 11, 1996; p.160
\textsuperscript{147} Latin American Weekly Report. April 25, 1996; p.179
\textsuperscript{148} Latin American Weekly Report. May 23, 1996; p.225
\textsuperscript{149} Madrid 2003; p.160
\textsuperscript{150} Latin American Weekly Report. June 6 1993; p.243
previously eliminated, where it passed with relative ease as a result of the wide support that his coalition possessed (the PSDB and Cardoso’s strongest allied parties, the PFL and PTB controlled just over half of the seats\textsuperscript{151}). However, in order to be signed into law, the bill also had to be ratified by the Chamber of Deputies, and this time, Cardoso was able to achieve the majority he desired. The process of obtaining the required number of votes involved providing hundreds of millions of dollars to deputies for them to be able to undergo projects such as improvements for infrastructure in their local districts. In total, 545 million dollars were disbursed for housing and drainage projects for the districts of the congressmen, and the Latin American Weekly Report notes that “this is more money than was released for these areas throughout 1997.”\textsuperscript{152} As well, Cardoso granted several promises to the wife of the president of a party with 23 votes, and also provided $10 million to the Liberal Party, $113 million to the PFL, and $90 to the PPB.\textsuperscript{153} Even with all of this pork-barrel spending, although Cardoso managed to pass the constitutional amendment, the president’s victory was a “partial one,”\textsuperscript{154} since he was not able to address the extravagant benefits received by public sector workers.

**Pension reform in the 2000s: a continuation of the policies begun in the 1990s**

In the 2003 pension reform, Lula was in a significantly better position than Cardoso to enact the reforms that were necessary to reduce the burden of public

\textsuperscript{151} Madrid 2003; p.161
\textsuperscript{152} Latin American Weekly Report. February 17, 1998; p. 77
\textsuperscript{153} Latin American Weekly Report. February 17, 1998; p. 76
\textsuperscript{154} Latin American Weekly Report. May 19, 1998; p. 220
sector employees on the pension system. Lula benefitted from the Nixon-to-China syndrome, and as a result was able to win over many of the skeptics who had previously blocked Cardoso’s attempt at reform. Nevertheless, passage of the bill was still challenging, considering that the PT held nowhere near a majority of the seats in Congress, and there was significant disagreement even within the PT itself. While 77% of PT deputies opposed placing a ceiling on public sector pensions, 100% of PT senators opposed this provision. According to André Medici, “the strategy of the government leadership in Congress was to create a punitive environment for any member of the Workers’ Party who did not support the reforms, and to develop alliances and bargaining tools with members of other parties to generate support.”

The first strategy that Lula used to support the passage of the bill was largely symbolic, and involved him personally delivering the draft legislation to congress accompanied by 27 governors, 22 ministers, and ten city mayors, seeking to create an image of political consensus behind the project. Surrounded by this entourage, Lula argued that these reforms did not pertain to the government, but rather to everyone, and asked congress to approve the reforms that same year. To gain support from his own party, Lula claimed that failure to pass this reform would jeopardize the credibility of the left wing in

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155 This refers to a situation in which a politician has credibility in advocating for an initiative because he/she traditionally opposed it. In this case, Lula had more credibility than Cardoso in advocating for pension reform because Lula had been a long-time opponent of reform in this area.
156 Latin American Weekly Report. April 1, 2003; p.149
157 Medici 2004; p.16
158 Latin American Weekly Report. May 6, 2003; p.197
159 Folha de São Paulo. May 1, 2003
Latin America, and he also sought to create alliances with other parties. Most notably, he convinced the PMDB to support his cause by offering the party the leadership of the Senate and using soft tactics such as inviting all members of the party to a personal lunch with him.\footnote{Latin American Weekly Report. May 20, 2003; p.242} Lula agreed to several concessions including not implementing an 11% tax on pensions up to 1400 reais, and agreeing to provide judges with pensions that are the equivalent of 90.25% of their last salary.\footnote{Latin American Weekly Report. August 12, 2003; p.5} The concession to judges was also partly influenced by Brazilian Chief Justice Maurício José Corrêa’s threat to try to block Lula’s pension reform proposal in response to the proposed deductions in the benefits of members of the judiciary.\footnote{Colitt 2003} Finally, the legislation was approved in the Chamber of Deputies on August 6 with 358 votes in favor, 126 votes against and 8 abstentions,\footnote{Latin American Weekly Report. August 12, 2003; p.5} and was sent for revision in the Senate on August 28. Despite initial resistance by many senators, following an additional four months of negotiation and compromise, the bill was passed on December 11, 2003 with the support of senators from parties with seemingly disparate ideologies (the PT, PSDB, PFL, PMDB, etc). The bill was approved by a vote of 51-24, and the newspaper, \textit{Folha de São Paulo} notes that “this is the first reform by Luiz Inácio Lula da Silva to be approved.”\footnote{Folha de São Paulo. December 12, 2008} The newspaper estimates that the bill will save 47.2 billion reais (~$25 billion) over the next twenty years.
Contrasting pension reform in Argentina and Brazil

In short, the differences between the processes of pension reform in Argentina and Brazil are striking. I have attempted to highlight in this chapter the two characteristics described in the introductory part of the thesis, namely the diverging strengths of the institutions of horizontal accountability as well as the degree of negotiation and compromise. We can clearly see that the Argentine pension reform was heavily executive-dominant, with Menem and Kirchner choosing to go through congress merely to give the reforms more legitimacy. As I have shown, no serious concessions were granted to legislators, particularly those from the opposition. Through the support of the PJ party, the threat of passing reforms by decree, and the use of questionable (even illegal) tactics such as the ones that occurred in the congressional committee, presidents were able to “get their way” without seriously engaging in negotiations with the opposition. On the other hand, in Brazil I have shown how the reform process was significantly slower, with the president consistently being constrained by institutions such as congress and the judiciary. Both presidents Cardoso and Lula sat down with opposition legislators in order to debate the reforms, and in exchange for support, they granted numerous concessions. In the end, the reforms achieved the support of a grand coalition of various parties (including ideologically distant parties), unlike in Argentina where the reforms were virtually unilateral. Seeing that the reforms in Brazil had greater backing amongst politicians and were more modest in their proposals, it is highly probable that they will endure for a longer period
than those in Argentina, where pension policy at least until this point has been at the discretion of the president in power.
Chapter IV: Privatizations and nationalizations in Argentina and Brazil

During the 1990s, both Argentina and Brazil embarked on a campaign of privatization of state-owned industries in order to promote economic growth and raise revenue for the government, yet the process through which this economic program took place differed greatly between the two countries. I will begin with a brief discussion of the differences in the extent of privatization, and will then move on to a detailed description of the processes of reform.

Different outcomes in privatization/nationalization policy

One metric that can be used to judge the extent of privatization in Argentina and Brazil is the Privatization Index that was developed by ECLAC.\textsuperscript{165} This index ranks Latin American countries between 0 and 1 based on the extent to which privatization was undergone, and in 1995 while Argentina had the \textit{maximum value} of 1.000, Brazil had a lower (albeit still high relative to other Latin American countries) value of 0.813. Throughout the 1990s period, Argentina privatized virtually all important industries that had been in state hands (including oil, water, telecommunications, railroads and the national airline), whereas in Brazil the program was more moderate. Although privatizations in Brazil were carried out in areas such as telecommunications, banking and mining, other companies such as the state-run oil enterprise, \textit{Petrobrás}, were never privatized. Nevertheless, in the 2000s, while Brazil slowed the rate of

\textsuperscript{165} Morley et al 1999. The numbers for this index were calculated based on a formula of one minus the ratio of value-added in state owned enterprises to non-agricultural GDP.
privatization of state-owned industries, privatization in Argentina witnessed a drastic reversal as the country began a renationalization process which included the post office, the national airline, water works, etc.

The following two tables illustrate the differences between the radicalness of nationalization and privatization schemes in Argentina and Brazil using six representative industries/organizations:

**Figure 18: Privatizations and nationalizations in Argentina 1990-2010**

<table>
<thead>
<tr>
<th></th>
<th>1990s</th>
<th>2000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power</td>
<td>Privatized</td>
<td>Partially nationalized</td>
</tr>
<tr>
<td>Oil</td>
<td>Privatized</td>
<td>No reversal</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>Privatized</td>
<td>Nationalization threat</td>
</tr>
<tr>
<td>Post Office</td>
<td>Privatized</td>
<td>Nationalized</td>
</tr>
<tr>
<td>National Airline</td>
<td>Privatized</td>
<td>Nationalized</td>
</tr>
<tr>
<td>Water</td>
<td>Privatized</td>
<td>Nationalized</td>
</tr>
<tr>
<td>Railways</td>
<td>Privatized</td>
<td>Partially nationalized</td>
</tr>
</tbody>
</table>

**Figure 19: Privatizations and nationalizations in Brazil 1990-2010**

<table>
<thead>
<tr>
<th></th>
<th>1990s</th>
<th>2000s</th>
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<tbody>
<tr>
<td>Power</td>
<td>No change</td>
<td>No change</td>
</tr>
<tr>
<td>Oil</td>
<td>No change</td>
<td>No change</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>Privatized</td>
<td>No reversal</td>
</tr>
<tr>
<td>Post Office</td>
<td>No change</td>
<td>No change</td>
</tr>
<tr>
<td>National Airline</td>
<td>No change</td>
<td>No change</td>
</tr>
<tr>
<td></td>
<td>(already private)</td>
<td></td>
</tr>
<tr>
<td>Water</td>
<td>Limited privatization</td>
<td>No reversal</td>
</tr>
<tr>
<td>Railways</td>
<td>Partial privatization</td>
<td>No reversal</td>
</tr>
</tbody>
</table>
Argentina in the 1990s: a decade of rapid, radical privatizations

Immediately upon taking office, President Carlos Menem began the largest privatization campaign in Argentine history. It was ironic that the very person who would ultimately dismantle the heavily statist economic model created by Juan Perón was a Peronist himself. In his book, Manzetti writes:

In the most stunning policy reversal in Argentina’s modern history, Menem reached the conclusion that turning the economy around no longer rested in the traditional populist, nationalistic, redistributive approach. The key to success was instead the establishment of a free market economy through the implementation of a sweeping market-oriented reform program worthy of Thatcher and Reagan’s applause. Oddly, it took a Peronist President to undo most of Peron’s welfare and ISI policies of the 1940s…The cornerstone of Menem’s market approach to resolving the country’s problems was a radical privatization effort.166

At the beginning of his project, Menem’s first action was to gain approval from congress for a law that would permit him to undergo privatizations through executive orders, and which would eliminate state subsidies to failing companies. The bill was entitled the State Reform Law (Law 23696), and also served to set up a framework which would prevent any legal challenges to the privatization process.167 Menem encountered opposition to this bill particularly among the Radical Party, who in addition to being against several of the proposed privatizations, believed that “because of the substantial powers already given to the executive, it is reasonable that there be some restrictions.”168 Although the bill passed in congress, not only was there little to no debate on merits of the law, but the process could hardly be described as democratic.

Firstly, as was also seen in the case of pension reform, Menem warned that he would implement the law by decree if congress failed to approve it.

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166 Manzetti 1999; p.71
167 Manzetti 1999; p.72
Secondly, Menem used blackmail against opposition legislators, threatening that if they did not pass the bill, he would expose several cases of bribery that had taken place throughout the tenure of his predecessor, Raúl Alfonsín. Despite these threats, when voting on the bill was scheduled to begin, numerous congressmen, mainly from the opposition, did not show up, thus depriving congress of the necessary quorum. Allegedly however, the Menem administration invited inside the legislature congressional employees, who impersonated the legislators that were absent. A vote was then taken, and these impostor legislators provided the decisive ballots. Manzetti further claims that “given the intimidating scenario, neither Peronist nor Radical legislators objected to the validity of the vote. Conclusively, in less than two months Menem had established the legal instruments for expediting privatization without any independent oversight.”

In order to provide a minimal degree of credibility to the privatization reforms, Menem created a congressional commission that would monitor the privatization process. Yet, Manzetti rightfully argues that this commission was a mere “façade,” considering that its president Alberto Natale was a conservative politician who supported neoliberal policies. An article by Saba et al confirms that this commission had no veto powers. In reality, Menem had no intention to work with congress, and particularly opposition legislators, preferring instead to enact the privatizations unilaterally by decree. This is confirmed in an article by the Latin American Weekly Report which states that

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169 Manzetti 1999; p.72  
170 Cerruti and Ciancaglini 1992 p.98  
171 Manzetti 1999; p.72  
172 Manzetti 1999; p.73  
173 Saba, Manzetti 1997; p.362
“to speed up the privatizations…Menem wants to be rid of the annoyance of
going through congress.” ¹⁷⁴ In the end, the bill passed the Chamber of Deputies
on August 9, after only two days of debate,¹⁷⁵ and moved on to the Senate where
it was also quickly approved.

What worked towards Menem’s favor in the passage of the reform bill was
the hyperinflationary crisis in 1989 and the public sector deficit which had
reached $5.5 billion. The executive took advantage of this crisis and presented
this law as being a response to an economic emergency that needed to addressed,
and Roberto Dromi, the Minister of Works and Public Services argued that “the
public sector of the economy will not resist even one more day. It is thus
necessary to modify the structures of the state.”¹⁷⁶

With congress having effectively been eliminated as a potential veto
player to Menem’s privatization plan, the executive’s attention now turned to the
courts. Mariana Llanos describes that:

> Soon after the approval of the emergency laws, the government began to perceive that
> justice was another sphere where opposition to the economic reforms could be expressed.
> A declaration claiming those laws to be unconstitutional was interpreted as disastrous for
> the future of the economic plan. Similarly, the constitutionality of necessity and urgency
decrees was another preoccupying topic for the government. (87)

One of Menem’s first actions involved expanding the Supreme Court from five to
nine members, and the justification that Menem used was that it would be
unacceptable that an unelected body be able to overrule the mandate given by the
people to an elected president.¹⁷⁷ Using this argument, Menem submitted a bill to
congress that would enlarge the Supreme Court, and after several months, it

¹⁷⁵ La Prensa. August 10, 1989
¹⁷⁶ La Prensa. July 28, 1989
¹⁷⁷ Llanos 2002; p.88
eventually passed, and had an especially easy time in the Peronist-dominated Senate. Following the passage of the law, Menem was able to appoint six new Supreme Court judges (of the previous five, two had already resigned and six were needed to complete the nine-member court). An additional argument that Menem used to pack the Supreme Court was that investors would be more attracted to invest in Argentina if they felt that there was a greater level of legal certainty surrounding the reform process. In other words, he believed that investors would feel more confident in the context of a politically-dependent Supreme Court, since the reforms passed by the government are more likely to endure. Nevertheless, ironically this strategy later backfired after the privatization process was complete, since investors were reluctant to invest in a country where the future set of laws depended so heavily on who was elected president.  

Having removed both congress and the Supreme Court as potential obstacles to reform, the privatization process in Argentina was now wholly under the control of the Ministry of Public Works and Services; the Ministry of Defense would be responsible during the implementation stage. By the end of this process, almost all major state-owned enterprises had been given to private entities. Some of the most notable privatizations which Menem underwent include the privatization of the phone company, Entel, the aforementioned national airline, Aerolíneas Argentinas, the national oil company, YPF, utilities such as electricity and water, the national railway system, and the post office.

\[178\] Saba et al 1997; p. 362
\[179\] Llanos 2002; p.86
One particularly significant case was that of the electric grid of Buenos Aires, which was privatized in merely two days at the end of July of 1992. The privatization program also included the National Atomic Energy Commission (CNEA), which owned Argentina’s two nuclear power plants and mined uranium. There was no debate on the privatization of CNEA, despite opposition among both the executives of CNEA as well as legislators. The case of the telecommunications company Entel also shows the dominance of Menem in the privatization process. According to La Prensa, Menem promised to privatize the company even before he took office, within his first 180 days. As described earlier, upon taking up the presidency Menem pushed for the State Reform Law which gave the executive the discretion to privatize several companies including Entel. On November 8, 1990, Menem signed a decree transferring Entel into private hands (to STET and Telefónica Española), and while the lack of any input from opposition legislators is not surprising, what is particularly noteworthy is that the congressional bicameral commission was not given the full details of the privatization; this prompted several senators to make a joint statement claiming that “celerity was given priority over transparency, and the bicameral commission was not given an adequate role in the ‘secret’ negotiations that took place.”

This opinion is also echoed by the respected independent federal deputy, Federico Clérici, who claimed that “although the privatization of this company was

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182 La Prensa. July 4, 1989
183 La Prensa. November 9, 1990
essential, in this case the end result for which we still do not have adequate information is suboptimal.\textsuperscript{184}

\textit{Aerolíneas Argentinas} which was sold to Iberia via decree on November 29, 1990,\textsuperscript{185} is another case of a rapid privatization that was done entirely by the executive with little input from other legislators. The lack of transparency is evident since the beginning of the privatization process, when although there were several parties interested in purchasing the firm including American Airlines, KLM, and Iberia, by the end Iberia was the only bidder left. Allegedly, the bureaucracy in charge of implementing the privatization process had asked all of the potential bidders for bribes in order to ensure “equal treatment.”\textsuperscript{186} According to Saba et al, “Argentina sold 85% of the company in November 1990 to the only bidder, a consortium led by Iberia of Spain, in open violation of the bid clauses that required at least two offers.”\textsuperscript{187} Because of the lack of bidders and the questionable legal basis of the privatization, congress attempted to halt the transfer of Aerolíneas Argentinas into private hands.\textsuperscript{188} Near the end of the privatization process, federal deputy Moisés Fontela filed a complaint with the courts about the procedure implemented in selling the company. A judge agreed with the Fontela, and ruled that the sale could not be made until the irregularities were clarified. Nevertheless, the Menem administration, fearing both a long trial and a negative outcome, appealed directly to the Supreme Court. The Supreme Court in turn suspended the decision of the lower-court judge, and what was

\textsuperscript{184} La Prensa. November 11, 1990
\textsuperscript{185} La Prensa. November 29, 1990
\textsuperscript{186} Saba et al 1997; 364
\textsuperscript{187} Saba et al 1997; 364
\textsuperscript{188} Gurtler 2005; p.100
particularly controversial was that not only did this decision demonstrate the
degree to which the Supreme Court was politicized, but that it also set a precedent
whereby the intermediate stages of the judicial process were skipped.\textsuperscript{189} It is also
important to mention that in general, the Supreme Court almost always ruled in
favor of the executive in the presidential decrees that were signed,\textsuperscript{190} and
Morgenstern et al summarize the weakness of the courts when they write:

In \textit{Fontela versus the State} the court deprived legislators of the use of the court system in
their attempts to hold the Menem administration accountable for its policies…The
message behind the sentence was clear: the Supreme Court was squarely behind the
president and could not be counted on to challenge his initiatives.\textsuperscript{191}

Even in the case of the state-owned oil company, \textit{YPF}, where Menem did
go through congress, the process was still heavily executive-dominant, where the
president used questionable tactics to achieve a consensus in the legislature.
Although the State Reform Law had been approved which allowed the president
to undergo privatizations in several areas by decree, hydrocarbons were not
included in this bill and thus legally Menem was required to obtain approval from
congress. However, he was initially unable to achieve a quorum because all of the
members from the Radical Party as well as some members of his own Peronist
Party defected.\textsuperscript{192} Unable to persuade legislators through legal means, Menem
allegedly resorted to bribing legislators to provide him a quorum. In the end, he
achieved the bare minimum number of deputies required for the vote to take
place, and it is important to note that no Radical legislator voted for the reform.\textsuperscript{193}

The Latin American Weekly Report describes the privatization of YPF as “the

\textsuperscript{189} Llanos 2002; p.88
\textsuperscript{190} Llanos 2002; p.88
\textsuperscript{191} Morgenstern, Manzetti 2003; p.163
\textsuperscript{192} Latin American Weekly Report. October 8, 1992; p.11
\textsuperscript{193} Latin American Weekly Report. October 8, 1992; p.11
most radical yet of the region’s privatizations,” since the company had been earning a revenue of $5 billion per year and oil has been seen as a traditionally strategic sector of the economy.

The Argentine political economy of the 2000s: a reversal in privatization policy

Following the 2001 economic crisis under the successive governments of Duhalde and the Kirchners, the economic model became significantly more statist in nature. Many privatizations were reviewed, leading to the cancellation of several contracts, and consequently many enterprises were brought back under state control. Hogan et al write:

Following the economic crisis, and subsequent political and social turmoil, there was widespread criticism of the economic model, which was perceived to be at the heart of the crisis. Privatization, a tenet of conservative economic restructuring, received particular attention as a major force behind Argentina’s woes. Consequently, critiques of government policy became widespread, and opinion turned against privatization…During the campaign Kirchner criticized previous privatizations, arguing that ‘it’s necessary to recover the railways, and analyze the [privatization] contracts.

Many nationalizations were accomplished by decree in a manner similar to the privatizations, as took place with the railways (Decree 1261/04). In this case, rail nationalization occurred after the government admitted that as a result of privatization, large tracts of railways were abandoned, thus leading to the destruction of villages and to the closure of factories to which commuting became impossible. The postal service was also renationalized by a presidential decree (Decree 1075) on November 19, 2003, after it was concluded that privatization

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196 Baer et al 2008; p 324
197 Hogan et al 2008; p. 67-68
198 Baer et al 2008; p. 332
merely resulted in fee hikes without improvement in quality.\textsuperscript{199} Aerolíneas Argentinas was another prominent example of a company that was renationalized, along with the water service. Additionally, the government has issued threats of nationalization against several firms including Telecom Argentina.

Regarding water service, on March 21, 2006, Kirchner signed a decree that rescinded the concession previously given by Menem to Aguas Argentinas, which was responsible for the water infrastructure in the city of Buenos Aires. That same day, he signed another decree which created a state-run company, AySA that would assume responsibility for water works\textsuperscript{200}. The service that Aguas Argentinas had been providing to customers was subpar (with allegations that the water was contaminated with nitrates\textsuperscript{201}), and these decrees marked the end of what El Clarín described as “the worst relationship that the executive has had with a privatized company.”\textsuperscript{202}

With regards to the national airline, in July of 2008 Cristina Kirchner announced her intention to renationalize Aerolíneas Argentinas, and by August 20, the Chamber of Deputies had approved the measure by a vote of 167-79. The company had been nearly bankrupt following privatization, and allegedly, flights suffered from severe delays and half of the company’s plane fleet was grounded because the airplanes were missing parts.\textsuperscript{203} The president presented this nationalization law as necessary in order to “rescue” the flagship Argentine carrier and ensure that the public would continue to have access to flights within

\textsuperscript{199} Baer et al 2008; p. 334  
\textsuperscript{200} Rush 2006  
\textsuperscript{201} Rush 2006  
\textsuperscript{202} El Clarín. March 21, 2006  
\textsuperscript{203} Mohit 2008
Argentina.²⁰⁴ The negotiation process bore many similarities to those that took place in the Menem decade, since the president’s party possessed a working majority in both houses of congress. For example, the Chamber of Deputies approved the legislation following only 13 hours of debate,²⁰⁵ where opposition legislators from the PRO, Radical Party, Socialist Party and Coalición Cívica did not provide any votes.²⁰⁶ Similarly, following the passage of the bill in the Chamber of Deputies, the executive predicted a “rapid approval process in the Senate.”²⁰⁷ In the desire for rapid passage of the bill, legitimate concerns raised by the opposition were not addressed, most notably the fact that by nationalizing the airline, the Argentine state would be assuming the liabilities of the company (which included a debt of 890 million dollars). Despite calls by the opposition to first allow Marsans (the Spanish group who controlled the airline) to declare bankruptcy and then go ahead with purchasing the aircraft,²⁰⁸ the opposition was practically ignored by the executive, and one Radical Deputy, Miguel Giubergia noted that “this new project is pure makeup.”²⁰⁹

Brazil in the 1990s: a more gradual, consensus-oriented approach to privatization

In Brazil, the privatization process was begun under the presidency of Fernando Collor and was continued in the Franco and Cardoso period. Prior to Cardoso’s coming to power, the state was able to sell 33 of its companies in areas

²⁰⁴ El Clarín. September 4, 2008
²⁰⁵ El Clarín. August 20, 2008
²⁰⁶ La Nación. August 21, 2008
²⁰⁷ El Clarín. August 22, 2008
²⁰⁸ Ámbito. August 22, 2008
²⁰⁹ La Nación. August 21, 2008
such as steel, petrochemicals, and fertilizer; yet the 1988 constitution included a provision that prevented the selling of state monopolies in key industries such as telecommunications.²¹⁰ Cardoso sought to expand the privatization program to these industries, but in order to achieve this he would require constitutional amendments to be approved in congress that would allow for privatization in areas such as gas, mining, and the aforementioned telecommunications. He also desired to include more foreign investors in the privatization process, yet this also required a constitutional amendment which would prevent discrimination against foreign parties from occurring in the sale process.²¹¹

Obtaining these constitutional amendments was not easy, and required 60% of the votes in the Chamber of Deputies. In order to build a coalition, Cardoso firstly sought to win over all of the right-wing parties in congress, including the PFL by agreeing not to raise corporate income taxes. He also won over the parties representing rural interests by agreeing to postpone debt payments of Brazilian landowners worth over 1 billion dollars. Finally, he was able to “sweeten the deal” by doubling the salaries of all members of congress.²¹² Most importantly, however, Cardoso offered patronage posts to political parties in exchange for support in passing the constitutional reforms.²¹³ The importance of these posts is highlighted in an article in the Latin America Weekly Report, which states that “the largest party in congress, the Partido do Movimento Democrático (PMDB), has threatened to withdraw its support for the government…This is a

²¹⁰ Treisman 2003; p.13
²¹¹ Treisman 2003; p.14
²¹² Treisman 2003; p.15
²¹³ Latin American Weekly Report. May 11, 1995; p.201
reference to the vexed question of patronage posts, on which the PMDB reckons that it has been short-changed by the government. Party leaders point out that they can halt the constitutional reform process unless the government listens to them.\footnote{214}{Latin American Weekly Report. May 11, 1995; p.201} In order to pass other amendments such as ending the state gas monopoly, Cardoso had to appeal directly to the people in a television broadcast in order to pressure congress into accepting the reforms.\footnote{215}{Latin American Weekly Report. May 11, 1995; p.200} With regards to the amendment that would allow the privatization of telecommunications, Cardoso had to promise congress that when the regulations would be made, they would be subject to a congressional vote instead of a presidential decree.\footnote{216}{Latin American Weekly Report. May 18, 1995; p.214} Finally, in order to pass the aforementioned constitutional amendment that would end the discrimination against foreign-owned companies (and thus open up the privatization process to foreign capital), Cardoso placed the leader of the PFL party as the head of the state-owned electric company, Electrobrás.\footnote{217}{Latin American Weekly Report. May 25, 1995; p.220}

One case study that demonstrates the intricate process of privatization of Brazilian companies is the elimination of the state monopoly over oil. As with other sectors such as telecommunications, the constitution of 1988 assured the monopoly of the state-owned company, Petrobrás, in the oil sector. In his book, Goertzel writes:

Cardoso also took on one of Brazil’s greatest sacred cows, the Petrobrás oil monopoly. At first, Cardoso did not raise the issue of privatizing Petrobrás, a $100 billion industry that was part of Brazil’s national identity. The goal was simply to open up the country’s oil industry to competition from foreign firms, which would force Petrobrás to be more efficient and perhaps increase total oil production so Brazil could become more self-sufficient.\footnote{218}{Goertzel 1999; p.132}
In attempting to open up the oil sector to private competition, Cardoso encountered significant opposition in congress, where both left-wing and right-wing parties were opposed. The left wing PT was opposed to privatization schemes in general, while the right wing was reluctant to sacrifice an industry which was seen as part of the national identity.\textsuperscript{219} The idea of the oil industry representing part of the national identity is also echoed by Philip Daniel, who writes that “the early history of Brazil's petroleum sector was strongly nationalistic. The popular phrase ‘O Petroleo e Nostro’ --the oil is ours--supported Petrobrás in a monopolistic role and invited extensive government interference in the petroleum sector.”\textsuperscript{220} Eliminating Petrobrás’s monopoly would also have meant a reduction in patronage, and this did not sit well with any party.\textsuperscript{221} Left-wing parties such as the PT were under especially great pressure from labor organizations (which formed the backbone of their support) to try to block the proposal. Despite the lack of support for Cardoso’s proposal among all political actors, the situation changed dramatically after Petrobrás’s workers launched a month-long strike in May which resulted in long lines at the gas station as well as natural gas shortages. Consequently, public opinion turned sharply against the strike and towards ending the state monopoly over oil, and although in March there was support among only 39\% of the population, by June this figure had increased to 47\%.\textsuperscript{222} The boost in public opinion gave Cardoso the political capital necessary to break Petrobrás’s monopoly, and right after the strike on

\textsuperscript{219} Bridgman et al 2011; p.7  
\textsuperscript{220} Daniel 2010; p.277  
\textsuperscript{221} Bridgman et al 2011; p.7  
\textsuperscript{222} Latin American Weekly Report. June 8 1995; p.250
June 6, the lower house of congress approved the constitutional amendment. Yet, even with popular opinion on his side, “Cardoso nevertheless had to work hard to secure the oil industry victory.” Among the concessions that Cardoso granted to legislators included the promise that Petrobrás would not be privatized, and that it would maintain its control over the oilfields that were already being exploited. He also granted 100 patronage positions to the members of his coalition. Despite Cardoso’s success in opening up the oil sector to competition, he was not able to realize his ultimate goal of privatizing Petrobrás, and this case is representative of the difficult and intricate political process of economic policymaking that Brazilian presidents face.

**Brazil in the 2000s: a change in government, but no reversal in policy**

When Lula replaced Cardoso as the president of Brazil, many feared that this would mean a reversal in the privatization process that had begun in the 1990s. In fact, the anxiety was so high that in the weeks prior to the election when polls were predicting that Lula would win, the stock market fell in what was known as the “Lula effect.” Since the beginning of its existence, the left-wing PT along with its union allies had fought against government initiatives to move state companies into private hands, and as Hunter describes, “the PT delegation led the battle against privatization, organizing other left-wing parties such as the PDT, PSB, PCdoB, and PPS on its side. The ideological argument that its members advanced was that the Brazilian state would be more likely to defend national

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interests than would private shareholders, particularly foreigners.\textsuperscript{225} Nevertheless, upon assuming office, despite the fears of a socialist program, Lula kept in place and even expanded on some of the policies begun by Cardoso. One of his first symbolic gestures to markets that he would not undo the reforms of his predecessor was his appointment of Antonio Palocci as Finance Minister. Palocci is widely regarded as being among the most right-wing of the PT politicians, and when he served as the mayor of Ribeirão Preto, he privatized the local utilities. Upon assuming office, he announced that while privatization would slow from the pace witnessed under Cardoso, no renationalizations would take place. Hogan et al state that:

\begin{quote}
Lula's administration has been much less enthusiastic about the privatization option than the Cardoso administration but has not imposed any significant policy reversals. Lula’s team has publicly acknowledged the successes of many of the privatizations and has made it clear that it will not renationalize companies that were sold.\textsuperscript{226}
\end{quote}

With the left-wing now also not opposing privatization, in this respect Brazil can certainly be said to have achieved an ideological consensus.

In addition to keeping his promise that he would not return any privatized companies into state hands, Lula himself enacted several privatizations. One notable example is in the banking industry, where Lula privatized several regional banks including Banco do Estado de Maranhão and Banco do Estado de Ceará. He also privatized over 2600 kilometers of highways,\textsuperscript{227} and even the São Gonçalo de Amarente airport in Rio Grande do Norte.\textsuperscript{228} Currently, PT President Dilma Rousseff, who has been widely viewed as Lula’s handpicked successor, is

\textsuperscript{225} Hunter 2010; p.64
\textsuperscript{226} Hogan et al 2008; p.10
\textsuperscript{227} Clemente et al 2007
\textsuperscript{228} Business News Americas 2010
undergoing a process to privatize the country’s major airports in an effort to achieve faster improvements prior to the Olympic Games and the World Cup.

Comparing privatization/nationalization schemes in Argentina and Brazil

In short, this case study illustrates the differences between the processes of privatization in Argentina and Brazil. While the economic policies of the past twenty years were evidently more radical in Argentina and flip-flopped following the 2001 economic crisis, in Brazil the policies that were commenced in the 1990s were never rolled back and have endured. The divergence in the two outcomes is not surprising considering that in Argentina privatizations/nationalizations were done rapidly and virtually by decree, with little to no input from opposition legislators. However, in Brazil privatization was a slow process that involved significantly more negotiation and consensus-building, including with legislators from a variety of parties.
Chapter V: Monetary reform in Argentina and Brazil

In this section, I will discuss how monetary reform was carried out in Argentina and Brazil. I will compare the Convertibility Plan in Argentina to the Real Plan in Brazil, and show how the former was significantly more executive-dominated with little to no input from opposition legislators. Through a comparison of these two plans, I will illustrate how while Brazilian monetary policy has been relatively stable over the past two decades, the 2000s witnessed a radical change in Argentine monetary policy.

Different outcomes in monetary policy

Argentine monetary policy in the 1990s was significantly more radical in nature than Brazilian monetary policy, and the radicalness of the monetary regimes can concretely be evaluated by analyzing the extent to which they sought to stem inflation. By this measure, the Convertibility Plan in Argentina was significantly more radical than the Real Plan in Brazil, and the table below shows the inflation rates in Argentina and Brazil between 1996 and 2001 when both schemes were in force:

Figure 20: Comparing inflation under the Real Plan vs. the Convertibility Plan\(^{229}\)

<table>
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<tbody>
<tr>
<td>Argentina</td>
<td>-0.08</td>
<td>-0.46</td>
<td>-1.71</td>
<td>-1.87</td>
<td>1.04</td>
<td>-1.1</td>
</tr>
<tr>
<td>Brazil</td>
<td>17.09</td>
<td>7.67</td>
<td>4.23</td>
<td>8.48</td>
<td>6.18</td>
<td>8.97</td>
</tr>
</tbody>
</table>

\(^{229}\) Source: World Bank. World Development Indicators
The methods through which both plans sought to stem inflation also radically differed. While the Convertibility Plan pegged the Argentine peso 1:1 with the US dollar in an extremely strict manner and forbade the central bank from printing more pesos than it had dollars, the Brazilian plan was more moderate and combined a more flexible exchange rate (a crawling peg) with a reduction in the budget deficit.

During the 2000s, Argentine monetary policy again experienced radical reform, as the Convertibility Plan was abandoned and the government began to pursue a highly expansionary monetary policy in which stemming inflation was no longer a priority. Inflation went from virtually zero in 2001 to the fifth highest rate in the world by 2010, and currently stands at over 20%. On the other hand, Brazilian monetary policy has been stable in its commitment to stemming inflation, and since 2003 prices have risen by less than 10% per year. Although Brazilian monetary policy did not initially tackle inflation as aggressively as Argentine monetary policy, the Real Plan remained stable, and has not been reversed to this day. The following diagram illustrates the stability of monetary policy in Argentina and Brazil over the past twenty years:

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230 CIA 2012
Figure 21: Monetary policy stability in Argentina and Brazil

<table>
<thead>
<tr>
<th></th>
<th>1990s</th>
<th>2000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>A very strong commitment to lowering inflation results in the strict Convertibility Plan. Inflation falls to virtually zero (even resulting in deflation).</td>
<td>The Convertibility Plan is scrapped, and Argentina abandons the harsh anti-inflationary monetary policies of the 1990s in favor of an expansionary, inflationary monetary policy. Inflation is now among the highest in the world.</td>
</tr>
<tr>
<td>Brazil</td>
<td>A commitment to lowering inflation results in the Real Plan, which is more moderate than Convertibility (for example, Brazil adopts a crawling peg as opposed to a fixed exchange rate).</td>
<td>Brazil maintains its commitment to stemming inflation, and has not reversed the Real Plan. Inflation continues to be in single digits.</td>
</tr>
</tbody>
</table>

Argentina in the 1990s: radical monetary reform

As was previously discussed, the year of the inauguration of President Carlos Menem, inflation in Argentina had surpassed 3000%. During the prior decade, Argentina had suffered from the debt crisis that plagued most of Latin America, and by 1989 real wages were less than what they had been in the 1970s. The 1980s was also a decade characterized by unsustainable budget deficits, which had reached 14% of GDP in 1983. Because many banks became reluctant to invest in Argentine debt, this left the government with only two tools to finance the growing deficit, the first being extra taxes, and the second being inflation. Inflation however reduced investors’ confidence in Argentina, and

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231 World Bank. World Development Indicators  
232 Lewis 2001; p. 152
during the hyperinflationary phase of 1989, GDP shrank by 7.5%.\textsuperscript{233} Thus, a vicious circle was produced, where high fiscal deficits would lead to inflation, resulting in lower GDP growth and thus a greater need to borrow money in order to meet the required expenses.

In his drive to break the vicious cycle, the Menem government sought to stem the rising tide of inflation with the Convertibility Plan in 1991. Under the new Convertibility Law, the Argentine \textit{austral} (the currency at the time) was pegged to the US dollar at a rate of 10000:1, and most importantly, the Central Bank was only allowed to print only as many australes as it had gold and hard currency reserves.\textsuperscript{234} In a later decree, president Menem replaced the austral with the peso (10000 australes would now be worth 1 peso), so that the exchange rate between the peso and the US dollar became 1:1. In essence, the government “tied its own hands” effectively prohibiting itself from printing money in order to finance fiscal deficits. The measure paid off, and inflation fell from 132.9\% in 1991 to 11.9\% in 1992, and finally to a \textit{deflation} of 1.47\% in 1993.\textsuperscript{235} As investors felt confident that the government would not pursue the expansionary fiscal policies of the past, the economy also expanded, and 1991, 1992 and 1993 were boom years for Argentina, with the economy expanding by 12.67\%, 11.94\% and 5.91\% respectively.\textsuperscript{236} The “dollarization” of the Argentine economy was also extremely popular with the Argentine middle class who could now afford to more easily buy imported products, travel abroad, etc.

\textsuperscript{233} World Bank. World Development Indicators
\textsuperscript{234} La Prensa. March 21, 1991
\textsuperscript{235} World Bank. World Development Indicators
\textsuperscript{236} World Bank, World Development Indicators
Unlike the previous two monetary reforms in Argentina, the Convertibility Plan was created through a law (the Austral Plan and Bonex Plan were both issued through decrees). The process of monetary reform in Argentina was very quick and executive-dominant, and despite Menem’s apparent interaction with congress, in a manner similar to pension reform and privatization, no genuine debate took place. The bill which would launch Convertibility, known as Law 23928, was drafted by the Minister of the Economy, Domingo Cavallo in the weeks preceding its announcement, and was submitted to congress on March 20, 1991. Unlike the Real Plan in Brazil which took many months to approve, congress passed the Convertibility Plan in less than one week. By March 27, the bill was signed into law, and what is particularly remarkable is the broad opposition amidst which it was approved. It received little support from other parties, with the Radicals being especially skeptical, and despite the bill’s heavily neoliberal stance, *not even the IMF* endorsed it.\(^{237}\) In his book, Javier Corrales writes:

> Virtually every sector of public opinion expressed doubts about the state’s capacity to sustain the new exchange rate regime. After all, no one could believe that a country with such a history of instability and international volatility would be able to maintain the dollar-peso parity. The only political actor that wholeheartedly defended the law other than the Executive, was the PJ.\(^{238}\)

Unlike in Brazil where such opposition would effectively have derailed the bill, in Argentina it did little to alter its contents.

As Corrales explained, the main force behind the project was the PJ, and an article by *La Prensa* agrees by stating that “the federal Justicialist senators

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\(^{237}\) Cavallo and Cottani 1997; p.19

\(^{238}\) Corrales 2002; p.191
provided Menem with support for the law on the convertibility of the austral.\footnote{La Prensa. March 22, 1991} Despite Menem’s call for an urgent approval of the bill, opposition came from Radical legislators who believed that while Convertibility would be effective against inflation, in order to achieve optimal results a broader set of laws would be needed that would also address fundamental problems such as the public sector deficit.\footnote{La Prensa. March 22, 1991} With “one eye on the dollar and one eye on the ballot box,”\footnote{La Prensa. March 24, 1991} there were also allegations that the Convertibility Law had electoral objectives, and that Menem’s PJ party desired to halt inflation before the September elections “without considering the consequences.” Despite the opposition, by the morning of March 23, only two days after the executive had announced the project, Convertibility had already passed the Senate in a special session with the vast working majority that Menem possessed\footnote{La Prensa. March 23, 1991}.

After passing the Senate, the bill moved to the Chamber of Deputies, which attempted to convene a special session to debate the legislation as fast as possible. Nevertheless, to convene a special session, a quorum of two-thirds was required; and in order to achieve this, the executive took advantage of a divide that existed within the Radical party, which was split into two camps. Although both groups opposed the reform, they differed in the extent to which they were willing to fight to defeat it. The first group, led by Radical block president César Jaroslavski, believed that while it did not agree with the bill and would vote against the Convertibility Plan, it would be wrong to obstruct debate.\footnote{La Prensa. March 22, 1991}
Nevertheless, the second group which included prominent deputies such as Lorenzo Cortese and Dante Caputo was fully against the reform, and was willing to try to prevent the executive from achieving a quorum. Ultimately, the former provided the decisive votes necessary to achieve a quorum of 144 deputies in the special session that was convened on March 27. 243

Following merely 13 hours of debate, the PJ managed to almost unilaterally achieve approval of the Convertibility Law, with only a fraction of the UCeDe and some small, mainly regional parties also in favor. The Radical Party, which although indirectly aided the passage of the legislation through the presence of several of its legislators, provided no votes as their concerns were not adequately addressed in the crafting of the law. 244 The lack of serious debate that occurred in the Argentine congress on the Convertibility Law is summarized by the Deputy from Buenos Aires, Luis Zamora, who argued that “there was no democratic debate in congress on the Cavallo plan. It was a mere formality, with only a few hours being dedicated to discussing the bill.” 245 The lack of debate in congress among Menem’s PJ allies is also mentioned by Corrales when he claims that “the PJ consistently refused to participate in any debate about its merits…This political backing compensated for the law’s technical frailty.” 246

Even the little discussion that did take place during those short special congressional sessions had little to do with the economic merits of the bill. Rather, in attempting to persuade congress to pass the law, Cavallo made

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243 La Prensa. March 27, 1991
244 La Prensa. March 28, 1991
245 La Prensa. March 28, 1991
246 Corrales 2002; p.191
nationalist appeals that bore no relevance whatsoever to the current financial situation. For example, Cavallo argued that the bill should be passed because its policies would replicate those in early-20th century Argentina, when the country adopted the gold standard and experienced sustainable growth. Corrales writes that “the nationalistic flavor of this argument appealed to most legislators…Peronists loved this argument.”

The 2000s: The end of Convertibility and a reversal of the commitment to fighting inflation

Throughout the 1990s, the durability of the Convertibility Plan would be tested through its response to two main external shocks that occurred, namely the Mexican Tequila Crisis, and the Russian crisis. During the Tequila crisis when the Mexican state almost declared bankruptcy, although capital flowed out of Argentina, the Convertibility Plan was able to weather the storm, and in their book Ghosh et al write that following a slight recession:

…by mid-1995, capital inflows had resumed, reaching 10 percent of GDP by the end of 1995. GDP, after falling by 2.8 percent in 1995, rebounded with a 5.5 percent growth rate in 1996, though unemployment remained stubbornly high. Having passed its first major test, and having saved Argentina from a Mexico-style meltdown, the currency board’s popularity soared.

Despite having survived the Mexican crisis, Convertibility would not fare so well following the Russian crisis in 1998. During this crisis in which the ruble was devalued and the Russian state defaulted on a sovereign debt of 72 billion dollars, investors lost confidence in emerging markets in general. This served to Argentina’s detriment, and the situation was only worsened by the devaluation of

247 Corrales 1997; p.67
248 Corrales 1997; p.67
249 Ghosh et al 2002; p.122
the Brazilian real in 1999. Capital started to flow out of Argentina, and the
country entered a period of economic stagnation. From 1998 through 2001,
Argentina’s GDP contracted by 19%, with the most dramatic fall occurring in
2002 when the economy declined by nearly 12%. In this period, unemployment
peaked at 25%, and at its highest point, 57.5% of the Argentine population was
living below the poverty line.²⁵⁰ During the crisis, the newly-appointed minister
of finance Domingo Cavallo, who had previously served during the “glory years”
of the 1990s, tried to at first devalue the peso in a masked way, by pegging it to a
value that would be between the dollar and the euro (at that time, the euro was
worth less than the dollar).

However, this plan never bore fruit since Convertibility would be
abolished amidst the largest debt default in recent history (132 billion dollars). On
December 1, 2001, in an effort to prevent a run on banks, the government
imposed the infamous corralito, which prevented Argentines from taking out
more than 250 dollars in cash per week. The corralito was promulgated by decree
with no input from congress, and according to Cavallo, it was put in place “to
fight against speculative attacks from the exterior as well as from some
unscrupulous Argentines.”²⁵¹ Many consider the corralito to have been in itself
the end of Convertibility, and as Loser describes:

> The one-to-one relationship was based on the notion that there would be free exchange
> between pesos and dollars, and the central bank would back with the dollars it held all the
> pesos that people owned. With the corralito, people did not have access to the markets to
> get dollars when they wanted. At that point the demand for dollars far exceeded the
> availability, so the corralito was imposed because if the run on the banks had continued,
the central bank would have lost all its reserves and eventually it would have had to
devalue. There was no way out…Convertibility was no longer convertible.252

Following the corralito, a devaluation was rapidly achieved through an
emergency law (Law 25561: The Law of Public Emergency and Reform of the
Exchange Rate Regime) promulgated by the newly-inaugurated president
Eduardo Duhalde. Shortly after the inauguration ceremony on January 2, 2002,
amidst social chaos which involved massive demonstrations and lootings of
supermarkets, the law was sent to the Chamber of Deputies, which would devalue
the peso and achieve an initial exchange rate with the dollar of approximately
1.4:1. This was a dramatic reversal in policy, and as El Clarín commented, “when
the Senate approves the bill, it will put an end to 11 years of convertibility and
begin a new economic model, completely opposite to the one implemented by
Domingo Cavallo in 1991.”253 Because of the severity of the economic crisis, the
vast majority of deputies were behind the bill, which after passing the Chamber of
Deputies, was approved the same day in the Senate without even a comma being
modified.254 Because of the lack of debate about the devaluation of the peso, a
suboptimal solution was reached, and many economists, including Hanke, argue
that had more thought been given to reforms and more people consulted, there
might have been better, more moderate ways to solve the crisis.255 Little was done
to protect average citizens with money deposited in Argentine banks and in
addition to describing this measure as a “great bank robbery” Hanke goes on to
further claim that:

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252 Blustein 2005; p.180
254 El Clarín. January 7, 2002
255 Hanke 2002b
In addition to stealing the foreign reserves from people who held pesos, the Duhalde government has passed other laws and issued regulations that trample on property rights and make a mockery of the rule of law. This legal plunder was authorized by the Argentine Congress on January 6th, when it approved the Law of Public Emergency and Reform of the Exchange Rate Regime. This law transfers extraordinary powers to the President of the Republic and allows him, in effect, to rule by decree for two years. In consequence, the government has introduced one measure after another that has taken property without compensation.\textsuperscript{256}

In addition to ending Convertibility, Law 25561 conferred significant power onto the executive in a similar way to the State Reform Law promulgated in 1989.\textsuperscript{257} Hanke describes that the law gave the president “near-dictatorial powers,”\textsuperscript{258} and in the same way that the State Reform Law encouraged Menem to adopt an autocratic style, one can argue that the emergency law of January 6, 2002 encouraged the subsequent presidents of Argentina, Néstor and Cristina Kirchner to rule in a more authoritarian manner.

Following approval of the law, by February of 2002 the exchange rate between the peso and the US dollar had fallen to 2:1, and by May of that year it reached 3:1. Since the abandonment of the peg to the US Dollar, Argentine monetary policy has changed drastically, and in contrast to the highly orthodox policies of the 1990s, the country now pursues a monetary policy which stimulates significant inflation. After a deflation of 1.1% in 2001, consumer prices rose by approximately 30.56% in 2002.\textsuperscript{259} After reversing its commitment to maintaining near-zero inflation rates, the Argentine government enacted measures to increase both government spending the money supply, and today inflation is estimated to be between 20 and 30 percent.

\textsuperscript{256} Hanke 2002a
\textsuperscript{257} El Clarín. January 7, 2002
\textsuperscript{258} Hanke 2002b; p.18
\textsuperscript{259} World Bank. World Development Indicators
A lack of central bank autonomy as one of the principal causes of instability in monetary policy

Part of the increase in monetary policy instability in recent years with regards to tackling inflation certainly has to do with the lack of central bank autonomy, which has allowed the executive to have access to the central bank reserves. In countries with a high degree of central bank independence, the central bank president can normally act as a “veto player” and prevent the executive from changing monetary policy. While in theory only the Argentine congress can remove the president of the central bank from his position, following a dispute between President Cristina Kirchner and the president of the central bank, Martín Redrado, in which he refused to allow the government to use central bank reserves to pay for debt obligations, Kirchner signed a decree on January 7, 2010 removing him from office. Despite the obvious illegality of this action, the courts did nothing reverse it, and after replacing Redrado with a more friendly figure, Kirchner was able to use 6.5 billion dollars in central bank reserves to make debt payments. Martín Redrado warned that “pumping money” would have serious consequences on inflation, and a Financial Times article also notes that:

Argentina’s use of central bank reserves to pay off debt is already having an impact on inflation; the country is “pumping money” and edging nearer to a dangerous wage-price spiral, according to the former central bank governor who was ousted this year in a bitter battle over the use of the funds.

In short, the past twenty years, have been a roller coaster for Argentine monetary policy, with the country going from enacting the strict zero-inflation Convertibility Plan to a monetary scheme which has allowed high inflation to return. As I have tried to demonstrate, one of the main reasons for this instability

260 La Nación. January 8, 2010
261 Webber 2010
is the fact that presidents effectively were able to govern unilaterally, with congress, the judiciary, and the central bank failing to act as effective veto players. The concerns of opposition legislators were also mostly ignored, and the result was that monetary policy has been largely at the whim of the executive in power.

**Monetary reform in Brazil during the 1990s: a slow, moderate approach to tackling inflation**

During the early 1990s, Brazil suffered from the same vicious cycle of stagflation that was plaguing Argentina. In 1990, inflation had almost reached 3000%, and the economy declined by 4.7%.262 After coming to power in 1992, newly-inaugurated Brazilian president Itamar Franco’s top goal was to decrease inflation. In addition to reducing investors’ confidence, inflation also directly hurt the poorest segments of society. Inequality has long been one of the gravest problems facing Brazil, and in the early 1990s, it was the second-most unequal country in the world after Sierra Leone, with a Gini coefficient surpassing 0.60.263

By contrast, in Argentina and the United States, the Gini coefficient has for the most part been in the mid-to-low-0.40s. During the periods of inflation and hyperinflation, the middle and upper classes were able to protect themselves by placing their money in indexed bank accounts and saving up in assets that would not lose their value; however, the poor classes which lived from paycheck to paycheck were unable to protect themselves from the “inflation tax,” which constantly ate into their salary (wages generally do not keep up with inflation). As

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262 World Bank, World Development Indicators  
263 Hagopian. Government 1291
well, like in Argentina, inflation turned investors away, and as Fernando Henrique Cardoso describes in his autobiography:

The world was leaving us behind. Inflation kept Brazil isolated, an island unto ourselves, at a time when the new buzzword was “globalization.” After the collapse of the Berlin Wall, euphoric investors from New York to Tokyo were eager to pour vast amounts of money into developing countries…But those foreigners demanded a certain degree of security for their money. In Brazil, there could simply be no viable long-term contracts as long as there was rampant hyperinflation.264

As a result of the need to combat inflation to both stimulate economic growth and decrease the high levels of poverty and inequality, in 1993 President Itamar Franco appointed Fernando Henrique Cardoso as the new finance minister. One of the ideas that was considered was the dollarization of the Brazilian economy in a manner similar to Argentina, yet Cardoso and his team disagreed by arguing that “dollarization would be another adventure, and we’ve had enough of those.”265 After months of deliberation, the Real Plan was instead launched, and it consisted of two main parts.266 The first part involved replacing the current currency, the cruzeiro with a new currency, the real. The real would firstly have symbolic strength because of its name, which means both “royal” and “real.” One of the critical components to reducing inflation is lowering inflationary expectations, and in addition to conjuring up images of “historic permanence,”267 the real would also remind people that it was a currency which actually had “real” value. The real was not launched immediately after the plan was announced, and in fact for six months prior to becoming the official currency of Brazil, the real was required to be displayed on the store shelves alongside the cruzeiro (the

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264 Cardoso 2006; p.184-185
265 Latin American Weekly Report. October 7, 1993; p.467
266 Cardoso 2006; p.187
267 Cardoso 2006; p.186
currency of Brazil at that time). This way, Brazilians would be able to get used to the currency and witness its stability before it officially came out. The second part of the Real Plan involved fiscal austerity, and an end to the uncontrolled budget deficits which fuelled the fires of inflation. A new piece of legislation was enacted titled the “Social Emergency Fund,” where congress essentially ceded control of $15 billion worth of the budget to the finance ministry (this represented roughly 20% of the budget). Thus, the president’s finance minister could now keep spending in check by slashing the budget if the expenses were too high. 268

The first part of the process of reform to lower inflation in Brazil was the announcement by Cardoso in June of 1993 about an austerity plan that would attempt to reduce the federal budget deficit.269 From the beginning, there were pressures against reform, including from the CUT, the main labor confederation; yet, rather than backing down in the face of these criticisms, Cardoso claimed that “we must stop spending what we don’t have.”270 Pressure against reform came most strongly, however, from congress. In addition to the parties which adamantly opposed Cardoso’s ideology such as the PT, even legislators in friendlier parties such as the PMDB were reluctant. What also was working against Cardoso was the timing of the reforms, since elections would follow in October of that year, and as a result legislators were more opposed to budget cuts.271 The difficult environment for reform is summarized in a Latin American Weekly Report article, which states:

268 Cardoso 2006; p.187
269 Latin American Weekly Report. June 24, 1993; p.278
270 Latin American Weekly Report. June 24, 1993; p.278
Opposition came not just from parties which have no interest in seeing Cardoso’s plan succeed, such as Paulo Maluf’s Partido Progressista Reformador (PPR), Lula’s Partido dos Trabalhadores (PT) and Leonel Brizola's Partido Democrata Trabalhista (PDT), but from within the pro-government Partido do Movimento Democrático Brasileiro (PMDB), too...Members of congress, with their eyes already fixed on the October 1994 elections, are not keen on raising taxes. They also have strong reservations about Cardoso’s expenditure cuts, most of which are aimed at the pork-barrel budgets of the big-spending ministries.272

The first part of the set of reforms for the Real Plan which aimed at increasing government revenue was a tax on financial transactions (known as the IPMF), where for every check that was written, a small fee representing 0.25% of the value of the cheque would be paid. In addition to bringing in 600 million dollars per month, this tax would also be progressive, since financial transactions were practiced primarily by the upper classes.273 Nevertheless, Cardoso’s initiative at first faltered in congress, where on June 17 the leader of the Chamber of Deputies, Roberto Freire, refused to bring the bill for a vote. Despite the initial opposition, after several days where compromises were worked out between Cardoso and the leading conservative parties in congress (the PFL and the PPR), the bill passed by a resounding vote.274 One example of a concession that Cardoso made in order to gain the vote of the PP Party was awarding $26 million for the construction of the Brasília subway.275 As Folha de São Paulo describes:

The liberation of funds at the last minute, promises of second-degree positions, scheduling of appointments with ministers in plenary assembly and threats of eliminating amendments to the future budget. These were some of the tactics used yesterday by the government to urgently achieve a vote on the IPMF. 276

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275 Folha De São Paulo. June 17, 1993
276 Folha De São Paulo. June 17, 1993
After the approval of the bill, Cardoso’s efforts were undermined by the Supreme Court, which at first struck down the legislation as unconstitutional, yet eventually approved it in January of 1994.277

Taxes such as the one on financial transactions would not be enough, and the key to reforms would be to introduce legislation to raise income taxes and lower spending. Income tax hikes would be passed through a regular bill, whereas spending would be lowered through a constitutional amendment that would allow for the creation of the Social Emergency Fund, which as described earlier, would give the finance minister control one fifth of the federal budget (this portion of the budget had previously been allocated to state governments). Yet, these reforms faced stiff opposition, and as the Latin American Weekly Report argued, “opposition inside and outside congress is becoming ever more ferocious, with critics arguing that the real aim of the reforms is to whittle away people’s rights for the benefit of big business. Opponents of the reform include bishops, lawyers’ organizations, trade unions and the entire parliamentary Left.”278 Allegedly, the first day that congress considered constitutional reform, opposition legislators yanked the bill out of the hands of the president of congress, Humberto Lucena, and tore it up.279 Police were forced to enter the Chamber of Deputies to restore order, and while the left-wing parties including the PT tried to filibuster the reform proposals, an alliance between the PSDB, PMDB, PFL and PPR allowed for debate to begin.280

278 Latin American Weekly Report. October 7, 1993; p 467
279 Latin American Weekly Report. October 7, 1993; p.467
By January 27, 1994, congress approved a bill that would increase taxes, yet amidst significant opposition, many of the components of the original legislation proposed by Cardoso were sabotaged. Although the bill did achieve several important reforms including raising the personal income tax for individuals, corporations were exempted. As well, the constitutional amendment that would allow for the Social Emergency Fund was not passed, since a quorum was not achieved. What was particularly surprising was that the main opposing parties were not left-wing ones such as the PT, but rather the right-wing PFL and PPR parties; during the congressional session, legislators from these two parties attempted to thwart debate through preventing the necessary quorum. What complicated the situation in this case was that Cardoso had announced his intention to run for president, and these right-wing parties who were still searching for their own candidates felt threatened.

After facing defeat, Cardoso presented the reform package to congress again on February 7, yet this time he was forced to appeal directly to the population through a televised broadcast in order to pressure legislators. On the evening of February 8, he managed to obtain the 60% majority (with 402 votes in favor and 95 against) needed to pass the constitutional amendment to create the Social Emergency Fund, albeit after some concessions to opposition legislators. For example, in addition to pork-barrel spending, Cardoso agreed to raise the salaries of military personnel in order to gain the support of the PMDB. To win
over members of the PFL who had previously voted against the reform, Cardoso agreed to excise article 74 of the bill, which would have capped the salaries of public workers at 1993 levels. In one symbolic quote which demonstrates the willingness of the president’s party to negotiate, the leader of the PSDB in the Senate claimed that “we have been willing to concede on almost everything in the bill, yet we cannot concede on the principle of having a zero deficit.” Now, with the increases in revenue that would result from the personal income tax hikes along with the decreases in spending ensured through the Social Emergency Fund, Cardoso was given the tools to reduce the nation’s 22 billion dollar deficit. Although the Real Plan had not been completed and there still remained the challenge of introducing the new currency, Cardoso enthusiastically noted that “we have gone through hell and now we're heading for purgatory.”

Following the approval of measures which would reduce the public sector deficit, in March Cardoso introduced the Unidade Real de Valor (Real Unit of Value), the precursor to the real currency which would begin circulating in July. This was accomplished through a presidential decree (i.e. a “provisional measure”), which would however eventually require congressional approval. A 1994 article published by the Latin American Weekly Report stated that “Congress has until the end of March to approve or reject the 'provisional measure' on the URV signed by President Itamar Franco, and the signs are that there will be a price to pay for deputies' acquiescence.”

285 Folha de São Paulo. February 8, 1994
286 Folha de São Paulo. February 8, 1994
287 Latin American Weekly Report. March 10, 1994; p.100
eventually approved the decree, numerous concessions had to be made, particularly in the area of wages. Those to whom concessions were made even included Cardoso’s colleague, Walter Barelli, the Labor Minister, who wanted to guarantee a monthly minimum wage of at least $100.  

The late 1990s and 2000s in Brazil: evaluating the stability of the Real Plan

At the beginning of the Real Plan, many doubted that it would produce positive results and believed that it would not endure in the long run. Lula for example claimed that the Real Plan would “only cause more misery,” and these concerns were plausible based on the fact that several stabilization plans had previously been unsuccessfully attempted and were subsequently abandoned (e.g. the Collor Plan). While initially the Real Plan successfully brought inflation back into single digits, the real test of its durability would come with the response to the international financial crisis of the late 1990s, when in addition to the Russian default, several Brazil several states, most notably Minas Gerais, were unable to pay their debts. As was discussed in the previous chapter, this unfavorable international context resulted in the “crash and burn” of the Argentine Convertibility Plan, and subsequently a complete reversal of Argentine monetary policy in the 2000s. However, in Brazil the outcome was different. Despite fears of recession and a return of inflation (many economists predicted that prices in 1999 would rise by 90%\textsuperscript{291}), the economy neither went into recession nor witnessed hyperinflation. The economy actually grew in 1999 by 0.81%, and

\textsuperscript{289} Latin American Weekly Report. March 10, 1994; p. 112
\textsuperscript{290} Cardoso 2006; p.188
\textsuperscript{291} Cardoso 2006; p.248
inflation was only 8.9%, which although is high by US standards, was not as elevated as many had feared. Since the crisis, the Brazilian real has proven to one of the most stable currencies in Latin America, and is widely viewed as one of the critical factors that helped the Brazilian economy to grow over the past decade. Since 2004, inflation has consistently been lower than 10% per year, and the stability of the currency is certainly one of the factors that has helped to attract significant foreign investment to the country. The success of the Real Plan is described by Cardoso when he writes:

Since money no longer lost its value, the buying power of an average wage in Brazil would increase by an astonishing 30 percent before the year was over. As expected, the poor benefited most. They could suddenly afford items that had heretofore been beyond their reach, basic items like chicken or yogurt. Meanwhile, the middle class indulged in an outright buying spree, snapping up refrigerators, televisions, and property. The hallmarks of Brazil’s culture of inflation—the long lines at supermarkets, the fistfuls of worthless bills—disappeared almost overnight. It was like living in a different country.

Like in the case of privatizations, despite Lula’s initial resistance to the Real Plan and his belief that it was a “deceptive plot against the working class,” following the start of his presidency he neither dropped the currency nor moved toward an inflationary monetary policy like his counterparts in Argentina. Lula certainly shifted to the right of the political spectrum, and many suspect that this is because following three electoral defeats, he realized that the previous hard-line leftist ideology did not appeal to the majority of the electorate. To win over voters, Hunter describes that what was necessary was “the promise of reform—aimed at preserving the market model’s best features and revising its shortcomings—delivered in a highly accessible and nonthreatening ‘light’

292 Cardoso 2006; p. 248
293 World Bank. World Development Indicators
294 Cardoso 2006; p.199
295 Goertzel 1999; p.27
fashion.” In attempting to explain the moderation of Lula, Weyland notes that he is part of a “new left” tendency in Latin American politics where leftist parties no longer seek to shift from neoliberalism to socialism. Rather, their policies combine free-market principles with social reforms on the side in such a way that the poor classes can also reap the benefits of economic growth. In describing Lula’s refusal to abandon the Real Plan, Weyland writes that:

The [Real] Plan’s economic success and lasting popularity induced the socialist Workers’ Party (PT), the strongest opposition to Cardoso, to moderate its ideological radicalism and gradually back off from its demand to reverse Cardoso’s market reforms. When the PT leader Lula came to look like the probable winner of the 2002 presidential election, investors nevertheless panicked, driving the Brazilian economy close to a debt default. This pressure forced the victorious candidate to abandon any remaining radicalism and commit to the basic outlines of the market model.

As in the case of privatizations, it seemed that an ideological consensus around monetary policy had finally been achieved among the full political spectrum in Brazil.

Comparing monetary policy reform in Argentina and Brazil

As I have attempted to demonstrate in this chapter, monetary reform was not only more radical in Argentina than in Brazil, but also experienced a more dramatic reversal following the economic crisis in 2001. While prior to the economic crisis Argentine monetary policy was highly committed to lowering inflation to near-zero values, in the 2000s monetary policy changed drastically, and expansionary policies were adopted that have generated one of the highest rates of inflation in the world. However, Brazil’s monetary policy has been significantly more stable, and following the adoption of the Real Plan (which was

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296 Hunter 2010; p.138
297 Weyland 2011; p.81
more moderate than the Convertibility Plan), Brazilian monetary policy throughout the 2000s has maintained its commitment to preserving a single-digit inflation rate. The main reason for this difference in stability is the mechanism through which monetary reforms were enacted, and while in Brazil the process was significantly slower and involved intense negotiation between the president and legislators in congress (including the opposition), in Argentina the reforms were done in a virtually unilateral manner by the executive branch with little to no involvement from legislators, particularly those in the opposition.
Chapter VI: Conclusion

Summary of argument

In short, in this thesis I have attempted to explain why Brazil experienced more policy stability than Argentina during the past two decades through the lens of institutions of horizontal accountability and the degree of consensus-building in the political system.

While congress and judicial system have been effective veto players in Brazil and possess a high degree of strength, in Argentina they have been very weak. Unlike Brazilian presidents who have consistently gone through congress with their reforms, Argentine presidents often used decrees to bypass the legislature. Additionally, while the Brazilian judiciary has enjoyed a high degree of independence and often challenges executive and legislative proposals, the Supreme Court in Argentina which has continuously suffered from court-packing schemes has not fulfilled its role as a veto player. Stronger institutions of horizontal accountability have increased policy stability in Brazil because they make it more difficult for the executive to rapidly change policies. On the other hand, weak institutions of horizontal accountability have allowed Argentine presidents to adopt quick, often radical reforms under a system of delegative democracy.

Over the course of the past twenty years, Brazil also witnessed more policy stability because of the greater degree of compromise and negotiation among its political actors. This thesis has established that the degree of consensus-building in a political system is strongly influenced by the level of
fragmentation in the party system. Fragmented legislatures will result in a greater need for coalition-building among political parties, and unlike in Argentina where a low number of parties controls most of the seats in the legislature and unified government is common, unified government is virtually impossible in Brazil considering that its congress has a plethora of small parties. Because Brazil experienced more consensus-building in its political system and laws were often the product of intense bargaining within multiparty coalitions, the policies that were implemented tended to be stable as they were generally moderate and well designed. Nevertheless, in Argentina even when policies went through congress, the president often relied on his working majority, and opposition parties were barely consulted on the contents of the bills. As a result, Argentine policies were often significantly more radical and poorly-designed than their Brazilian counterparts, and although in some cases they produced impressive results in the short term, they ultimately failed in the long run.

**Alternative explanations**

Many might argue that the difference in policy stability between Argentina and Brazil is mainly due to the severity of the economic crises affecting the two countries. They would make the point that while Argentina experienced a profound recession in 2001 that caused social upheaval, Brazil’s economic crisis during the late 1990s was significantly milder. Indeed, throughout the late 1990s, while the economy slowed in Brazil, it never contracted like in Argentina, and while the real was greatly devalued, bank deposits were never frozen. Following
this logic, it would only be natural that a more radical change in policy was needed to tackle the more profound Argentine economic crisis. Political scientists such as Weyland also claim that crises such as the 1989 hyperinflationary phase in Argentina increase policy instability because in addition to necessitating more drastic measures, they make the population more willing to accept these reforms. He writes that the “large losses caused by hyperinflation…[are] crucial for generating support for market-based reform.”  

However, while this argument is partially true, it does not consider that economic crisis is in itself a symptom of the policy instability generated by the weakness of institutions of horizontal accountability and lack of consensus-building in the Argentine political system. This sentiment is echoed by Levitsky and Murillo, who claim that “the macroeconomic policy instability that plagued Argentina for much of the twentieth century is as important a source of economic underperformance as poor policy design.” They argue that in the context of policy instability, political actors have short time horizons, thus inhibiting them from cooperating toward finding solutions for stable economic growth over the long term. O’Donnell also discusses that laws which are promulgated in delegative democracies experiencing policy instability have the “apparent advantage of allowing swift policy making, but at the expense of a higher likelihood of gross mistakes.” Many would argue it was the “gross mistakes” made during the Menem administration that caused the economic collapse in 2001.

298 Weyland 1998; p.562
299 Levitsky, Murillo 2005; p.4
300 O’Donnell 1994; p.101
In a sense, policy instability and economic crisis form a vicious circle, where policy instability leads to economic crisis, which leads to further policy instability. This concept is illustrated below:

**Figure 22: The vicious circle of policy instability and economic crisis**

The second alternative explanation for the differences in policy stability in Argentina and Brazil is voluntarist, and relates to the quality of presidents. Many would argue that while Lula and Cardoso in Brazil respected the role of congress and the judiciary and sought to accomplish reforms by working through the democratic process, Menem and Kirchner desired to govern unilaterally in a manner that verged on populism.

As this thesis has shown, rather than working with opposition parties, Menem and Kirchner used their political capital to attempt to weaken the legislative branch. As Gratius exclaims, “his [Menem’s] two presidential terms (1989-1999) signaled the return of historical populism, including a constitutional reform that allowed him to stand for re-election, while also permitting his abusive use of emergency decrees (545 of which were approved under Menem), and institutional changes to strengthen the executive branch.”

301 Gratius 2007
reference to Kirchner’s strengthening of the executive, and particularly his use of emergency decrees. Most notably, during his presidential term, less than one third of new laws were approved by congress. In an interview, federal deputy Patricia Bullrich comments on the damage inflicted by the Kirchner administration not only on state institutions, but also on Argentine democracy itself when she claims:

Kirchner’s politics were totally contrary to institutions, and he changed institutions in order to be able to run them himself. He changed the structure of the Counsel of Magistrates in order to be able control judges. He threw the opposition into disarray instead of respecting the role of the opposition. He changed the economic structure of the country in order to be able to take control of the budget away from governors so that he can manage the money in a centralized way. He tried to destroy the free press, and built a media machine for himself that expresses propaganda. From an institutional perspective, his government ran completely contrary to a democratic model. It was very bad for the democratic development of Argentina.\footnote{Author’s interview with Patricia Bullrich}

Unlike their Argentine counterparts, Brazilian presidents Lula and Cardoso sought to create a healthy executive-legislative dynamic. With regards to Cardoso, many would argue that his personality facilitated consensus-building and compromise. Virtually everyone who worked with Cardoso describes him as a kind man of extraordinary character, and as Goertzel writes, “he [Cardoso] knew everybody in the Brazilian political elite, and everyone knew he was honest and serious, as well as highly intelligent and well educated.”\footnote{Goertzel 1999; p.109} Cardoso was also skilled in diplomacy, having been at one point the Minister of Foreign Affairs. In contrast, Menem and Kirchner much like Perón were both significantly more polarizing figures who lacked Cardoso’s grace and diplomacy. Goertzel summarizes the positive environment generated between the legislative and executive branch under Cardoso when he writes:

If Cardoso said he had a good plan, many senators and members of Congress were inclined to give him the benefit of the doubt. If they had questions, he was prepared to
answer them because his plan was completely open. Cardoso assured them that there
would be no surprise announcements freezing bank accounts, wages or prices as had
occurred under Collor de Mello.\textsuperscript{304}

With regards to the second Brazilian president throughout the 2000s, on
the surface Lula would appear to be a populist. He might seem like an uneducated
metalworker who used his “outsider” appeal in order to please the masses, whom
he tried to seduce through extravagant promises of social welfare. Nevertheless,
Lula was no populist. Although his humble origins made him stand out from the
rest of the political establishment, Lula was not an outsider to congress, having
served in the Chamber of Deputies as a representative of the São Paulo state from
1986 to 1990 (in contrast, neither Néstor Kirchner nor Carlos Menem had served
any congressional mandates). He also played an active role within the Brazilian
party system, serving as the leader of the Worker’s Party. Like Cardoso, Lula
continued the tradition of working cooperatively with congress to reform the
Brazilian economy, and did not try to bypass institutions of horizontal
accountability in the same way as Menem or Kirchner. Lula clearly signaled his
intent to actively work with the legislative branch in his inaugural speech on
January 1, 2003, when he claimed that “I hope to be able to count on the
contribution of the National Congress in a judicious debate about the viability of
the structural reforms which this country requires.”\textsuperscript{305}

While this thesis certainly agrees that the quality of the presidents
contributed to the greater policy stability in Brazil, I would argue that this factor
was secondary to the structural characteristics of the Argentine and Brazilian

\textsuperscript{304} Goertzel 1999; p.109
\textsuperscript{305} Inaugural address delivered by Lula in Brasilia on January 1, 2003
political systems. Although it is true that Menem and Kirchner had an antagonistic attitude toward institutions of horizontal accountability, it was the weakness of these institutions that ultimately allowed them to “get away” with their undemocratic methods. As well, it was their large working majorities in congress that allowed them to pass important initiatives with little to no debate and with almost no involvement of the opposition. On the other hand, although Lula and Cardoso were more open to working with congress, their conciliatory attitude was also influenced by their knowledge that they depended upon congress and the courts. Ruling by decree was not an option for Brazilian presidents, and as was mentioned earlier, the last experiment with unilateral executive governance, the presidency of Fernando Collor, ended in impeachment.

**Theoretical contributions**

This thesis contributes to political science literature in two ways. Firstly, it adds to the existing literature about veto players the notion that there is a distinction to be made between the strength of institutions on paper versus in reality. As was described earlier, while constitutionally Brazil has a significantly stronger presidency than Argentina, particularly with regards to decree power, as the case studies show, Argentine presidents repeatedly made use of decrees and ignored the legislature whereas Brazilian presidents were significantly more constrained by congress. A future area of research that would build upon the contributions of this thesis includes the development of an index which would compare the powers of Latin American executives and legislatures in practice.
This thesis also highlights the potentially beneficial effects of party system fragmentation. Although most of the political science literature views fragmented legislatures such as the one in Brazil as a severe liability for a functioning democracy, I have suggested how in fact they can improve outcomes through their promotion of consensus-building and coalitions. Following this argument, I would predict that if the Peronist Party were to ever split and divide into two or three parties, this would be a positive step for policy stability and democracy in general in Argentina.\textsuperscript{306}

**Conclusion**

One natural question which arises is how policy stability will evolve in these two countries in the future. In my view, based on the findings presented in this thesis, policy stability in Argentina and Brazil will depend the degree to which three factors evolve, namely 1) congressional strength, 2) judicial strength, and 3) the level of party system fragmentation. An increase in the strength of congress and the judiciary would constrain the executive and help prevent wide policy fluctuations, and one area of further research which correlates to this thesis would be an analysis of the factors underlying the strength of these two institutions of horizontal accountability. In equal measure, electoral systems which encourage a fragmented party system will increase the levels of consensus-building and negotiation.

\textsuperscript{306} The reference to a split in the PJ should not be confused with a full party collapse such as those that occurred in Peru and Venezuela, which were detrimental to the democratic process.
Another area of research arising from this thesis is how institutions of horizontal accountability and levels of consensus-building have evolved over the past twenty years in both countries. At the beginning of the thesis, it was mentioned that while both Argentina and Brazil started out as unstable in the late 1980s, Brazil was able to stabilize whereas Argentina did not. Although this thesis effectively links policy stability to the two independent variables, the divergence in the two countries would suggest that over the past twenty years these independent variables have fluctuated. I would hypothesize that while in Brazil strength of congress and the judicial system increased along with the propensity for consensus-building, in Argentina these variables either stayed the same or even changed in a negative way.

While the focus of this thesis was on Argentina and Brazil, the findings which I present certainly do not apply only to these two nations, and are highly generalizable. The concepts I have described can be used as a lens through which to analyze policy stability in other countries, and it is my hope that research in this field could ultimately be used to help improve the quality of policymaking in nations throughout the world.
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