

**The Politics of Housing Policy:
the Rise and Demise of Housing Coalitions in Brazil,
1964-1991***

(first draft, not to be quoted)

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Introduction

In this paper the analysis focusses on the changing character of the coalitions structured around housing policy formation in Brazil. The history of housing policy in Brazil is to a large extent the history of the National Housing Bank which was created by the incoming military regime in 1964 to replace the Popular Housing Foundation of the populist era. This paper, therefore, is to a large extent a reconstitution of the changing pattern of interest intermediation in the arena of housing policy, in which the National Housing Bank was the key institutional actor. The distinct 'housing coalitions' - that is specific alliances structured around housing policies - that coalesced in this arena of housing policy reflected to some extent the broader changes in the political regimes but are not reducible to them. Rather they primarily constitute a product of the political strategies pursued by the various social actors in response to the broader changes in the political system - which are themselves contingent outcomes of struggles.

The Unholy Alliance: The Military, Builders and Conservative Populists

The National Housing Bank (*Banco Nacional da Habitacao*, thereafter BNH) was set up in 1964 as the first major policy innovation which was announced by the incoming military government following the coup 1. In the first meeting of the newly appointed ministerial team which took place three weeks after the coup the creation of the new housing agency was discussed and a proposal drafted. The rapidity at which this was accomplished in such a crisis situation is revealing not only of the politicization of the current housing crisis but also of the political strategies of a major partner of the coup coalition: the conservative populists. These politicians were associated with the National Democratic Union (UDN) and to a large extent to the Social Democratic Party (PSD). Prior to the coup, politicians at UDN - particularly its regional faction in Rio de Janeiro which was headed by its state governor Carlos Lacerda - had devised a proposal for a federal housing agency aiming at the Presidential elections in 1965. It was modelled after Rio's state government experience with a low cost housing program headed by Lacerda's aide, Sandra Cavalcanti. The proposed agency was a key issue in its presidential campaign. The coup by excluding the more radical (and more popular) elements from the political arena - largely from the Brazilian Labour's Party (PTB) but also from PSD - cleared

1. The bibliography on the evolution of BNH is huge. For general accounts see Gama de Andrade, L. A. and Azevedo, Sergio *Habitacao e Poder*, Rio de Janeiro, Zahar, 1982; Batley, Richard, *Power Through Bureaucracy. Urban Political Analysis in Brazil*, Gower, 1983; Maricato, E. *Politica Habitacional do Regime Militar*, Vozes, 1987; Fernandez, G. A. "The Role of the State in Latin America: a case study of the Brazilian National Housing Bank", PhD Diss., University of Wisconsin, 1982; Azevedo, S. "Vinte e Oito Anos de Politica de Habitacao Popular (1964-88): Criacao, Trajetoria, e Extincao do BNH", *Revista de Administracao Publica*, 4, 1989, pp. 107-119. For discussions of case studies of local implementation of federal policies see the comprehensive study by Sachs, Celine, *Politiques Publiques et Habitat Populaire*, Paris, Edition de La Maison des Sciences des Hommes, 1990; see also Shidlo, Gil, *Social Policy in a non-democratic regime: the Case of Public Housing in Brazil*, Boulder, Westview Press, 1990. For an english review of the bibliography see Taschner, S. P. "Brazil", in Vliet, W van ed., *The International Handbook of Housing Policies and Practices*, New York, Greenwood Press, 1990. These studies (Fernandez being the only exception) are in the most description of policies and priorities, which are largely explained in terms of a monolithic authoritarian state, and with no accounts of its internal conflicts. An alternative explanation is offered in Melo, Marcus C "The State, the Housing Question and Public Policy Formation in Brazil, 1937-1977", PhD diss., University of Sussex, 1987.

the ground for Lacerda's electoral strategy which was directed primarily against conservative politicians from PSD. As a major partner in the coup coalition the UDN was now in a position to use state resources in patronage practices in order to gain electoral support. The much envisaged housing agency of the UDN's presidential campaign could now be created and would be instrumental in mobilizing political support from the urban popular sector for UDN, which in the southeastern states was largely an urban based middle class party.

The rapidity at which the new agency was announced also reflected the mobilization of building interests which occurred in the early 1960's in response to President Goulart's plan for an urban reform and to the recession which deeply affected the building industry. The developer's interests came to be channelled by the Rio's chapter of the Construction Industry Employer's Union, *SICEGB* - a corporatist body created in the 1930's during the Vargas Era. In a series of conferences organized by *SICEGB*, a proposal emerged for the setting up of housing finance institutions modelled after the US's savings and loans. The urban crisis in the *SICEGB*'s proposals was a product not of real estate speculative practices and unequal distribution of urban resources in Brazilian cities, as suggested by left wing critics - a view which was increasingly being endorsed by Goulart himself - but primarily as a product of the building industry crisis. Lack of credit instruments as a result of escalating inflation was viewed as the core problem. The builder's proposal included the introduction of indexation of financial instruments so that savings could be encouraged and long term financing (or for that matter any loan with a repayment maturity over six months) could be made viable. The Brazilian industrial bourgeoisie played an instrumental role in overthrowing Goulart. Through their employers's union, and particularly through a rightwing think tank that played an instrumental role in the coup, *IPES*, capitalists forged strong ties with the military establishment. In the post-coup environment, leading entrepreneurs from the building industry acquired privileged access to policy-making circles, particularly to the Ministry of Planning and Economic Mobilization - the institutional *locus* for the grand strategy of conservative modernization of the society and economy which was to be pursued by the military regime.

The builder's interests could be accommodated in the accumulation strategy of the new regime. Encapsulated in the government's Strategic Action Plan, this strategy was centred in monetary and fiscal measures aimed at reducing inflation. The building industry was viewed as a key sector in that it could absorb surplus labour from the other sectors of the economy which were to suffer the impact of recession. Because of its low dependency on imports and high employment generation potential it was granted a key role. Moreover, a specialized housing finance system would mobilize savings thereby offsetting the inflationary impact of a stimulated housebuilding industry.²

The political project of the conservative politicians and the sectoral strategy of the builders (which was also a political project for countermobilization) were merged in a single proposal which became the legislation that created BNH. The Military presided over this unholy alliance of interests and wielded power veto, but not initiated policy proposals. Sandra Cavalcanti, Lacerda's chief aide, became the first president of the new agency, and UDN affiliates were appointed to chief posts in it.³ This compromise proved to be very unstable. The

2. This contrasts sharply with the first period of import substitution industrialization (1930-1960) when real estate and building interests were considered major obstacles. Cf Melo, Marcus C "Regimes of Accumulation, the State and the Building Industry in Brazil 1940-1987", in *Annals of the X Bartlett International Summer School*, 1987.

3. As *Correio da Manhã* put it "the housing plan is threatened to become a mere electoral platform for Mr. Carlos Lacerda. Sandra Cavalcanti ...induced President Castelo Branco to create an independent satrapy that can be used and abused by he who takes

split became inevitable when the innovations pertaining to real estate finance, namely the setting up of independent mortgage institutions, which were introduced by the BNH law, were not implemented. The resources which were allocated to BNH were channelled to official banks - rather than through the proposed private institutions - and to public housing schemes. In addition, a sharp conflict emerged when BNH refused to endorse a huge private scheme by a leading SICEGB member and chief negotiator with the Ministry of Planning. This scheme involving thirty thousand units and attracted about thirty thousand prospective buyers in a few days was advertised as part of a new housing cooperative program by BNH. It came under heavy criticism by the press and the Brazilian Institute of Architects, as a possible fraudulent deal. Alleging illegal procedures BNH seized control of the company's assets thereby leading to a confrontation between the two factions. For the Lacerda's faction the scheme represented a strategy of outmanoeuvring on the part of the builders, which could put at risk their electoral goals. As a result, Cavalcanti was dismissed because of the 'overpoliticization' of BNH that ensued. Key state actors came to perceive Cavalcanti's policy as undermining the regime's accumulation strategy.⁴ At the same time new developments were under way regarding the political system as a whole. The military announced that the presidential elections would be adjourned. The irreconcilability of the two proposals became, therefore, apparent.

Although highly personalized in two figures - BNH president Cavalcanti and SICEGB's director Gomes de Almeida - this episode represented a textbook case of sectoral interest conflict. The former dismissal signalled a broader change in the political system. A strategy of de-politicization begun to be pursued by the hard-liners within the military camp in which the conservative populists - a key partner in the coup coalition - were excluded from the governing coalition, ushering into a bureaucratic-authoritarian form of regime.

Bankers, Bureaucrats and the Building Industry Complex: the Grand Coalition under Bureaucratic-authoritarianism, 1967-1973

The de-politicization of housing policy ushered into a period of hegemony of bureaucratic and capitalist interests in housing policy-making. A leading developer (who significantly also attended military school) was appointed for a BNH directorship after becoming a director of the builder's association. On the other hand, bureaucrats originally from agencies which managed to be insulated from the political arena in the 1950's came to occupy the higher echelons at BNH. The exclusion of some actors led to a corresponding inclusion of other interests in the housing coalition in this period. In fact, the new coalition encompassed new actors and interests thereby making it its extremely complex. The first actors to be encompassed were the independent financiers and bankers. Following the enactment of the Capital Markets Reform Act in 1965, the mortgage institutions which were proposed in the BNH law were finally set up. They were highly regulated by BNH which was a lender of last resort and also the guarantor of the housing finance system (SFH) as a whole which comprised these institutions and the public housing state companies. This arrangement whereby commercial banking operations and public housing companies are not only regulated but also functionally

charge... Under the plan BNH becomes outside the control of the SUMOC (the Monetary Authority). The Ministry of Planning is stripped of the power to decide over SERPHAU's (a BNH subsidiary) budget (and so on)... (08/30/1964)."

4. As an internal report from the National Economic Council put it: "This Housing Plan has not produced the expected results in due time. It has been nine months since the setting up of BNH, and just when the labour surplus resulting from the austerity measures was to be absorbed with the help of the Plan, the fact is that it has not been implemented". The report is in Gasparian, F. *Em defesa da Economia Nacional*, Rio de Janeiro, Saga, 1966.

dependent on much of the same funds is highly conflictual and makes the Brazilian model of housing policy rather unique.⁵ New actors and interests associated with housing finance were created *ex nihilo*. Some institutions were created which were associated with non-traditional banking capital while others had origins in merchant capital. These real estate credit societies and savings and loans were allowed to issue real estate bonds and to collect savings. Within 10 years of its creation the housing funds skyrocket and came to represent 12% of GDP.⁶

A much more significant development resulted from the creation of the *seniority guarantee fund* (FGTS) in 1966. Based on a 8% payroll tax, this fund was introduced to supersede existing employment compensation schemes. It facilitated labour turnover as it permitted dismissal provided that the accumulated share (which was indexed and earned 3% of interest per year) of the employee was paid. As the fund was extended to cover virtually the totality of all employees in the formal sector of the economy (about 40 million individuals in the 1980s), it accumulated vast assets. The funds were earmarked for loans to the areas of housing (primarily low cost, but frequently luxury units too) and urban infrastructure. Once the fund was introduced (and at the same time and the savings passbooks proved to be popular) it attracted the interests of the big commercial banks. In the past liquidity crises had led to the Monetary Authority prohibiting banks's financing for real estate development. Under the plan the banks were allowed to operate through real estate credit societies which they owned, and more importantly, it acted as financial intermediaries for the funds. The integration of banking interests to the system also permitted the incorporation of a vast array of sub-sectoral interests from the industrial sector because the building components firms were made eligible for loans from the FGTS funds. Because of the complex multisectoral linkages of this sub-sector which include firms in cement and chemicals or glass production the interests with a stake in BNH, and consequently in housing policy, had vastly increased. It should be noted that these changes occurred in a context of rapid capital accumulation which came to be known as the Brazilian Miracle.

During this period the architecture of interests structured around housing policy became more complex. This functional differentiation led to the setting up of ABECIPE (the mortgage institutions' association), which acquired formal representation in BNH's decision-making body, the Administrative Council. Moreover, the president of ABECIPE was appointed a President of BNH in 1979. In addition, a new association, the Association of Real Estate Market Executives (ADEMI), emerged out of the corporatist SICCEGB. SICCEGB which had among its functions the representation of employer's association in Labour Courts, and could not operate as an interest group in its corporatist format.

Fissures in the Grand Coalition: Conservative Reformism and the Builders Reaction, 1974-1978

5. For a comparative discussion of the US, British and Brazilian Cases see Melo, Marcus C "Estruturação Intraurbana, Regimes de Acumulação e Sistemas Financeiros da Habitação: Brasil em Perspectiva Comparada", *Espaco & Debates*, 31, 37-51. For an excellent account of housing policy in terms of the Brazilian model of "welfare state" see Arretche, M. "Estado e Mercado na Provisão Habitacional: Três Modelos de Política", MA thesis, University of Campinas, 1990.

6. For political economy approaches to real estate development in Brazil see Ribeiro, L. C. Q. *Incorporação Imobiliária: Características, Dinâmica e Impasses*, Rio de Janeiro, IPPUR, 1990; Melo, Marcus C "Regimes de Acumulação, Estado e Articulação de Interesses na Produção do Estado construído, 1940-1988", in Valladares, Licia and Edmond Preteceille (eds) *Reestruturação Urbana: Tendências e Desafios*, São Paulo, Nobel, pp. 168-182.

General Geisel's presidency started a new period in the contemporary history of military rule in Brazil. Geisel initiated a series of reforms aimed at liberalizing the political system. In addition, from the outset of his term in office he announced his intention to reform the 'economic model'. This pledge was encapsulated in the II Economic Development Plan (II PND). This highly ambitious plan aimed at diversifying the Brazilian economy through import substitution in the capital goods sector and basic inputs, whereby the Brazilian economy would become highly integrated and self-sufficient. The motorcar and the building industry which had been the leading sectors during the years of the miracle were to be de-emphasized and national resources were to be channeled to these strategic sectors. More importantly, by introducing some redistributive policies it aimed at promoting redistribution of income. This constituted the Achilles' heel of the new regime which despite the spectacular growth rates that was achieved showed evidence of increasing income concentration - as pointed out by its critics domestically and, as in the case of the World Bank, in international arenas. The same self-confidence informed the political strategy devised by the liberalizers within the governing elites. The Brazilian society had undergone rapid modernization and achieved maturity. Therefore, the time had come to set the basis for the democratization of the regime. It should be stressed here that the *process* of democratization turned out to be radically different from the political *project* of the governing elite.

The new accumulation strategy and political project pursued by the regime, in fact, undermined the grand coalition that coalesced around BNH. Housing was selected as a reform area where redistributive policies were to be introduced. Measures designed to foster the construction of low cost housing units were announced by the new administration, and an institutional reorganization stripped BNH's Administrative Council of much of its strategic planning capacities. Major decisions were to be taken by the newly created Council for Social Development (in itself an organizational innovation indicative of the reformist mood) which was presided over by the President himself. On the other hand, the government took several measures designed to curb real estate speculation. The boom in urban land prices were held to be fueling inflation and more importantly was viewed as a major impediment to the government's goal of providing affordable housing to the urban poor. The new administration announced that low income housing would be prioritized, and that subsidies were to be introduced for the first time. In addition, alternative programs designed to provide access to land such as sites and services and schemes for the legalization of tenure were to be considered for the first time.⁸

The housing strategy turned housing policy making into a zero-sum game. Whereas in the previous periods low cost housing programs were seen as a supplement to the formal market (which as indicated above was highly regulated and promoted by state policies), in the new conjuncture the latter was regarded as an impediment. The builder's reaction to the governmental strategy reflect the fissures in the grand coalition. The government's new priority was viewed as a 'housing history' - a 'myth to be exorcised'.⁹ The builder's pointed out that

7. The literature on the liberalization process is huge. For the indispensable references, see Stepan, Alfred *Democratizing Brazil, Problems of Transition and Consolidation*, Oxford University Press, 1989; Reis, F. W. and O'Donnell, G. (eds) *A Democracia no Brasil: Dilemas e Perspectivas*. Vertice, 1988; Camargo, A. and Diniz, Eli (eds) *Continuidade e Mudanca no Brasil da Nova Republica*, Sao Paulo, Vertice, 1989.

8. See Melo, Marcus C "Políticas Públicas e Habitação Popular: Continuidade e Rupturas, 1979-1988", *Rua*, 2, 1989, pp 37-59; Sachs, Celine *op. cit.*

9. Gomes de Almeida, Carlos Moacir "Habitação: Política e Mitos", *Revista de Administração Municipal*, 22, 133, 1975, p.37.

housing provision for low income sectors was unfeasible and produced opposition rather than support for the government in electoral terms. The government party's defeat in the 1974 senatorial elections were pointed as evidence. According to the president of ADEMI, "a BNH house is a matter of bitter, and frequently demagogic, criticism". The reason was "the legislative and financial contortions which seeks to reconcile the lack of income of the poor with the sum required for purchasing a house".¹⁰

Fragile Coalitions and the Fiscal Crisis (1979-1984)

The Figueiredo Administration (1979-84) constitutes the final period of transition from authoritarianism. Political life reinvigorated, civil society 'resurrected'¹¹, free competitive elections were contested and by the end of its term of office power was effectively handed over to civilians. On the other hand, under Figueiredo Brazil witnessed a rapid deterioration of economic indicators. The country foreign debt reached unprecedented levels, inflation escalated and balance of payment deficits led the government to reach an agreement with the IMF. Housing policy during the Figueiredo administration reached an apogee in terms of output. Completions reached an all time record in both the public housing programs and in the formal market. In fact, a compromise solution was found and the grand coalition was reconstructed - although this was short-lived. During this period the President of ABECIPE was appointed President of BNH - what indicated the privileged position enjoyed by the financial sector within BNH. On the other hand, the public housing programs were put under short leash by the Minister of the Interior, and self-nominated presidential candidate, Mario Andreazza. Housing programs were for the first time in an overt fashion used as a patroage resource in the political arena.

From 1982 onwards, as an IMF program was implemented the cleavages within the capitalist camp deepened. As inflation escalated the independent real estate credit societies could not compete with those owned by banks. These had as chief source of income the derived from current deposits at zero cost. Unequal competition and fraudulent practices led to 42 extrajudicial liquidations. The cleavages between the financial interests and building interests (which reflect a deeper antinomy between the distinct forms of reproduction of money capital and industrial capital) exacerbated as wages were sharply reduced in real terms thereby leading to escalating arrears as mortgagors fell behind repayment eschedules. The real estate credit societies refused to advance mortgages and channelled the resources earmarked for housing financing (both for builders and prospective buyers) to the booming and highly especulative financial markets which characterized pre-hyperinflation in Brazil. ¹² These practices had been frequent since the late seventies but became more prominent as a realization crisis became apparent in 1982-83. There occurred an oversupply of housing units in a context of shrinking incomes.

10 Lopes da Costa, J. C. "A Necessidade da Moradia", *ADEMI*, 1975, p. 37.

11. The expression comes from O'Donnel, G. & Schmitter, Ph. *Transitions from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies*, Baltimore, John Hopkins University Press, 1986, p. 48.

12. A survey of the balance sheets of building firms showed that 'non-operational' profits increasingly exceeded 'operational' ones. See *Diagnostico Nacional da Industria da Construcao*, Fundacao Joao Pinheiro, 1982.

Despite declining incomes the real estate credit societies owned by banks - and by then indistinguishable from the banks themselves - attracted increasingly more deposits as families transferred their assets out of current accounts and to saving accounts at a faster rate. As the economy faced a crisis of desintermediation the government found in these resources a means to roll-on the mounting internal deficit. The government begun to use funds which had been earmarked for housing and urban infrastructure investment for almost two decades to purchase on a massive scale treasury bonds. Furthermore, fiscal and monetary measures were taken which set borrowing ceilings for the state public housing companies. The material basis for the alliances forged around housing provision collapsed.

The difficulties experienced by house purchasers to honor their mortgages led to a massive social movement in 1983 to press the government for a political solution. These difficulties were also experienced in a much milder form in the late 1960's. As salaries were increased in nominal terms to reflect the impact of inflation on an yearly basis and the mortgage principal was readjusted every three months, a negative balance would appear at the end of the contract (typically 15 years). . The government created a mandatory insurance scheme called FCVS to insure borrowers of housing units in public housing estates and in the formal market (and under BNH schemes) against this residual balance. This mechanism was a safeguard should a gap arise between the the monetary correction of wages and mortgage principals. From 1982 onwards the default rate reached crisis proportions as the real increases in mortgages repayments surpassed the increases in real wages to an an increasing and alarming extent. Alleging the illegality of these increases (as the law that created the FCVS made ambiguous references to a constant share of housing expenditures in a minimum salary household budget), well over 200.000 thousand people filed suits against the banks in 1983-1984. The government responded by readjusting mortgages' repayments from the 130% to, depending on the conditions of the contracts, to 87 to 109% respectively.¹³

These measures were fought in Congress by the opposition parties in the first policy initiative in which political parties came to play a role in two decades. They were introduced and discussed as part of the stabilization program dictated by the IMF. It was a compromise solution to the imposed reduction of real wages. In 1984 these rates were set at 143% while inflation had reached 191%. Moreover the government introduced discounts of 10% to 25% through the issue of bonuses. A more significant subsidy came in 1985 when the new Civilian Government further reduced the mortgages repayments in real terms applying a correction index of 112% in place of the 246% (the yearly inflation rate). Because of these measures which covered 3.5 million mortgages contracts the FCVS which would cover the residual balances presented a potential deficit of US 30 bi. The Treasury would have to cover this deficit during the 1990's as these contracts reach maturity. The uncertainties surrounding the government's ability to honour this fund led the real estate credit societies to paralyse their lending operations. This led builders (i.e.those who did not *exit* the real estate market for especulative operations in the booming financial sector) to *voice* their criticism as these institutions were mandated to invest in housing construction. ¹⁴

A vast socialization of costs is therefore taking place through housing policy. The mortgage finance institutions managed to avoid heavy losses and massive bankruptcies because should they have opted to undertake legal repossession of the units they would be unable to sell this stock in a context of depressed real estate values and of a highly saturated market.

¹³ For an extended discussion see Melo, Marcus C, *A Formacao da Politica Habitacional na Nova Republica*, Research Report, CNPQ, 1991.

¹⁴ I am using here Hirschman's well-known formulation. See Hirschman, A. *Exit, Voice, Loyalty*. Harvard University Press, 1972.

Thus, this unholy alliance of housing buyers and financiers managed to externalize the costs of the macroeconomic instability of the Brazilian capitalism to the public. This occurred in a context of a completely restructured political arena. The grand coalition of the late 1960's and early 1970's gave way to fragmented and loosely articulated alliances of an *ad hoc* nature. New actors were included in the new political arena. First, the house purchaser's mobilized and articulated their demands both inside and outside congress through national and regional associations. They founded the National Coordination of Mortgagors which acquired massive membership and played a key role in negotiating deals with governments bureaucrats. 15 Second, a rejuvenated Congress began to intermediate and channel demands from civil society, and to force the executive to retreat in several occasions. Last but not least, the mobilization of purchasers brought the judiciary to the fore of the political arena. The *politization* of the judiciary constituted another form of the "spilling over" of conflicts which had been circumscribed to interest group politics and intrabureaucratic manoeuvring.

Housing acquired an unparalleled political visibility during the years of 1984 and 1986. This visibility was a direct product of the mobilization of thousands of house purchasers all over the country during these years. However other factors were also important. These included the highly publicized cases of extrajudicial liquidation of real estate credit societies that was prompted by fraudulent practices. These reinforced the public perception of financiers and builders as corrupt and state clients. The press coverage and the public debates about the housing finance system made accessible its technicalities thereby enhancing the visibility of the distribution of costs and benefits of decisions and of the interdependencies of the issues at stake.

Democratization and the Politics of Fragmentation, 1985-1991

The inauguration of Sarney as the first civilian president in 1985 marks the beginning of the so-called New Republic. 16 The transition to democratic rule was made possible as a result of an inter-elite pact. A coalition of center-left and center-right political forces dominated the transition agenda. The former which was represented in party politics by the Party of the Brazilian Democratic Movement (PMDB) enjoyed an hegemonic position in this coalition whereas the military retained a veto power in matters concerning the armed forces and other key policy areas. The reformist agenda of the two first years of the Sarney administration addressed a variety of policy areas and aimed at implementing sweeping reforms.

This occurred in a context in which the crisis of the housing finance system became an important issue in the political agenda. This was reflected in the creation of the first Housing and Urban Development Ministry in Brazil. The Ministry commissioned the Brazilian Institute of Architects to sponsor a nationwide debate on the reform of the housing finance system.

15 The coordination's views and proposals are contained in *Coordenacao Nacional dos Mutuarios, Diagnostico Preliminar da Coordenacao Nacional de Mutuarios para o Grupo de Trabalho para Reformulacao da Politica Habitacional*, Mimeo, 1985.

16 For this period see Lamounier, B. ed. *De Geisel a Collor: o Balanco da Transicao*, Sao Paulo, Sumare, 1990; Hagopian, Frances "Democracy By Undemocratic Means? Elites, Political Pacts, and Regime Transition in Brazil", *Comparative Political Studies*, 23, July, pp. 147-170. For a brilliant analysis of the political dynamics of economic reforms with insightful discussions of the Brazilian case, see Przeworski, Adam, *Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America*, Cambridge University Press, 1991.

Dozens of events took place simultaneously in various states in which professional bodies and neighbourhood associations participated intensively, and a final report was published. In this context, the Presidency set up a Working Group to draft a proposal for reform. The organization of the debates was a part of a strategy to mobilize support for the proposed reforms. Furthermore it set out to be a show case of a participatory mode of governance which was the centerpiece of the new political discourse. The Working Group composition was a mix of corporatist forms of representation and of more informal ones. Significantly, It did not involve congress representations. Ironically, it was a paradigmatic example of continuity within change. Among its members the Working Group included Gomes de Almeida, a former leader from the Builder's Association (SICCEGB) who played a central role in the setting up of BNH, and other key figures as bankers and lawyers. Together with some of the government's economic adviser's they comprised the sub-group of invited participants. The other members participated according to criteria of functional representation. These included representatives of the associations of the real estate credit societies, mortgagors, state housing companies, builder's, housing cooperatives, architects, insurance companies, realtors and of the Brazilian association of Basic Sanitation. These meetings took place during the negotiations regarding the mortgage default, and this and related issues dominated the agenda. .

Despite these two initiatives the reformist strategy was discontinued. 17 Three factors contributed to the decisional paralysis that ensued. First, the fragmentation of the 'transition' coalition at a national scale. This occurred as Sarney - a provincial politician who came to power because of Tancredo Neves death shortly before inauguration - acquired more autonomy vis--vis PMDB. In fact, The PMDB's executive committee virtually controlled much of the policy agenda and were responsible for key ministerial appointments. Sarney set out to coopt conservative politicians to establish an independent basis of political support, particularly during the works of the National Constituent Assembly, when proposals to reduce his term of office were advanced. A conservative group within the Assembly (the so called *centrao*) were elevated as his chief constituency in congress and several of its members were appointed to key ministerial positions. This occurred at a time when the President dismissed the reformist economic team that had formulated and implemented the Plan Cruzado. The fragmentation of the transition coalition undermined the reformist zeal of the New Republic.

The extensive impact of the Plan in the country's financial system constituted the second factor underlying the failure to implement reform. Under the Plan a prices and wages freeze was decreed and monetary correction was consequently abolished. The efforts at 'crisis management' of such a complex and bold plan that involved monitoring thousands of prices in the entire economy fully absorbed the attention of the economic team and mobilized the entire population. The centralized management of sectoral and punctual conflicts overloaded the government agenda. In an uncertainty-ridden environment the time horizon which informed political and economic calculus in the socio-economic system was sharply reduced. As the plan success proved to be short-lived it alienated its wider constituency. The Plan had two immediate consequences for the housing finance system. Firstly, it entailed huge financial losses as a result of the monetary index used to adjust its balances. And secondly, and more importantly, it helped to put BNH under the control of the Central Bank. This undermined the autonomy enjoyed by BNH's highly professional and powerful bureaucracy within the state system, thereby weakening a key state actor in the housing coalition. As a result housing reform was de-emphasized in the reform agenda. Because of the magnitude of the financial losses of the system and of the FCVS's deficit coupled with BNH's proven inability to monitor the fraudulent mortgage companies the Central Bank was able to take over without meeting

17 For the resulting pattern of policy-making see Melo Marcus C, "Políticas Públicas e Transição Democrática", in Moura, A S, *O Estado e as Políticas Públicas na Transição Democrática*, Sao Paulo, Vertice, 1989.

much resistance. It could now channel - with a free hand and to an unprecedented scale - housing funds to roll-on the mounting internal debt.¹⁸

The third factor that led to the decisional paralysis in housing policy was the setting up of the National Constituent Assembly. The drafting of the new constitution introduced a variety of new issues in the political agenda, many of which of a foundational nature. They constituted the rules of the game and therefore defined the range of possibilities for concrete policies. In the case of housing policy, issues such as the constitutional definition of property rights were fundamental. The Assembly therefore became the focus of the lobbying efforts of the various interest groups involved. However the simultaneous consideration of a vast array of issues fragmented political forces. Housing policy and urban development did not attract much attention, mostly because of the fragmentation of the actors with a stake in it.¹⁹

The fragmentation of the policy agendas within the state system is reflected in an exemplary fashion in the subsequent fate of housing reform. In 1986, the techno-bureaucracy at BNH developed a proposal for a National Bank for Urban Development drawing on the reports that had been produced. This proposal was handed in to the Minister of Urban Development by the President of BNH. Two days later President Sarney abolished BNH and announced the sale of its huge headquarters in Rio de Janeiro, a measure that took BNH's president by surprise.²⁰ A state owned savings bank - the *Caixa Economica Federal* (CEF) - was mandated to take over its functions. The abolition of BNH in fact constituted a major political decision but apart from the grand rethoric which accompanied it did not introduce any policy or organizational innovation. Programs were supposed to work along more or less the same lines as before. However, a major change occurred as the organizational power basis of the bureaucracy was severely undermined. Moreover the policy community structured around housing issues was disarticulated. A parallel phenomenon occurred within the capitalist camp. Despite the fact that other interests, particularly from the urban popular sector had been included in the policy arenas, BNH constituted the interlocutor *par excellence* of the capitalist interests in housing provision. Key figures from the associations of mortgage institutions and builders complained about the lack of a decision making-center in housing policy-making from 1987 onwards. Gomes de Almeida, Brazil's most influential building leader, pointed out that "the nation was taken by surprise by the decision to abolish BNH - instead of fixing it up".²¹ This points to the rethorical character of the government's commitment to concerted action for reform.

¹⁸ This interbureaucratic conflict was described graphically by a former Central Bank director: "When I took over as Central Bank director the housing finance system was totally insulated from the Bank...as the near totality of mortgage credits are held by banks, the isolated liquidity crisis that affected mortgage institutions, had become a problem for the entire banking system....This fact prompted the Central Bank to step in an area (*seara*) that did not belong to it. For the first time the barriers that had been erected by the powerful Minister for the Interior of the Figueiredo Administration ... were dismantled" (*Folha de Sao Paulo*, 12/6/87). It is worth stressing that, in fact, those barriers had been erected much earlier.

¹⁹ The general organizational fragmentation of interests was described with unusual clarity by the president of BNH in an internal address to the Administrative Council: "The more the power to regulate is diluted among government agencies, the less the expediency in defining rules. It is universal experience that the complexity of decision-making processes - that increase with the number of participants - could even produce wiser decisions. The delays, however, increase if all conflicting interests are included in the decision-making mechanisms" *Sistema Financeiro da Habituacao: Desempenho em 1985; Situacao, Problemas e Perspectivas em 1986, exposicao do Presidente do BNH ao Conselho de Administracao em 18/06/1986*. Mimeo.

²⁰ *Exposicao de Motivos do Banco Nacional de Desenvolvimento Urbano, em 14 de Novembro de 1986*; Letter from BNH President Arago to Minister Schwartz 11/14/86.

²¹ *Diario da Assembleia Nacional Constituinte*, 07/22/1987, p. 51

Through the Association of the BNH's Employees the bureaucracy was very active in the debates around the reform of the housing finance system. It made public important aspects of its internal operations and corruption schemes and put forward proposals for reform. It also opposed fiercely the abolition of BNH but was defeated. Its disarticulation entailed the loss of the institutional memory of housing programs. The Brazilian Association of State Housing Companies which had played a similar role within the state system declined following the virtual paralisation of these companies in the late 1980's (see Figure 1). The policy community was in this context severely affected.

After 1988 there has been a noticeable inability for the actors which had a stake in housing policy to construct a coalition for housing reform and to advance policy proposals. During the presidential campaign in 1989, the president of the Building Industry Employer's Association at Sao Paulo pointed out that "Disappointment is the best expression to convey our feelings....Rather than an indication of lack of political clout or influence by the leaders of the (building) industry it has to do with a very serious matter: the fact that most of the (presidential) candidates are not preoccupied with the housing question"²².

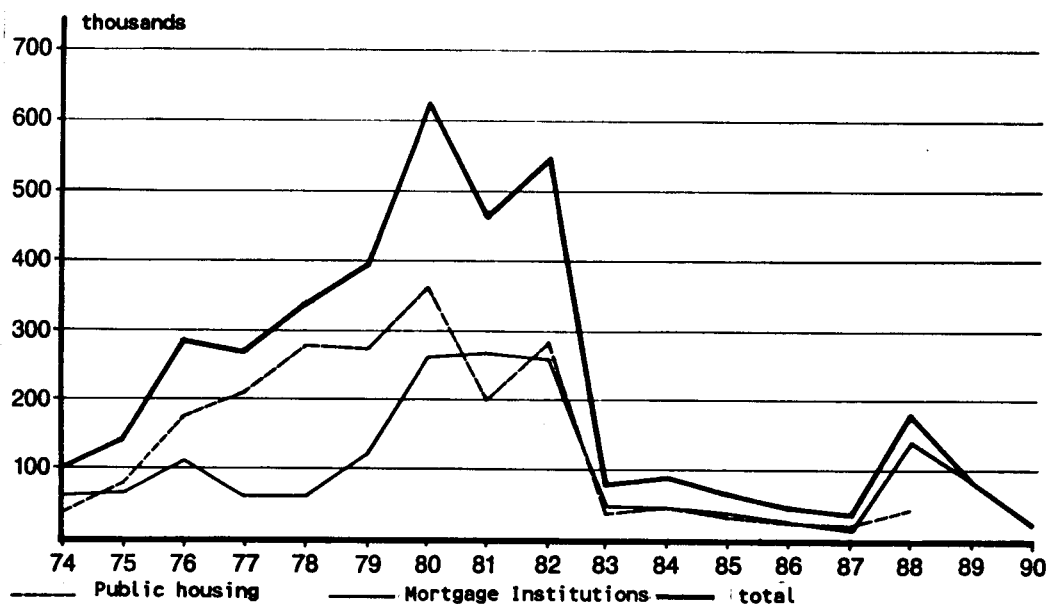
Housing policy in the period 1988-1990 reflected the fragmentation referred to above. Restrictive monetary policies adopted in these years set borrowing ceilings for the state housing companies reducing sharply the number of housing units built. At the same time a highly clientelistic scheme was created outside the formal structure of the housing finance system (and that had been in operation for twenty years). Unlike the programs under BNH (and by then transferred to the CEF) it was funded from the federal government general tax revenue rather than from a revolving fund, and was operated by the Community Action Especial Secretariat which reported directly to the Presidency. Moreover, community-based associations - instead of the state housing companies were to be encharged with the implementation of the schemes which usually involved slum upgrading and self-help . This flexible structure was particularly suitable for a highly patronage ridden arrangement. It allowed the president to bypass the state governors who controlled the state companies and to coopt politicians at the municipal level. This state of affairs was not altered substantially during the current Collor administration. As in the case of the Cruzado Plan, the enactment of the Collor Plan in March 1991 - a plan even more audacious than its precedent - the political agenda of the country became entirely absorbed by it. Informed by neoliberal ideas it encompassed measures designed to restructure the public sector and the civil service and a complete program of privatization. Its boldest measure however was the temporary seizure of the almost totality of financial assets in the economy. Interestingly, minor organizational changes in housing agencies has occurred and very little in the way of housing reform has been accomplished

Conclusion

This analysis has shown the advantages of the adoption of a coalition approach to housing policy through a case study of Brazil. To a large extent, it could be posited that the especificity of housing policy as a policy area resides in its location at an intersection of the interest of financial, industrial, rentier, bureaucratic, political, and house consumption sectors. The potential cleavages which are inbuilt in the system makes the coalitions structured in the arena of housing policy *fragile coalitions*. Conflicts arise not only along production\consumption lines but among capitalist interests. These cleavages and tensions involved are intensified in

the Brazilian case because of the institutional specificities of the housing finance system. As noted, public housing and commercial banks lending for housebuilding fall under the same regulatory framework. Sectoral cleavages among independent financiers, bankers and builders arise during times of sluggish economic growth, as credit restrictions are implemented, and building activity contracts. Conflicts involving state actors and capitalist interests also emerge as the "politics of survival" lead state managers to pursue redistributive policies. Changes in the form of regime, in turn, alter institutionalized channels of access and permit the incorporation of new actors to policy arenas, both directly, and indirectly. Conflicts among state actors - particularly the bureaucracy and the governing elites - and among agencies themselves also arise in response to regime change. As the analysis of the failure of reform in the democratic period shows the institutional basis of the alliances among actors, however, is better conceptualized as non-anticipated consequences of struggles among actors. The limits to consumption interests in the system should not be ignored. In capitalist societies labour is dependent on capital in that investment decisions affect labour's welfare.²³ However, cleavages between capitalist interests, the organized mobilization of consumption sectors, and bureaucratic and interclass alliances do affect policy outcomes. Thus the possibility for institutional modes of de-commodification in social policy in general, and housing policy in particular, opens up.²⁴

FIGURE 1
Housing mortgages advances in the Housing Finance System
1974-1990



Source: Habitação & Poupança, Nov/Dec 1990

* 1990 jan-oct

²³ See Przeworski, Adam, *The State and the Economy under Capitalism*, Chur, Harwood Press, 1990.

²⁴ For the concept of de-commodification in social policy, see Esping-Andersen, Gosta, *The Three Worlds of Welfare Capitalism*, Princeton University Press, 1990.