Seeking the Best Master

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CHAPTER 13
Strong State Influence in the Brazilian Economy: Continuity or Change?

JUDIT RICZ

Introduction

The paper analyzes the changing role of the state in the Brazilian economy and its development. We argue that the Brazilian case is a useful example of how state influence in the economy has changed over the last three decades. Brazil, like most Latin American countries, has a long history of state capitalism, best described as "hierarchical market economies" (Schneider 2013) and "state-permeated market economies" (Nölke et al. 2015) that differ substantially from other more advanced countries (mostly analyzed in the Varieties of Capitalism scholarship and throughout this volume). While the emergence of the state-owned sector in Brazil has followed a similar path as in most countries around the world, looking at the overarching, complex nature and persistence of state influence, Brazil substantially differs from the experiences and practices of more advanced countries. This makes Brazil a "good laboratory to study SOEs" (Musacchio and Lazzarini 2014a, 1).

Throughout this paper we argue, that despite decades of liberalization and privatization, the state continues to play an important role in the Brazilian economy, and this can be illustrated by the strategy of national champions, the activities of the BNDES, the National Development Bank, and the interventionist style of the Rousseff government in the years leading up to 2016. After the millennium, new developmentalist (neode-

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1 After World War II, governments owned and operated oil, gas, electric, water, and telecommunications companies, as well as railways, shipping companies, and businesses in other sectors of the economy (mainly related to extraction of natural resources or infrastructure).
sarrollista) tendencies have emerged throughout Latin America, especially in Brazil, where this approach to macro-economic and social policies was brand new. However, looking at complementary micro-economic reforms, and especially industrial policies and development financing, continuities with the old developmentalist model prevailed. Thus, we argue that the overall picture (and economic structure) is still dominated by institutional and political continuities with old developmentalist practices and the old developmental state paradigm in Brazil.

The biggest South American economy (as most other emerging economies) differs from other mainstream examples of the more developed world, as state influence was already strong (albeit altering and taking different forms) before the recent crisis in 2007–2009 and more importantly the global financial crisis (GFC) has not provoked large changes in this regard (at least not immediately). The direct effects of the crisis were relatively mild in the Brazilian economy. After the immediate sigh of relief and outstanding economic growth results in 2010, the profoundly changed external context (with lower global economic growth rates, especially slower growth in China—the major trading partner of Brazil; lower commodity prices; higher interest rates and worsening credit ratings), and the also altered domestic political context, have resulted in significant changes, and led to an economic crisis (with important social and political dimensions), thus by 2016 Brazil has arrived to a new crossroad in both economic and political terms.

The state has played a substantial and far-reaching role in modern economic development in Brazil, and economic literature on the old and new developmental state (its achievements and failures) is extensive.2 A good illustration of the over-sized state in Brazil is provided by Winiecki (2016, 184–91), by highlighting the size of taxation and public expenditure, as well as the intrusive regulatory environment, both of which impede economic growth and productivity on the longer term, We, how-

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2 The recent article of Amado and Rollemberg Mollo (2015) provides a good overview on developmentalist thinking in Brazil, while the “classic” literature on new developmentalism in Brazil is mostly linked to Bresser Pereira’s (2006, 2011, 2012) work. On the new DS is Brazil see Wylde (2012), Massi (2014), Ricz (2016), Schneider (2015).
ever, do not aim to reveal the complexity of state influence\(^3\) in the Brazilian economy, as it would be a “mission impossible” within the framework of this paper. We aim to concentrate on the SOEs sector and argue, that changes within this sector illustrate well main trends in the changing role of state in the Brazilian economy. Our preliminary hypothesis runs as follows: state influence in Brazil has changed its forms and channels, but (though some ups and downs) remained relatively strong (compared to other capitalist countries) over the decades before and after the millennium.

The paper is in four parts: after this short introduction, a historical overview is provided to present the emergence and the fall of the state as entrepreneur model in Brazil. The third part is devoted to the processes since the millennium, more concretely to the emergence of new developmentalism à la Brazil and its dismantling. Finally, we conclude.

Historical Overview of the Emergence and Fall of State as Entrepreneur Model in Brazil

During the twentieth century state ownership took different forms in Brazil (Table 1). Though certain cyclicality can be revealed, we argue, that the role of the state in economy has been relatively strong throughout the examined period. During the time of market-oriented (neoliberal) reforms direct state-ownership and direct state interventions have been on the retreat, but indirectly (in different, often new and innovative forms and channels) the state has in several cases and areas maintained its influence over the economy (with Kerstenetzky [2014, 174] words “state-led governance by the market”). After the Millennium even this restricted neoliberalism has been reversed and a new wave of developmentalism emerged. Since 2016 a new turnaround change is going on in Brazilian economic policies and the aim to cut back the role of state in development has been put on the top of the development agenda.

\(^3\) During the last century (or at the latest since 1940) the state has played a very multifaceted role in economic development in Brazil. Besides state ownership this influence took forms of tariff protection, subsidized credit, government contracts, research support, just to name a few direct means, while other more indirect forms and political influences were also widespread.
Table 1

Historical overview of the role of state in Brazilian economy

<table>
<thead>
<tr>
<th>Period</th>
<th>Features of state ownership</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>1880s–1930s</td>
<td>State as accidental owner</td>
<td>Railways, shipping, banking</td>
</tr>
<tr>
<td>1930s–1980s</td>
<td>State as entrepreneur</td>
<td>Energy production, mining, petroleum extraction, railway, utilities, tele-communications</td>
</tr>
<tr>
<td>1980s–1990s</td>
<td>Fall of state as entrepreneur</td>
<td>Privatization waves (see Table 2)</td>
</tr>
<tr>
<td>2000–2016</td>
<td>State as majority or minority investor, other (indirect) forms of state influence</td>
<td>State ownership in strategic sectors, role of BNDES, strategy of national champions and internationalization of Brazilian enterprises</td>
</tr>
<tr>
<td>2016–</td>
<td>State on the retreat</td>
<td>New privatization wave, freezing federal government spending for twenty years</td>
</tr>
</tbody>
</table>

Source: own constructions based partially on Musacchio and Lazzarini (2014)

THE STATE AS ACCIDENTAL OWNER

Though first Brazilian SOEs were founded in the imperial period (such as the Bank of Brazil (BB) in 1808 and the Caixa Econômica Federal (Caixa) in 1861), between 1880 and 1930 the state owned enterprises emerged mostly as a consequence of bailouts. Early infrastructural projects (already in the second half of the nineteenth century) were mostly undertaken by commercial enterprises (railways, banks and shipping companies). The main task of the government by that time was to insure against failure, and after a series of bailouts and takeovers the government ended up as (residual) owner. State ownership did increase gradually, but rapidly in the first half of the twentieth century, but this was at least initially not a conscious decision, nor did it follow a specific grand plan (or ideology, at least until the 1930s), it happened rather accidentally (Musacchio and Lazzarini 2014a, 4).

THE STATE AS ENTREPRENEUR

The second stage of state interventionism (1930s–1980s) started after World War I with the explicit aim to use state ownership to overcome market failure, coordinate large sectors of the economy and push forward the economic development of the country. This golden age of state ownership relates to the import substitution industrialization (ISI) period (also called old developmental state). The “state as entrepreneur” model is best documented by Trebat (1983), describing a period, when SOEs were completely controlled and run by the state. SOEs served as direct tools...
to promote a big push to industrialization and economic development of the country, and the state invested directly in sectors in which private capital had no interest in or lacked the financial capacity (in line with the argumentation of the industrial policy view). Sometimes of course other, mainly social aims led the state to step in, for example to directly control supply or prices of public utilities (in line with the social view of SOEs).

The creation (or takeover) of many SOEs dates back to the presidencies (both authoritarian and democratic) of Getúlio Vargas and the establishment of the "Estado Novo," and took place mainly in sectors that were considered strategic for economic development or for national security reasons. In this first period of ISI, the Brazilian state focused mainly on developing basic infrastructure and providing basic inputs for the industrialization, but did not dominate the whole economy. In line with the industrial policy view, the state played key role in sectors considered as being crucial for industrialization (and for economic development), such as mining, metallurgy and steel, public utilities and petroleum, but even in these, state ownership was at around 70 percent (Trebat 1983). Meanwhile in other sectors of the economy the private sector remained the dominant player.

The next wave for the expansion of the SOE sector dates to the military regime from the 1960s to the mid of the 1980s, and was mainly related to sectors such as transport and telecommunication. The number of SOEs exploded during the presidency of Geisel (1974–79), who was a strong supporter of the ISI model and allowed foreign participation only when it was unavoidable to obtain the foreign technology.

According to Trebat (1983, 15) by 1975, the public sector was responsible for 17 percent of the total gross capital formation in the country (equalling to 4.3 percent of GDP), with around 25 percent of

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4 For example the National Steel Company (CSN) in 1941, the famous iron ore mining firm Vale do Rio Doce Company (Vale) in 1942, the manufacturer of buses, trucks and cars, called Fábrica Nacional de Motores (FNM) founded in 1943, the Brazilian national bank of economic development BNDE in 1952 (BNDE in Portuguese, later changed to BNDES when “social development” was added to its mission in 1982; for the sake of simplicity we use the current name, BNDES throughout this paper), and the national oil company Petrobrás in 1953, to mention just the largest ones.

5 For example Embraer (aircraft manufacturer) was launched actually in 1969 but based on the results from previous state-led investments in aeronautical engineering and military technology. Other example of this period could be: Embatel (telephone), Correios (mail), and Radiobrás (radio, TV, and other telecommunications) or Embrapa (the National Agricultural Research Company).
those investments coming from large SOEs (and this ratio prevailed roughly until the end of 1990s). The (end of) 1960s and 1970s is often called in economic literature the heyday of state capitalism in Brazil. The expansion of the state-owned sector was not only underlined ideologically, but it was accompanied with very high GDP growth (especially during the years between 1967–73, the so-called economic miracle period in Brazil with economic growth rates above 10 percent on annual average). Part of this growth could be explained with the structural transformation of the economy (masses of labour relocating from agriculture to manufacturing), but rapid capital accumulation has also played a key role.

To sum up we can see that state ownership was mainly related to the state induced process of industrialization in Brazil, and large public investments were made initially in energy production, mining, petroleum extraction, while later also in infrastructure (railway and utilities) and telecommunications. However, we can note that by the end of the 1960s mechanisms to support domestic private entrepreneurs through subsidized credit (for example through BNDES) already existed in Brazil,\(^6\) so there would have been alternatives of state ownership to promote and coordinate investments in risky or strategic sectors of the economy. Nevertheless, the extensive state ownership was needed to serve multiple (mainly economic, social and political) objectives of the government, like guaranteeing sufficient coverage, directly influencing prices, or even capturing expected profits. In line with the ISI model the political desire to avoid foreign control of “strategic assets” was also a key motivation.

During this period the creation of SOEs, and the explosion of their number was neither a planned phenomenon, nor a pure ideological answer, rather an uncoordinated process and according to Pinheiro (2011, 254–55) mainly resulting from the following, different processes: developmentalism (steel and highways); concerns for “national security” (mining and oil); regulatory failures (communication, electricity and railways); verticalization and diversification of activities of large SOEs (occupying “empty spaces”) and nationalization of bankrupt companies (hotels, sugar mills, publishing companies, etc.).

This uncoordinated growth of the state sector was accompanied by poor monitoring and control over the actions of SOEs. In 1967 govern-

\(^6\) On the role of the national development bank (BNDES) in (mainly long term) financing of private companies see Massi, 2014, Pinto and Reis 2017 and Cavalcante 2018.
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...ment decentralized the control of SOEs among different ministries (with the aim to improve execution), resulting that the government had lost all control on the number of SOEs and the kind of subsidiaries each of these firms had. To end this chaotic situation an explicit plan to count and control federal SOEs began in 1979 with the creation of the Secretary for SOE control (called SEST). Above the ministries three agencies7 were in charge to coordinate actions of SOEs, however according to Musacchio and Lazzarini (2014a, 12) in practice SOEs responded to their ministries, which in line with the political (institutional) view, were obsessed with growth of the firms, or with Trebat’s (1983, 52) words with “empire building” (thus preferred to have larger firms with more jobs than concentrating on efficiency or profitability)—a story well-known from the experiences of East Asian developmental states.

As a result of the old developmentalist model (from 1930–1980/85) by the end of the 1980s state influence over the economy was widespread in Brazil: the state has owned (or was minority shareholder in) a large number of companies; it had monopoly rights in many industries and large companies in “strategic sectors” such as oil, gas, steel, petrochemical, mining and defense sectors.

THE FALL OF STATE AS ENTREPRENEUR MODEL

The ISI development model, and its intrinsic characteristic, the expansion of SOE sector was (at least partly) made possible by favorable external context, mainly based on cheap credit available in the 1960s and early 1970s on the world financial markets. This external context has changed profoundly and the second oil shock in 1979, or at the latest the unfolding debt crisis in 1982 have marked the end of an era.8

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8 The end of the “harmonious coexistence between private and state capital,” as Castelar Pinheiro (2011, 256) has put it, was already conceived in 1974 when businessmen and the political opposition started a “campaign against nationalization” and against excessive state participation in the economy, in some instances comparing even the Brazilian style of state-led capitalism to state influence under the communist regimes. Still, it has to be added that main dissatisfaction of the business sphere by that time, was their exclusion from decision-making forums, like the CDE (Economic Development Council, Conselho de Desenvolvimento Econômico) from 1974 onwards.
Brazilian SOEs during the ISI tended to finance their current expenditures with foreign debt, in the early 1980s however with depreciating currency (and simultaneously rising inflation) and rising global interest rates most SOEs have experienced sharp increases in their financial expenditures. At the same time governments pushed to use these SOEs for social purposes, so as to secure lower prices and lower unemployment. These two main trends have led to quickly deteriorating financial situation of the SOEs, and finally to a dramatic fall in gross capital formation. Even though these worsening conditions and in line with the social view of SOEs, employment was increased in most state-owned companies (to artificially press down unemployment) after the crisis, when comparable private firms downsized their employee base (Musacchio and Lazzarini 2014a, 18).

According to the political view poor performance of SOEs can (besides the above mentioned trends) also be explained by the dynamics of patronage, the use of SOEs positions to compensate political allies, cronies and to build coalitions. Though this practice has been traditionally present in Brazilian politics, Musacchio and Lazzarini (2014b) find no negative effect of having a political CEO on the performance of the SOE, however they did not analyze lower level managers, where the practice of hiring politicians has been also widespread.

To put it short, with the deterioration of external (global) and internal (domestic) conditions it became more and more difficult to financially sustain the multiplicity of (social and political) objectives aimed to pursue via the SOEs, conflicting with profitability, and finally the old development model (and with it the state as entrepreneur model) collapsed. The upcoming decades (mainly the 1990s) were dominated by the adoption of liberal policies, liberalization and deregulation of markets and privatization of SOEs. These policies were in line with the Washington Consensus (as well as the conditions posed by the international financial institutions, in particular the International Monetary Fund) and followed the main trends of other countries around the world.

During the years and decades after the debt crisis, most economic policy interventions aimed at economic stabilization: chronic fiscal imbalances and hyperinflation were the two main challenges. High inflation was an inherent feature of the Brazilian economy. Lasting operation of the economy under high and persistent inflation was made possible by institutional solutions (indexation mechanism), however counterproductive ones (Burlamaqui et al. 2006, 13). Accelerating inflation threatened to destroy the economy, while social unrest has risen and endangered political stability. Between 1985 and 1994 the Brazilian economy was subject to six
heterodox stabilization plans. The common element of all these plans was the use of price controls and currency reform to abruptly reduce inertial inflation to one-digit levels. After all the way towards less state intervention and more market-friendly economic policies was paved.

This is the main context in which the process of privatization has to be understood in Brazil. Thus Cardoso’s main privatization strategy aimed not only at transferring state assets to the private sector, but also at breaking up with state monopolies and opening of many industries to domestic and foreign private capital (Massi 2014, 186).

Table 2
Waves of the Brazilian privatization process

<table>
<thead>
<tr>
<th>Period</th>
<th>Political administration</th>
<th>Main features</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980s</td>
<td>Figueiredo, Sarney</td>
<td>small in scope and scale, BNDESPAR reorganization</td>
</tr>
<tr>
<td>1990–1995</td>
<td>Collor de Mello, Franco</td>
<td>incl. SOEs in productive and strategic sectors</td>
</tr>
<tr>
<td>1995–2002</td>
<td>Cardoso</td>
<td>incl. SOEs in services and infrastructure</td>
</tr>
<tr>
<td>2012–</td>
<td>Rousseff, Temer, Bolsonaro</td>
<td>mainly infrastructure (transport, energy, mining and sanitation)</td>
</tr>
</tbody>
</table>

Although the first wave of privatization is mostly associated with Collor de Mello and Cardoso, the idea of privatization dates back to the late 1970s. Already by the end of 1970s there were some worries of the huge size of the (uncontrolled) SOEs sectors, and even plans of “coordinated privatization” existed (as that of Marcos Vianna, the President of BNDES). Though these were not implemented, with the words of Musacchio and Lazzarini (2014a, 14) these have “set the stage for the privatization process and the subsequent model of state investment in which Leviathan is a minority investor and in which BNDES became a central actor as a lender and shareholder.”

Under the Presidency of Figueiredo in 1979 the first national plan to privatize state-owned companies that were not essential for national security was announced, and the first wave of privatization started in 1981. Though the Special Committee on Privatization identified 140 SOEs suitable for privatization, out of these 50 were listed for sale and only 20 was

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9 The Cruzado plan of 1986; the Bresser plan of 1987; the “Summer” plan of 1989; the Collor I plan of 1990 and the Collor II plan of 1991; and the Real plan of 1994.

sold, one rented and 8 were incorporated into other public institutions or enterprises. This first privatization (1981-84) phase did not include any of the large SOEs, and total revenues reached only 190 million USD (Pinheiro, 2011:259).

The unfolding debt crisis has pushed forward the privatization agenda: the crisis was increasingly associated with the huge size and inefficiency of SOEs or at least the perceptions regarding these. Some restrictions were put in place in 1985 to curb the growth of the public sector. However main former principles of privatization were maintained during the Sarney administration (1985-1990): foreign capital participation remained excluded and privatization remained subordinated to the national security and to nationalist-statist principles (thus large SOEs vital for national security and infrastructure or in sectors where the state hold monopoly was excluded). Two main lines of change can still be revealed: first, some institutional changes were put in place (Inter-ministerial Council on Privatization, and some transparency, evaluation and auditing measures were introduced) and second, a new legal structure for privatization was introduced in 1988. Previous concerns related to national security and market reserves for domestic enterprises were side-lined, and new instruments, such as concessions to private capital to provide public and infrastructure services and others to break up with the monopoly rights of large state-owned enterprises, were introduced. Fiscal motives also came in to play a role: privatization became an instrument to reduce public debt.

Despite all these changes, privatization under the Sarney administration remained small in its scope and scale.11 As most commentators (Pinheiro 2000, 11; Massi 2014, 189) highlight privatization between 1985 and 1990 in fact was the financial reorganization of the BNDESPAR, the investment subsidiary of BNDES, and was mostly limited to small and medium enterprises. Still there were few exceptions to this, and the privatization of a few large and important industrial firms12 has set precedents for the future.

Pinheiro (2011, 260) has highlighted three special circumstances that have contributed to the fact, that first wave of the Brazilian privatization remained small in scope and scale: 1. SOEs still showed relatively

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11 The World Bank (1989) has even concluded that the first wave of privatization in Brazil was a „classic example of failure” (cited in Castelar Pinheiro, 2011:260).

12 Including the largest producer of ferro-alloy (Sibra) and the only electrolytic copper producer (Caraibas Metais).
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good operation performance; 2. the argument of national security was still widely accepted in Brazil; 3. privatization was mainly seen as a process of denationalization and the increased presence of foreign investors was considered to be against the national interest. As an additional aspect Schneider (1988–89, 1990) emphasizes political reasons resulting in restricted privatization: as Sarney lacked support base in the Congress, the distribution of positions within the state sector (SOEs) was instrumental to strengthen his governing capacity. Also, domestic private sector was not heavily pushing forward the privatization agenda, while showing support at least rhetorically for privatization, many of the private companies depended on SOEs in their operation and were not in favor for a more drastic privatization program.

Inherent changes during the end of the 1980s have altered however the context of privatization in Brazil. First of all, SOEs (mostly incapable to generate fiscal surplus or to borrow from abroad) relied in terms of long term credits mainly on domestic public funding, for political and legal motives (see too-big-to-fail argumentation by classic developmental states) were however not enforced to pay up their bills. When due to fiscal problems public banks by the end of 1980s also ended to finance the activities of SOEs, the only viable way remained the privatization of state assets to private investors. As a second motive raising support for privatization in Brazil in the early 1990s was the deterioration of economic performance of SOEs (Pinheiro 2011, 262). During the second half of the 1980s in most SOEs management positions were politically appointed mostly for short periods and rarely rewarded on the basis of economic performance. Lack of management technical skills and economic incentives as well as the already mentioned soft budget constraints led to the further losses in terms of economic efficiency. At the same time changes in economic model, most importantly processes of trade liberalization have made these shortcomings even more evident.

The second wave of privatization, in fact the most important period of it in Brazil started in 1990 with the National Privatization Program (PND) of Collor de Mello.\(^\text{13}\) It broke up with the former privatization schemes

\(^{13}\) To set the context of this second wave of privatization one must however refer to the new constitution of 1988, which was rather of a nationalizing character, establishing public monopolies in oil and distribution of gas, telecommunications, and constructing barriers to foreign investors in mining and electricity. The results achieved under Collor de Mello (though limited) have to be regarded in the light of these constitutional restrictions.
in several ways: expanded its scope, addressed SOEs in productive and strategic sectors (such as steel, petrochemicals and fertilizers), and linked the process to macroeconomic stabilization. The BNDES became a major actor, and it was explicitly aimed to depoliticize the process of privatization. The failure to stabilize the economy finally led to the failure of the overly optimistic PND, and only 16 SOEs were privatized until 1993 (summing up to revenues at around 3.9 billion USD (BNDES, 2002).

Between 1993 and 1995 despite some changes and the rather developmentalist ambitions of Itamar Franco, the schedule and practices set up by the PND were mostly kept in place and 17 additional firms\(^{14}\) were privatized, leading to revenues up to 4.7 billion USD.

With the start of the Cardoso era in 1995 the Brazilian privatization reached a new milestone. Fernando Henrique Cardoso (FHC) expanded the program and decided to break up with the monopoly rights of SOEs in services and infrastructure,\(^{15}\) and also allowed for local governments to develop their own privatization programs (that was considered as means to raise revenues at local level). In the first three years of the privatization under FHC 80 SOEs were sold, with total revenues of 60.1 billion USD in receipts and 13.3 billion in debt transfers (Pinheiro 2011, 264).

Reasons leading to rapid expansion of the privatization program were manifold ranging from the stabilization of macroeconomic environment, through political support in Congress and fiscal motives on federal and state level, to demonstration effects of past privatizations—that have led to increased firm-level efficiency and investments capacity (Castellar Pinheiro, 2011, 264–67). Economic analysts tend to agree, that privatization played a crucial role in the whole stabilization process (as revenues were used to reduce public debt, and incoming FDI linked to privatization was also significant).

By 1995 previous concerns for national security and fears of denationalizing the economy lost importance in public debates. This change in perception and attitude towards privatization can largely be credited to the transition from military to civilian rule, the process of democratization, but was also supported by changes in the external context (the end of the cold war). Even though some protests from unionist and leftist groups remained, masses of population were mostly indifferent to the privatization

\(^{14}\) Including CSN, the National Steel Company created by Vargas back in 1941.

\(^{15}\) The circle of SOEs to sell was widened from industrial firms to incorporate public and financial services as well as concessions in transportation, highway, sanitation, telecommunications and electricity generation sectors.
program and heavy critic and opposition was linked rather to single cases and related to the selection criteria of SOEs to sell (considering the sale of efficient and profitable firms), the minimum price set for sale (whether it was below market value), the impact on the quality of public services and the role of BNDES played in the process.

During this main phase of privatization in Brazil the importance of improving regulation was also recognized. Emphasis has been put on the introduction of competition\textsuperscript{16} in almost each sector, and the aim to strengthen regulation before privatization was present (although with different grades of success and in cases of failure mostly concessional contracts contained important regulatory clauses). The most important success story of privatization with regulatory reforms relates to the telecommunication sector, while in electricity provision the processes were less well coordinated and executed, and least progress in regulation and privatization has been achieved in water and sewage services.

The figures above summarize most striking features of the privatization process in Brazil between 1990 and 2002. With total revenues of around 87 billion USD the Brazilian privatization was among the biggest ones in the world (BNDES 2002) and meant the transfer of 170 SOEs to the private sector. These revenues have helped to reduce public debt by an amount approx. equaling to 8 percent of GDP (Carvalho 2001). While empirical studies in line with economic literature have proved not just country-\textasciitilde, but also firm-level gains from privatization (positive effects on performance of privatized firms).\textsuperscript{17}

Most authors agree that the privatization in Brazil was in fact a pragmatic answer to macroeconomic challenges in the 1990s\textsuperscript{18} and it was tolerated by the electorate mainly due to the—correct—perception that it contributes to achieve the main developmental objective (by that time): macroeconomic stability (and also allows for increased investments). The Brazilian privatization was in fact a result of threefold changes (Pinheiro 2011, 272): 1) changes in politics, as foreign investment was no longer considered as a threat to national security; 2) a shift in the focus of devel-

\textsuperscript{16} Often supported by vertical and horizontal separation of SOEs before privatization.

\textsuperscript{17} Pinheiro, 1996; Anuatti-Neto et al. 2005

\textsuperscript{18} In contrast to other systemic or tactical initiatives to privatization, where the former adjective refers to deep and ample objectives to reshape economic and political institutions (like in UK, New Zealand, or Chile), and the latter one mostly focuses on short term political aims (Castelar Pinheiro 2011, 252).
Figure 1
Accumulated results, annual evolution and sectoral composition of Brazilian privatization (1990–2002)

Accumulated Result

<table>
<thead>
<tr>
<th>Period</th>
<th>Sale Proceeds</th>
<th>Transferred Dept</th>
<th>Total Results</th>
<th>US$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990–1994</td>
<td>8,608</td>
<td>3,266</td>
<td>11,874</td>
<td>11.2%</td>
</tr>
<tr>
<td>1995–2002</td>
<td>78,614</td>
<td>14,810</td>
<td>93,424</td>
<td>88.8%</td>
</tr>
<tr>
<td>Total</td>
<td>87,222</td>
<td>18,076</td>
<td>105,298</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Annual Evolution

Participation by Sector

Source: Adapted from BNDES 2002
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Development policy away from (forced) capital accumulation towards economic efficiency; and last but not least, 3) close linkages between privatization and macroeconomic policy. In the case of Brazil, however, this third argument is considered to be the most important factor.

Another often emphasized feature in the Brazilian case is, that even though twenty years of privatization experience, large masses (and even political fractions) in Brazil did not change their ideological views regarding the role of state in economy, thus the Brazilian privatization process has to be considered much more as a pragmatic than as an ideological process.

Despite all the facts and numbers of Brazilian privatization, an additional aspect regarding the role of state or the degree of state influence should be added, mainly based on the logic presented by Evans (1995) and Schneider (2013): big business and the state has been traditionally interconnected in Brazil, and in fact privatization did not change much the degree of state influence, it rather changed its channels and forms. The best illustration could be the example of Vale, privatized in 1997, but in fact remaining under (hidden) state control ever since (via the ownership of state pension funds and the BNDES and other less explicit forms of state interference).

Having all these arguments in mind, it should not come as a surprise that after a privatization peak in 1997–98 economic policy priority given to privatization declined, as fiscal motives became less relevant and foreign direct investment (apart from privatization also) increased. A few years later, with economic indicators improving after 2004, the macroeconomic (and fiscal) imperative to support the privatization has further weakened, and in line with political changes (the turn to the left) the expectations towards the swinging back of the pendulum (to an economic model with increasing state influence) were curbed high.

New Developmentalism: New Forms of State Influence Emerging

By late 2002, political rhetoric regarding privatization has been changed to negative, as the Working Party (PT, Partido dos Trabalhadores) historically opposing the program has won the elections in Brazil.

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19 See for example successive public opinion surveys by latinobarometro or Alston et al. (2016).
Luiz Inácio Lula da Silva (from now on Lula) took office under stormy circumstances in January 2003: the context of external crisis, low growth and uncertain domestic political arena all led to speculative attack on real, and its devaluation. The first Lula government has had thus first to restore the confidence of the markets, and continued (in contrast to all expectations among his allies as well as opponents) with the macro-economic policies of his predecessor concentrating on the fight against inflation and public indebtedness. With the focus on macroeconomic issues, and as a result of more favorable international circumstances (such as global economic growth and the reversal of declining terms of trade, mainly due to increased Chinese demand towards basic Brazilian export products) economic indicators started to improve from 2004.

Lula continued with orthodox, conservative macroeconomic management (even after the immediate crisis management and in relative good economic times between 2003 and 2007), but at the same time, being a left-wing candidate also showed strong commitment to social issues. New and innovative social policies (like the often highlighted Bolsa Família Program) together with the expansion of the social frontier (hand in hand with sound macroeconomic policies) became the trademark of the new economic policy model of Brazil.

The third leg of this new economic policy-mix under Lula was made up of complementary micro-economic policies, mainly related to the Growth and Acceleration Program (PAC)—a government infrastructural investment program—and the revival of industrial policies and with it an increased (albeit modified) role of state.

New industrial policies, though innovative in some aspects, maintained or revived linkages, in terms of institutions and practices to the old

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20 “Letter to the Brazilian People” (Carta ao povo brasileiro) issued during the electoral campaign in June 2002 and the institutionalization of the promises made in this letter by the agreement with IMF meant in practice the continuity with Cardoso’s (neoliberal or orthodox) economic policies.

21 The PAC (in original) was launched in 2007 and constitutes to be a cornerstone of Lula’s policies to promote economic growth as an umbrella term for a complexity of infrastructural projects in areas such as sanitation, sewage, water, electricity, road and housing construction. The first phase of the program called for 346 billion USD, while the second phase (extending from 2011 to 2014) investments were estimated to reach 526 billion USD.

22 For example, by linking the promotion of industrial production to foreign policy and export-orientation (see also Almeida and Schneider (2012) and Massi (2014).
DS model. Continuities can be revealed in its selectivity, concentration on a small number of sectors and in fact (and in contrast to all rhetoric) mainly leading to preserving the existing industrial sector. Related to this issue, one has also to refer to a discontinuity with the Cardoso era in terms of state—business relations. While Cardoso tried to insulate economic policy decisions from the business sector, Lula in contrast reopened channels of communication and negotiation and pursued a much more consultative approach (see for example Boschi 2011), but at the same time and in the light of the rather “fuzzy” political system (in terms of party and campaign financing rules and practices and the overly fragmented party system and Congress) these new “flexible” institutional arrangements often also lead to the (re-)politicization of state-business relations.

To sum up under the Lula administration a new form of developmentalism\textsuperscript{23} emerged, representing some degree of continuity with the old developmentalist approach, such as building on the old corporativist structures (although improving and modifying those) and the revival of an “old-new” industrial policy, but innovative in several areas, such as in social policies and in terms of a more pluralistic and comprehensive (inclusive) institutional model. In the following section we turn towards analyzing changes in the state-owned sector, and in more general terms new forms of state influence.

THE STATE AS MAJORITY OR MINORITY INVESTOR, AND OTHER (INDIRECT) FORMS OF STATE INFLUENCE

State ownership has been transformed during the last decades in Brazil. Beyond some wholly-owned large state-enterprises mainly related to the sectors of oil, electricity and banking (Petrobras, Eletrobras, Caixa Econômica Federal), where the government continues to be majority shareholder, other forms of government control emerged and gained weight. State influence on private enterprises can take the form of minority equity investment, but also other channels of support exist: subsidized loans from development banks, equity and debt purchases via sovereign wealth and pension funds, local content requirements, to name just a few. The practice of picking national champions to support the strategy of internationalization (and the wider aim of transforming Brazil into

\textsuperscript{23} For this see Boschi (2011); Wylde (2012); Amann-Barrientos (2014); Massi (2014); Ricz, (2017).
a global player in the world economy) is a good example of new forms of state influence while maintaining continuities with or similarities to the old developmental state model.

The main cycle of privatization ended in 2002 and with the new political cycle commencing in 2003 (the Lula administration) some fears regarding a new nationalization threat appeared. However, in contrast to expectations\textsuperscript{24} Lula did not reverse the privatization process, but rather tried to encourage qualitative changes in public-private partnerships and to attract private investment into the Brazilian infrastructure systems. Some changes in the focus of privatization has started even before Lula came into power. This is best signaled with the big sale of Petrobrás shares\textsuperscript{25} in August 2000 on the Brazilian Stock market (Bovespa) and the explicit aim to use privatization to strengthen the domestic capital market and attract foreign capital. Concessions granted to private actors were a new element under the Lula administration, such as in the case of the highway system and the airports\textsuperscript{26}, where the lack of investment was most apparent and urging (also taking into account the new infrastructural needs in the light of the 2014 Football World Championship and the Summer Olympic Games in 2016). To certain extent these processes can be even regarded as the continuation of the privatization process (although not called like this in Brazil, mainly due to political, or ideological, reasons).

At the same time Lula attacked regulatory models adopted during previous decade, especially in the oil and gas sector, and significantly weakened established regulatory agencies, by mostly giving responsibilities and final decision rights (back) to ministries, and with it implicitly increasing the (discretionary) role of the state. The new wave of “regu-

\textsuperscript{24} It was feared by foreign investors, mainly based on the former PT’s stance towards privatization and on their experiences in some other Latin American countries (like Argentina or Venezuela). As Amann and Barrientos put it (2014:4) Lula was so heavily committed to transform the Brazilian economy into a competitive global player that he even turned in some aspects against his own party and its priorities.

\textsuperscript{25} With 337,000 individuals buying shares of the Brazilian oil giant, Petrobrás, possibly resulting in a record sale in the history of the Bovespa, the Brazilian stock market (Castelar Pinheiro, 2011, 273).

\textsuperscript{26} These steps have to be regarded within the Latin American context, where in parallel some more radical leftist regimes started programs of (re-) nationalization (in contrast to Lula, who also came to power as a leftist candidate and after an electoral campaign criticizing neoliberal reforms, incl. privatization—and still went on with it in certain areas).
latory reforms” leading to an increased role of political interventions under Lula was most apparent in the electricity sector, but also affected other sectors. During the second administration of Lula (2007–10) even attempts to establish new SOEs (e.g. in manufacture of drugs and fertilizers, or provision of broadband services) could be observed, while another form of increased state influence took the form of allocating public loans (mainly via BNDES) on a more politicized and interventionist way. A good example is the creation of “national champions” via the merger of large companies, and made possible by BNDES financing, such as in paper pulp, petrochemicals, telecom and food processing (Pinheiro 2011, 274). This initiative was in line with new foreign economic policies of internationalization and the aim of “Brazil going global.” This type of state interventionism was partly “justified” by the GFC in 2007–2009, as a compensatory means, or anticyclical economic policy, but we will see, that it did not decreased subsequently, and became even more pronounced during the following years, under the governance of Dilma Rousseff.

State ownership in the twenty-first century in Brazil according to DEST data (cited among others by Musacchio and Lazzarini [2014a, 20]) was relatively extensive: by 2009, 47 SOEs were under federal government control, and 49 SOEs under state-level control, with assets equaling to USD 626 billion and USD 66 billion respectively. These are however only SOEs directly controlled by the government, and do not include a host of subsidiaries of state-owned holding companies. There are no exact numbers of the latter, but according to estimates direct and indirect state ownership sums up to 757 billion USD in total assets equalling approx. to 43–45 percent of GDP. While enterprises remaining under state control concentrated in “strategic” sectors, such as oil (Petrobras), electricity (Eletronbras, Cesp), sewage, water (Sabesp) and banking (BNDES, Banco do Brasil, Caixa Econômica Federal, Barisul).

The largest SOE’s are traded in the Brazilian Stock Exchange (Bovespa), although these compromise only 58 percent of the SOEs under federal and 68 percent under state level control. Listing at least in principle results in better corporate governance practices, better mitigation of agency problems and better protection of minority shareholders. In most cases it happened also with Brazilian SOEs, though there are some exceptions from more recent years (see next section), where government still aims to over-write profitability criteria or minority stakes. To commit to higher governance practices was however not just a pre-condition and result of listing, it also aimed to attract external funding, private capital. This latter constitutes to be an urging pressure in the Brazilian case if we take into consideration
the constrained revenue raising capacity of the state and the low levels of domestic saving (leading also to low levels of gross capital formation).

This new-type of state-ownership was the “state as majority investor model” (Musacchio and Lazzarini 2014a), meaning that the state remains controlling shareholder, but at the same time accepts to follow certain rules to attract private investors as minority shareholders. One of the best illustration for the model of state as majority shareholder is the case of Petrobras, the state-owned oil giant in Brazil, which is a perfect example of remaining and even strengthening government interventions up to most recent years (with all of the ups and downs of the company economic performance and political interference).

According to some estimates the state has equity interests in companies representing about 35 percent of Brazil’s stock market capitalisation, while adding up companies with borrowings from the BNDES this number would increase to about 70 percent (FT, 2015). Investors in these companies were used to and have traditionally tolerated some state interference. However, during the recent years interventionism has grown more intense (starting already under Lula, but particularly extended under Rousseff) and also due to the new ICT media its controversies became more visible for the society, providing more accurate ground for social protests against discretionary (ad hoc) state interference.

Despite all direct state-ownership still represents only a part of state influence in Brazil. As we have argued earlier state control in Brazil remained very strong (compared to European or Western norms) even after large waves of privatizations, and state influence on the economy goes well beyond ownership of large enterprises like Petrobrás or BNDES. These indirect and hidden forms of state influence are very hard to reveal and quantify.

It is mostly highlighted that strong external regulations (also backed by insulation from political appointments) would be needed to prevent SOEs with majority state control to pursue outright government intervention. The problem thus in Brazil is twofold: on the one hand, regulatory bodies are relatively weak (and at the same time politicised, leading to missing checks-and-balances against discretionary government interventions), while on the other hand, due to an overly fragmented political party system, CEO and other manager positions in SOEs are part of political deals leading to widespread practices of patronage. Both result in heavy threats against perfor-

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27 For unintended consequences of this model in the Brazilian case see Pargendler (2012).
formance and profitability of SOEs, best illustrated by recent corruption scandals related to Petrobras (and other big Brazilian firms).

Recent Brazilian experiences with the state as majority (or even minority) investor shed light on the fact that the effective functioning of this model would require relatively developed capital markets, not only to attract private capital, but also to provide external monitoring and transparency (with both being rather in their infancy in Brazil). Even if the state is only a minority shareholder, other objectives than pure profitability criteria (such as political or social aims) might come to fore and work as incentives towards state intervention—this was often the case during the last one and a half decade in Brazil.

A striking example how state influence over the Brazilian economy has changed recently could be illustrated by the case of BNDES that besides its long-term, financing activities recently also gained weight as minority shareholder (Massi 2014; Musacchio and Lazzarini 2014b; Pinto and Reis 2017).

Lula and also Rousseff have expanded the reliance on direct transfers from government to finance activities of BNDES, and went beyond the former model of relying on forced savings—mainly from corporate taxes. This has led increasing public debt and tax burden, both high already in Brazil. Looking at Mazzucato’s (2013) “entrepreneurial state” argumentation state induced financing (such as via BNDES) could work, if state would address private firms with clearly constrained or limited borrowing opportunities (firms that possess latent capabilities but lack resources or opportunities to borrow). In line with this thinking, however, if capital markets develop, and opportunities for firms widen to borrow (as new potential lenders, investors step in), then the state should curb back on his activities, step back, and exit. Looking at the changes in the activities and practices of the BNDES in Brazil exactly the opposite happened.

The cases of Vale and Embraer can also serve as examples of state as a minority investor, with capital from pension funds and especially BNDES. In these cases, more autonomous governance and funding has developed

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28 These shortcomings are well-known by the management of the BNDES, and the BNDES would in principle aim to widen its activities towards building competitive advantage in high technology sectors (and there are even some examples of financing in the electronics sector). However, the statement of the former BNDES vice-president, currently one of its directors, João Carlos Ferraz is telling: “...the Bank would finance a technology-based company’s project if one were presented to the Bank” (cited by Massi 2014, 223).
better technical capabilities and led to better implementation of performance-enhancing growth strategies (however also containing the risk, that enhanced autonomy leads to growth-obsession, e.g., when SOE managers engage in empire-building). The classical lesson from East Asian developmental states’ experiences is valid also in this case: the operation in competitive foreign markets might impose the needed discipline on SOE managers. In the case of Embraer it was only after its privatization in 1994 that the company became truly competitive, with new product lines for regional routes such as the ERJ-145 and, more recently, the so-called E-Jets.

To sum up Lula has increased the role of government in economy via multiple channels. A striking example is the raising government control over regulators by shifting policy-making decisions away from independent industry regulators to government ministries. The politicization of regulations has opened the door for government appointees to discretionary political meddling and has among others finally led to destroying stability and with it to deterring investments. These dynamics have contributed to economic troubles under the Rousseff period, to which we turn in the next section.

CRISIS MANAGEMENT AND SOME TRENDS AFTER THE GLOBAL FINANCIAL AND ECONOMIC CRISIS

Before turning to the most recent trends regarding state influence in the Brazilian economy, we provide a short outlook to GFC, including its context, management and effects in Brazil.

During the first decade of the twenty-first century (mainly corresponding with the Lula administration period between 2003 and 2011) the Brazilian economy seemed to be on a positive track both in economic and social terms. Economic growth was mainly driven by external factors: increasing demand from Asia (mainly China) towards main Brazilian export products, and the rise in commodity prices led to significant surpluses in current account balance (between 2003 and 2007). Economic growth was accompanied by social achievements, mainly due to new policy approach (called socially inclusive policies or extension of social frontier): poverty and inequality decreased, and other social indicators, such as formal employment, minimum wage, social protection coverage, educational attainments improved.29

29 Not just in media, but also in economic literature the period of Lula is often referred to as the second or new economic miracle period (see, e.g., Amann-Baer 2012).
Within this economic and social context, the GFC at least on the short term had a relatively mild impact on the Brazilian economy: the GDP after a 0.33 percent decrease in 2009 has risen in 2010 by an astonishing rate of 7.53 percent (WDI, 2015). On the medium term, however, the effects and consequences of global economic crisis and the following changes in the external environment turned out to be more severe for Brazil. Before turning to these most recent trends, we first sum up most important (anticyclical) measures of the Brazilian crisis management in the wake of the GFC according to Boschi (2011, 53–54):

- above-inflation real increase of minimum wage and adjustment of other benefits beyond minimum wage to maintain their purchasing power;
- expansion of directed (and subsidized) credit, especially through BNDES;
- introduction of two new individual taxes to raise government revenues;
- expansion of the circle of beneficiaries of the Program Bolsa Familia30 (reaching additional 1.3 million people);
- increased efforts to implement the government’s infrastructure program (PAC);
- reduction of the annual primary budget surplus target (from 4.3 percent to 2.5 percent);
- launching a new housing program (Minha Casa, Minha Vida) providing 1 million new homes and a great impetus for the construction sector and
- reducing the tax on industrialized products (IPI31) in several sectors (e.g. automobile industry).

There are some critics regarding economic policies afterwards the crisis, some highlight for example that the implementation of the PAC, the government’s infrastructure program after 2008 was in fact put to serve the Brazilian crisis management, and concentrated much less on its formerly laid down principles (such as social inclusion and improving productive

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30 The Program Bolsa Familia (PBF) is a conditional cash transfer programme dating back to the Cardoso era (1990s), but it was extended and institutionally reformed under Lula. The PBF provides financial aid to poor Brazilian families, if they ensure that children attend school and are vaccinated.

31 In Portuguese: Imposto sobre Produtos Industrializados.
Still there is a consensus that the anticyclical policies in the wake of the crisis had a positive impact concerning employment, industrial production (mainly in construction and automobile sector), household consumption and (at least) on the short term rescued Brazil from economic recession. Brazil’s quick recovery from the crisis was awarded also by credit rating agency’s promoting Brazil to investment grade.

However, after the short period of post-crisis adjustment and the accompanying euphoria regarding the overly optimistic Brazilian future, economic indicators started to deteriorate and within a five year period Brazil has sunk into one of the most severe economic (and political) crises since the 1930s, with significant social consequences. After a deteriorating trend of GDP growth rates since 2010, the Brazilian economy has actually stagnated in 2014 (0.25 percent GDP growth rate), and has declined by more than 3 percent on yearly average in 2015 and 2016 (WDI, 2018). It is out of the scope of this paper to analyse the dimensions and symptoms of the most recent overarching and multifaceted crisis in Brazil (for this, see the next subchapter below and Nagy and Ricz 2018), instead we concentrate on the changes regarding the role of state in economy, especially via SOEs and BNDES.

CRISIS IN BRAZIL: POLITICAL (INSTITUTIONAL), ECONOMIC, AND SOCIAL DIMENSIONS

Compared to the Lula period (2003–2010) Dilma Rousseff, and the Brazilian economy has faced a much less favourable external context, with the deceleration of Chinese economic growth and demand, with deteriorating commodity prices. These external changes together with inherent internal (political and economic factors) have resulted that the Brazilian economy has been first decelerating after 2010, and turned into recession by 2014, and seems to get stabilized in 2017 (with an economic growth rate around 1.1 percent). Deteriorating exchange rate and fiscal indicators, increasing levels of inflation and unemployment just to name a few factors that added up to the crisis in Brazil and resulted in downgrading the Brazil’s sovereign debt by all the three main credit rating agencies by 2016. Deterioration of economic performance was however preceded, accompanied and even reinforced by an unfolding political crisis, mainly (but not exclusively) related to corruption scandals (e.g., the Petrobrás case), the internal struggles within the Working
Strong State Influence in the Brazilian Economy

Party (PT) and the new governance style of president Dilma Rousseff. The political crisis has many dimensions and far-reaching consequences, and finally led to the impeachment process against Dilma (and the PT). According to the Brazilian constitution the former vice-president took the power in September 2016, Michel Temer (PMDB) and has formed his new (right-wing) government.

Political and economic difficulties have resulted in severe social dissatisfaction, and led to country-wide social demonstrations and protests, first already back in 2012, then against the Football World Cup in 2014 and Summer Olympic Games in 2016 (and the public spending connected to these events), followed by demonstrations against the new government of Temer and its austerity measures.

Main social achievements in Brazil under the Lula era were at least partly the result of promoting democratic values and institutions (in line with the “new” Brazilian constitution of 1988) and deliberate pro-poor public policy interventions. However, Brazil’s social progress was accompanied by a deindustrialization of the economy, a “re-primarization” of exports, and a newly emerging dependence on China. Thus, Lula’s new developmentalist model was clearly not sustainable—especially not in a less favorable external context, and with the exhaustion of the domestic-demand-led model based on significant increases in private-sector indebtedness. Regarding the role of state in development, however we also have to draw attention to the fact that the consecutive PT administrations (both under Lula and Dilma) have failed to succeed in reforming the political system—which according to most analysts, such as David Fleischer (2011, 2016) lies at the root of all corruption cases—as well as in initiating deeper running structural reforms, such as related to the educational, health or pension systems. In this vein the Lula period can be much more regarded as the era of lost opportunities, instead of the rise of the new Brazilian model of development, as it is often cited.

RISING INTERVENTIONISM AND THE FALL OF NEW DEVELOPMENTALISM IN BRAZIL (2011–16)

Crisis management is always about the extension of state interventions in the economy, the question is whether after the crisis the level (scale and scope) of interventions is on the retreat. In the case of Brazil the answer is a definite no, the retreat of the state did not happened (at least not imme-
diately, not until 2016), on the contrary, state interventions remained on
the agenda, and served as an important tool in economic policies. It is
out of the scope of this paper to one-by-one illustrate this new reliance of
Dilma Rousseff on mainly ad hoc state interventions (mostly introduced on
discretionary manner), as they were mostly related to single decisions, and
took new forms (instead of state ownership, rather other forms dominate).
Most cases have been extensively recorded by domestic and international
media, here we only try to list some examples and reveal main trends that
illustrate these recent changes.

The above presented context in which Dilma Rousseff took office in
2011 and has been forced to govern, has implied severe fiscal constraints
to finance investment in infrastructure, which is considered traditionally as
one of the most important constraint to economic growth in Brazil. The
urgent need for infrastructural investments was even more pronounced in
the light of the international mega-sports events in 2014 and 2016 hosted
by the country. Rousseff has also realized the need for private investments
and this constituted to be an important incentive or driving force for the
government to go on with privatization of highways and airports (incl. con-
cessions for building new facilities, but also aiming to transfer the opera-
tion of some existing facilities to private firms).

These aims were however less welcomed by the public, and even less
by her electorate. The PT has been traditionally opposing privatization
back during the Cardoso period, and it still does not fit into its political
discourse. So Dilma Rousseff has had to protect her plans, by explaining
that “this time it was different” by not “selling off state assets to raise cash”
(Bloomberg, 2012) and stating that it is a new type of program to out-
source government functions to be financed by private firms.

Even though this political and social resistance, and mainly due to
the economic motives to revive economic growth\footnote{Leading to struggles from quarter to quarter during 2012 to revive economic
growth in the Brazilian economy, as the government has forecasted a yearly
growth rate of 4 percent, and finally the economy grew with less than 2 percent
in 2012.} it is not much of a sur-
prise that in 2012 the Brazilian government announced to sell state assets
to private investors through long term concession deals, guaranteeing the
right to operate roads, rails, ports and airports (many of these once built
by the government while also containing some greenfield projects). The
total amount of the proposed projects was estimated to be around 45 bil-
lion USD within five years. However, several adjustments had to be made

\footnote{Leading to struggles from quarter to quarter during 2012 to revive economic
growth in the Brazilian economy, as the government has forecasted a yearly
growth rate of 4 percent, and finally the economy grew with less than 2 percent
in 2012.}
to the original plans to offer adequate returns to potential private investors, and this led to delays in implementation in most of the projects. The media has been writing about a “new privatization wave in Brazil” mainly related to logistics infrastructure.33

The second round of this most recent privatization phase in Brazil is related to some of the remaining primary airports to be privatized by long-term concessions, with two peaks, one prior the Football World Cup in 2014 and the other one in 2015 (preceding the coming Summer Olympic Games in 2016).

Together with some other concession programs announced in June 2015, to attract private investment in productivity enhancing investments the government plans envisaged projects summing up to 25 billion USD within the period between 2015 and 2018. These plans were overly optimistic and neglected the role of some important complementary reforms, such as to enhance competition, reduce the administrative red tape and eliminate rigidities in the labor market to get closer to those targets. Federal interventions during the last years of the Rousseff government forced utilities companies (such as in electricity sector) to accept lower prices as a condition to renew their contracts, and these acted towards further discouraging investors.

Regulatory changes continued to be in line with the practice of Lula, thus mainly aimed at supporting the implementation of economic policies in Brazil. Ad hoc and discretionary use of regulations has flourished under both terms of Dilma Rousseff and once again one of the best the illustration is the example of the Petrobrás and the pre-salt regulations.

The move towards more interventionism in the economy can also be well illustrated by the “meddling” with prices, in particularly in the energy sector (e.g., artificial repression of petrol prices and energy tariffs) to dampen inflation and by other industrial policy interventions (such as special taxes levied on certain industries). Since the Rousseff administrations (especially since 2012) the Brazilian government often used SOEs to directly control consumer prices (in order to support “higher objectives” such as to control inflation). Examples for government regulated prices (mainly due to macroeconomic motives) are numerous, while the most often highlighted cases are related to the oil and energy sector. The Brazilian government has repressed electricity prices by 30 percent, urban bus fares by 20 percent and gasoline prices by 15 percent between 2011 and

33 For example, Forbes 2012.
2014 (Bloomberg 2014), and items subject to price controls accounted for approx. 20 percent of the inflation index. According to some estimates just the fuel subsidy costed an estimated 19 billion USD during the first term of Dilma Rousseff (2011–2014).

In more general terms, however, the policies of ‘meddling with prices’ have serious consequences, going much further than just their direct costs and effects on the fiscal balances: depression of private investment, distortion of resource allocation, encouraging excessive private consumption due to lower consumer prices, etc. Instead of further detailing these spillover effects, we just highlight two other aspect: 1. most subsidies benefitted the higher-income households and thus reinforced inequality (traditionally an urging social problem in Brazil) and 2. and artificially capped oil prices as well as energy subsidies artificially promoted capital-intensive industries (reinforcing distortions in production sector), while at the same time reduced incentives for investment in renewable resources, and accelerated the depletion of natural resources (hurting sustainability).

To drive back government’s discretionary interventions checks-and-balances would be needed along strong, independent regulatory agencies—the ones that have been weakened and politicised under Lula, and even more so under Rousseff. Discretionary government interventions inherently raise uncertainty, and with it destroy business confidence, which might have long lasting detrimental effects on an economy, where one of the most important constraints to economic growth is lack of investments. A good-working regulatory system could ensure external monitoring and transparency, and with it a more rules-based government policy-making, while also providing more stability, even if SOEs serve some social objectives and are not only subject to profitability criteria.

Finally, on the one hand it could be argued that nothing new under sun, privatization came back to agenda in Brazil due to macroeconomic motives, as the government has desperately needed fiscal revenues, this is almost echoing the Cardoso period. On the other hand, looking at changes in the regulatory system, the opposite is true, a significant discontinuity with the reforms period of the 1990s, though the (re-)politicization of the regulatory schemes started already under Lula, and was continued and moved forward by Rousseff. The micro-managing of the industry is not new in Brazilian economic history, however it has been raised to new levels under Rousseff and lead to misuse of the anyway scarce resources in the twenty first century’s Brazil.

To sum up we highlight that economic growth had already started to decelerate during the first Dilma term (beginning in 2011), but cer-
tain clear and deliberate (though often overlooked) policy choices also date back to the Rousseff government, and thus to the era of the PT and the leftist coalition. Serrano and Melin (2015) referred to these policies already as “Brazil’s Neoliberal U-Turn,” as they were explicitly aimed at reducing the direct role of the state in the Brazilian economy, even though important social policies remained in place.

It is worth to recall that in Lula’s new Brazilian development model, the public sector (including SOEs and public banks) was clearly the major actor which would stimulate aggregate demand and generate supply-side structural change, mainly by means of investments. At the end of 2010, there was a clear economic-policy shift, an attempt to respond to the intensifying criticism coming from Brazilian corporations, banks, the media, and the conservative opposition, all of whom claimed that the Brazilian state had been intervening too much in the economy. The “ideology” behind the (rather ad hoc) economic-policy decisions which followed was the belief that the state could withdraw from its leading role in the economy, and that the private sector would immediately step in. The government started to offer incentives for private investment, mainly in the form of (unconditional) tax cuts; it also tried to reduce traditionally extremely high interest rates (though this policy was quickly reversed) and oversaw a significant exchange-rate devaluation of the Brazilian real (Serrano and Melin 2015, 2).

Even though all economic indicators pointed out the ineffectiveness of this new economic-policy direction, Rousseff’s government continued to pursue its market-oriented (or rather, Brazilian-type selective business-friendly) strategy even into her second term, which began in 2015. By then, its primary aim was tackling the unfolding economic crisis, mainly by means of austerity measures such as cuts in public spending, interest-rate hikes, increasing utility prices, and reducing the availability of credit. By 2018, it was clear that these measures had contributed to or even aggravated the worst crisis in Brazil’s modern economic history.

In the light of the recent corruption scandals and worsening economic outlook, economic analysts tend to agree, that the role of SOEs in the Brazilian economy should be reduced to increase transparency. Privatisation of SOEs (incl. state-owned banks) is essential, but should be preceded by the improvement of the rules of the game to ensure equal footing between the public and private sectors and local and foreign investors. Furthermore, the apparent political ties in SOEs remind us on the crony capitalism arguments in classic DS literature, and it seems that Brazil has not learnt yet the lessons resulting from the Asian crisis and the demise of the classic paradigm of DS in the 1990s.
THE NEW NEOLIBERAL TURN (2016–)

On top of all these described processes the new government of Michel Temer among its first economic policy steps\(^{34}\) announced a large privatization program, and a twenty-years public spending cup (in form of a constitutional amendment, called PEC 241 or more recently PEC 55) indicating the commitment the neoliberal economic policy turn and the aim to radically drive back of the role of state in economy in Brazil (with immense social costs and threats lying however outside of the new government’s focus).

The “Project Growth” was announced as the new ambitious privatization plan containing 32 infrastructural projects mainly in transport, energy, mining and sanitation sectors, with an expected income of 24 billion USD until 2018. To attract the much needed private (and foreign) investors several procedural and technical changes have been made, however often with debatable content (see e.g., the easing and speeding up of environmental licensing procedures). It is, however, straightforward to see the continuity with Dilma Rousseff’s privatization plans presented above (the underlying economic and financial pressures and the overly optimistic estimates also remained unchanged).

Finally, public spending cup approved on 13 December 2016 has frozen most federal expenditures (and its structure) in real terms for the next 20 years (via constitutional amendment, such as to be revised the earliest in ten years). The proponents of this extremely divisive measure mostly highlight the need to regain market confidence and to cut budget deficit and keep inflation under control to avoid a future debt crisis. However, this spending cap might not be effective as it does not include the social security system (that currently covers more than 40 percent of the mandatory government expenditures). What is maybe more important, and lies also beyond the mass social protests across the country throughout the last years, is the fear that this measure harms the poor, who disproportionately rely on services provided by the government. At the same time, it

\(^{34}\) It might be worth to note that as a first political step of Michel Temer the new (by then interim) cabinet after the removing from power Dilma Rousseff via the impeachment process in May 2016 was put together by exclusively white, elderly men (with a rather conservative stance). This has resulted heavy criticism, as Brazil is an ethnically and culturally very diverse and mixed country, and many social groups felt not to be represented by an all-men, all-white cabinet for which nobody has voted. Even the legitimacy of such a government was and is still currently questioned by many social groups and movements.
also harms future economic growth prospects by freezing up expenditures on the anyway underfinanced educational and health systems in Brazil.

Without going more into details with these recent economic policy measures and plans (such as reforms of the social-security system and pension system), we highlight the swinging of the pendulum, first towards more explicit and extended role of the state in economy and development between 2003 and 2016, and most recently back towards more neoliberal reforms and the retreat of the state. These recent economic policy measures are still at a very initial phase, and have to be realized in the aftermath of a severe economic and political crisis, which poses high uncertainties regarding their results and sustainability.

At the same time the elections in autumn 2018 have resulted in an even more explicit economic and political shift. The election of the former military officer and far-right nationalist Jair Bolsonaro represents a comeback for the traditional political elites and interests in Brazil (and this is an often overlooked difference if comparing to Donald Trump and the US), while his financial and economic super-minister Paulo Guedes, is a free-market economist form the Chicago school and thus strongly committed to cut back the role of the state in Brazil and transform its economy according to the Chilean model. The power balance within such a “strange marriage” (of Bolsonaro and Guedes) and its effects for the Brazilian economy are yet to be seen, though some potential threats and negative consequences on the society and environment are already emerging. The composition of the final socio-economic outcome (pros and contras) is still an open question, and depends also on the fact, whether this new (illiberal and radical) political regime will be a lasting one.

Conclusions

Throughout this paper we have argued that despite significant achievements in the Brazilian political economy during the last century (such as the transition to a competitive and pluralist democracy, privatization, deregulation, and macroeconomic stabilization), important structures and modes mainly related to the interconnectedness of the state with the private sector, as well as those related to developmental and productive activities have remained in place in (or have returned to) Brazil by the beginning of the twenty-first century. We have presented a rather strange combination of pragmatic privatization and intensified state economic intervention in Brazil during the 1990 and early 2000s.
We have also argued that privatization has depended more on political factors and economic (fiscal) pressures and much less on ideology. With the new, right-wing governments, first coming to power via the impeachment process in 2016, and then in the presidential election in autumn 2018 with the resounding (but not outright) victory of Bolsonaro, an ideological turn is taking place in high-level Brazilian politics. However, the electorate and Brazilian society more broadly is rather divided (as the share of votes during the election has also shown, 55 percent for Bolsonaro and 45 percent for Haddad). At this early stage of the new era it seems that the rhetoric and new governance style of the acting president tends to deepen these divisions and hurt social cohesion. Whether this will lead to a reversal in the Brazilian electorate’s value-system and its rather rigid ideological views is yet to be seen and would require further research.

Like Boschi (2011), we have argued in favor of the existence of strong continuity with the old Brazilian developmentalist model, although Boschi put more emphasis on the preservation of a strategic bureaucratic nuclei and the mostly unchanged patterns of business-state relations. In contrast, we did not consider this as a comparative advantage in the post-GFC period, but rather argue that these continuities have also contributed (as one important cause) to the recent political and economic crisis in Brazil, and have led to severe social consequences and dissatisfaction, well demonstrated by the continuous public demonstrations over the past few years (especially since 2013), and ended up producing the unexpected election results in autumn 2018, where the majority of the electorate voted for change.

The adoption of emergency anti-cyclical policies after GFC has strengthened the revival (or, in the case of Brazil, rather the reassertion) of an activist and interventionist state, and a new era in Brazil, which began under Lula has “flourished” even more under Rousseff and has differed fundamentally from the experiences of other, more advanced countries. At the same time, we have argued that this new interventionism maintained its roots and links with the old DS model from the ISI period, and by 2014 at the latest, it proved to be unsustainable in economic and fiscal terms as well as socially and politically.

Finally, we have stressed that transforming SOEs through corporatization and public listing (the model called for the state as majority investor) requires a well-developed domestic capital market to attract private capital and to increase external monitoring and transparency (not least to develop rules that protect minority investors, whose stakes have often been violated in twenty-first-century Brazil).
The Brazilian experience has shown that a government’s temptation to intervene is high (both in models where the state as a majority or minority investor). We have argued that, especially since 2011 (the Rousseff administration), a move towards more interventionism (though e.g., price controls for things like gasoline and electricity go back to 2006) and the strengthening state influence can be observed, and this happened on an ad hoc basis and via discretionary measures, which more often than not hurt minority stakes and undermined private investors’ confidence. Weak and (re-)politiciized regulation and strong state influence have resulted in missing or unsatisfactory checks and balances in the Brazilian SOE sector. Furthermore, discretionary governmental decisions and actions have continued to pose serious threats to the performance of SOEs and have destroyed investors’ confidence and, more generally, the Brazilian business climate.

Finally, one of the most important lessons from the Brazilian model of the state as minority investor, derived from the activities of BNDES and is, above all, in line with the relatively new strain of scholarship on the entrepreneurial state (Mazzucato 2013). According to this view, the state (via e.g., state-owned development banks) might play an active role in financing private economic activities if selected firms have latent growth capabilities, but are constrained by a lack of financial resources. The practice of BNDES financing, however, was exactly the opposite, what the entrepreneurial state model would suggest: it provided hidden subsidies to the largest firms in Brazil, which clearly did not lack opportunities to borrow on the market.

The Brazilian explanation for BNDES subsidized credit, is, for example, the need for investment in a relatively new sector promoting infrastructure financing related to low consumer prices set by the government. However, this is a tautology: more stable rules and market prices could have encouraged private investors to step in, and (scarce) state capital could have been used in cases where the social externalities are outstandingly high, or in sectors private capital avoids for other reasons (such as high risk or overly long horizons of return, which is in line with Mazzucato’s argument).

The creation of national champions has also been a costly experiment, not just directly, but also indirectly through the preservation or even the further distortion of the natural resource based economic structure of Brazil. This has strained the results of the BNDES equity arm (an important source of earnings lately in the BNDES budget). This can also be regarded as the reiteration of old DS practices and assumptions that have
already proven to be wrong and outdated (both in practice—see the experiences of east Asia—and in theory—see the latest literature on DS).

It was out of the scope of this paper to deeply analyze the complexity of state-business relations in Brazil. We have only explored its main roots, which go back to the long-term institutional development of Brazil and are also deeply embedded in its political system, which used to allow private funding during electoral campaigns until 2016. The degree and varieties of state influence in Brazil may be also illustrated by case study analysis, but this was outside of the scope of this paper (though some of these are already covered by existing economic literature on companies like Vale, Embraer, Petrobras, or BNDES). All of these cases underline the scholarship of Schneider (2013, 2015) and Nölke et al. (2015), who argue that a distinctive institutional foundation of capitalism emerged in Brazil with different degrees and modes of state influence than in other, more developed parts of the world, which is best captured in the concept of a hierarchical or state-permeated market economy.

Our most important conclusion is that the role of the state as well and the degree of state influence in the economy increased in Brazil in the first decade of the new millennium. While state interventionism became even more pronounced in the Rousseff era between 2011 and 2016, the focus has shifted from pro-poor policies towards a more business-friendly approach. State influence has changed forms and channels (compared to the old developmentalist period of the ISI), but below the surface, state control survived and has heavily influenced everyday economic life in Brazil. The best proof of the strong interconnections between the political and economic spheres is provided by the ongoing Petrobras scandal (and the Car Wash Operation), in which almost the entire political elite is involved. Implicitly since 2016 and more explicitly since 2019, a new economic policy direction is emerging (first under the Temer government, and more recently under Bolsonaro’s cabinet), however the implementation of this market-friendly agenda and its socio-economic effects will yet to be seen in the coming years.

REFERENCES


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