

*Public Policy, Vested Interest, and Common People in Brazil in the 21<sup>st</sup> Century*

*Ivan Gambus*

*Federal University of Paraná, Brazil*

*Felipe Almeida*

*Federal University of Paraná, Brazil*

**Abstract:** This paper offers an original institutional approach to the presence of policies meant to regulate the actions of common people in the Brazilian state agenda in recent years. Reactions from vested interests against this agenda will also be addressed. Such vested interests rely on corporations' ceremonial encapsulation of state policies that were established during the decades associated with the Brazilian industrialization process. Brazilian policies for the common people, however, are a 21<sup>st</sup>-century phenomenon.

**JEL Classification Codes:** B25; B52; H89

The Great Depression showed Brazil the fragilities of a monoculture economy. After 1929, the Brazilian state, looking for a national industry, led the import substitution industrialization (ISI) movement. By leading this process, the Brazilian government generated a parental relationship with the Brazilian corporations. This parental relationship strongly supported corporations' vested interests and an encapsulated state. It was during the 2000s that Brazil began to consider policies focused on the common people. The first section highlights the institutionalization of corporations' vested interests in Brazil and state encapsulation of said interests. The second section relies on the same issue from the 1980s through 1994. The third section will discuss the recent Brazilian policies for the common people before closing with some final remarks on macroeconomic performance and recent political events.

### *The Institutionalization of Vested Interests through Industrialization and Industrial Policy*

The state is a key factor in the Brazilian economy. A large number of studies – such as Baer, Kerstenetzky and Villela (1973), Bielschowsky (1988), and Paiva et al. (2000) – associate the large state's role in Brazil's late industrialization. Our central argument is that, by leading the industrialization process through an ISI strategy, the relationship between the Brazilian government and privileged industrialists evolved over time into a ceremonial encapsulation of the former by the interests of the latter, and further that, as the process developed, industrialists would be replaced by corporations<sup>1</sup>. Following the logic stressed by Veblen (1919), the evolution of Brazilian society institutionalized such interests by transforming them into vested interests. To understand this process, it is essential to analyze the evolution of the relationship between corporations and policymaking throughout time.<sup>2</sup>

Before the 1930s, the Brazilian economy primarily relied on a non-industrialized coffee monoculture. In that phase, even though some isolated episodes of industrial growth existed, the Brazilian state's main concern was to secure coffee prices in international markets (Baer, Kerstenetzky and Villela 1973 and Paiva and Bevilaqua 2000). The Great Depression guided Brazil toward the path of industrialization, and eventually, a new economic role (Furtado 1963 and Baer, Kerstenetzky and Villela 1973). The 1930s represented the beginning of the Brazilian ISI process, whose initial phase was majorly motivated by external shocks such as the Great Depression and World War II (Love 2005). ISI takes into consideration that a hegemonic industrial center and an agrarian dependent periphery is a historical result of the international division of labor (Prebisch 1949). Hence, ISI was a strategy through which underdeveloped Latin American countries would grow.

During the ISI period, the Brazilian state conducted an unconditional protectionist commercial policy to benefit its new industries. However, as stressed by Prebisch (1949) and Macario (1964), distortions caused by this excessive protectionism compromised ISI's performance. According to Love (1990), that exaggeration culminated in industries being inefficient and ineffective. It is remarkable how

exaggerated protectionism toward nascent industries generated a symbiotic relationship between the Brazilian state and Brazilian private initiative formed by industrialists and, then, corporations. For Baer, Kerstenetzky and Villela (1973), a possible interpretation of government actions during the 1930s is that the industrialization process was understood as a matter to be dealt with by the private sector. However, to fulfill the goals of economic development, the state should support the process through protectionism and more financing.

According to Morais and Saad-Filho (2011), the Brazilian ISI failed because it did not promote technological incorporation. Instead, it interpreted state protectionism as an element of Brazilian corporative habits. The evolutionary process which created this idea took place from the 1930s to the 1980s. This process embedded industrialists and, then, corporations' vested interests, into what is now understood as the Brazilian state's method of dealing with industries and firms.

Brazil's ISI experience is intellectually tied to the developmentalism. . The 1950s witnessed the ascension of developmentalism (Fonseca, 2004). According to Fonseca (2004) and Mollo and Fonseca (2011), developmentalism's core goals are (1) industrialization; (2) interventionism aiming economic growth and (3) nationalism. For Mollo and Fonseca (2013), these three elements would provide the foundation for a national development project. It is important to stress what nationalism meant in the context of Brazilian policy during that time. The nationalism supported the idea that the building of national industries, regardless of economic cost, was synonymous with economic development because it would decrease the country's dependence on a foreign decision maker – or simply put, more advanced economies (Goldenstein 1994). This notion relies on the Brazilian colonial and peripheral past, and on its battle to be economic independent. As highlighted by Bielschowsky (1988), defending nationalism means that developmentalism could require a greater amount of acceptance from Brazilian people, even requiring them to take a stance on protecting about industrialization and entrepreneurial activities.

Suzigan and Furtado (2006) posit that, of the claim that accelerated industrialization of Brazil between the postwar period and the 1970s was strongly reinforced by state action and corporative goals, there is no doubt. The authors further stress that the accelerated industrialization period relied on a development of nationalism and an interventionist state, which forced political forces and economic interests into an industrialization project. In this context, the state built a complex apparatus for organizing economic activities. The Brazilian government founded planning agencies, target programs (or sectorial plans), and institutions and policies focused on public finance, development and foreign trade, price regulations, public tariffs, salaries, economic concentration, technology transfer, and direct foreign investment, among others (Suzigan and Furtado 2006). Plus, the Brazilian industrial structure was organized upon an “economic triad,” consisting of three elements: (1) the state, which is responsible for infrastructure and basic industries; (2) foreign capital, which is associated with dynamic industries; and (3) domestic capital, which is linked to traditional industries and few segments of dynamic industry (Suzigan and Furtado 2006; see also Serra 1982).

Following Dugger’s (1980) conceptualization, the Brazilian state was subverted by the vested interests of industrialists and corporative people during the 20<sup>th</sup> century. State institutions became means by which industrial and corporative institutional goals could be realized. Contamination also describes the Brazilian experience, because the motives appropriate for the role of industrial and corporative institutions spread to other locations of the social sphere. For example, media institutions often reflected the content of industrialist and corporative institutions. Mystification also took place, as a protectionist state is demanded by the portion of Brazilian academics and people not directly associated with industrial or corporative goals. Hence, in Brazil, it is understood that the state must protect corporations and their vested interests. The corporative hegemony, as stated by Dugger (1980), also took place in Brazilian institutions, which established a parental relationship between the state and corporations.

Despite the state actions to protect industrial and corporative goals, the common people started to become a minor issue within the Brazilian government agenda from the 1930s to the 1980s.<sup>3</sup> As addressed by Suzigan and Furtado (2006), this industrialist/corporative organization did not generate social change, but made them worse. For instance, the population density increased in urban areas, which is typical of an industrialization period. However, there was not a simultaneous movement for education and training and labor qualification, however. Taking this fact into account, plus considering the weakening of the labor unions, real wages deteriorated, and income distribution became worse. Brazil faced an immediate economic growth without a correspondent improvement for the common people means of living.

#### *Vested Interests in Brazilian Economy from the 1980s to 1994*

Inflationary pressures and macroeconomics instability, negative outcomes of ISI, dominated the economic context of Brazil from the 1980s to 1994. The government stabilized its economy majorly due to “Plano Real” successful efforts of implanting the country’s current currency, the real. Stabilization also relied on new commercial policies that opened the economy, auctioned public assets to the private sector, and made changes to its exchange rate – a central point for the real’s stabilization process (Pastore and Pinoti 1996 and Belluzzo 1999). The implantation of inflation targeting in 1999 finished this process of stabilization (Bresser-Pereira 2009 and Bogdanski *et al.*, 2000). Vizontini (2003) classify this period as the neoliberal intervention in Brazil and associate the shift in economic policy as being in accordance with the Washington Consensus prescriptions. Be as it may, the new macroeconomic model based on three essential elements: inflation targeting, crawling peg for exchange rate and fiscal adjustment improved the country’s macroeconomic performance (Teixeira and Pinto 2012).

The new model, however, kept the burden of safeguarding corporations’ vested interests via fiscal policy. Plus, it was the beginning of state saving corporations from crisis. It takes place even today,

though it relies on corporations informing the government that they must dismiss employees during a crisis. In an effort to control the unemployment rate, the government generated tax exemption for such corporations – mainly auto manufacturers. As a consequence, tax exemption protects corporations' profits during crises, which transfer the costs to the public sector. In other words, the result is the state absorbs, partly, entrepreneurs' crisis burden. This procedure highlights the governmental encapsulation of corporative vested interests, which is taking place today in the Brazilian economy. Another feature of this encapsulation is the public funding for the private sector through the National Bank of Development (BNDES). BNDES was created in 1952 to promote the long-term funding for Brazilian industry and corporative activities.<sup>4</sup> Thanks to the power of these vested interests, the BNDES provides lower interest rates even to large corporations for whom the idea of the necessity of public funding is highly controversial (Couto and Trintim 2012). Hence, to stress the fact that, in recent years, policies for the common people have been established in Brazil, does not mean that vested interest policies are done.

### *Public Policy for the Common People*

The common people became the focus of the Brazilian economic policy only in the 21<sup>st</sup> century.<sup>5</sup> During the consecutive terms of Luiz Inácio “Lula” da Silva from 2003 to 2010, the state began to promote a continuum of policies for the common people. Then, President Lula's successor, President Dilma Rousseff, who would take two terms also from 2011 to 2018, expressed the intention of maintaining and expanding the state pattern of action to the common people. These policies for the common people were looking, at their core, to promote economic development based on the expansion of democratic values, as addressed by Dugger (1980 and 1988), through expanding access to education (see Michelotto, Coelho and Zainko 2006).

In terms of higher education, it is important to note how universities are organized in Brazil. There are three key types of Brazilian universities: private, state and federal. Private universities are

usually managed like a corporation, meaning that profit is valued over qualified education. Generally, in such universities, there is little promotion of scientific knowledge by researching, reproduction of knowledge in class is good enough. Brazilian private universities are maintained through students' fees. State and federal universities are completely supported by the state government and federal government, and these universities are responsible for Brazilian higher quality education. Hence, the Brazilian government is responsible for the higher education in the country. Under the consecutive terms of the Labor Party, 2001 to 2016, higher education was enhanced and its access facilitated. In the span, fourteen federal universities were created in regions where there was no higher education available, creating greater geographical access to the university system.

It is not a Brazilian habit, even today, to move in order to attend college. The common Brazilian practice is to look for universities close to their hometowns. This behavior is partly explained by habit, and partly by a lack of financial resources. The latter used to be a huge barrier to common people seeking college degrees up-country, which usually refers to the less developed areas in Brazil. Presidents Lula and Rousseff were partly responsible for weakening this barrier. Besides the creation of federal universities, they proposed a national system to select college students for federal universities, which could be a first step in breaking the habit of going to closer universities. Michelotto, Coelho, and Zainko (2006) stresses that President Lula's proposals for university expansion did not take into account just federal universities. President Lula institutionalized a funding system for public high school students who were going to attend private universities.

Another branch of contemporary Brazilian policy for the common people is known as "Bolsa Família" or "Programa Bolsa Família." The "Bolsa Família" (BF) was institutionalized in 2003, by President Lula, as a conditional income transfer policy. However, in reality, BF behaved as a merger of several income transfer policies that were not working as expected (Senna *et al.* 2007). BF increased how income transference was managed. BF's income transfer is focused on families, not individuals (Senna *et*

*al.* 2007). The conditions for a family to be a recipient of BF are that (1) pregnant women, nursing mothers and children (from birth to six years) must be nutritionally assisted and vaccines up to date, and (2) that children and teenagers from six to sixteen years must have a school attendance rate of 85% or higher (Senna *et al.* 2007). For Kerstenetzky (2009), BF was central to decreasing socioeconomic inequality during the 2000s. It is clear that contemporary Brazilian policies for the common people were not focused just on income transfer or funding less fortunate people. These elements were part of the policies, but in the hardcore of such policies was education. The main concern of President Lula's and Rouseff's terms was to empower common people to build their own ways to better lives.

Additionally, a positive economic performance also adjoined the establishment of common people continued improvement policy. According to Morais and Saad-Filho (2011), from 2006 onward, especially during President Lula's second term, the Brazilian economy achieved good macroeconomic performance concerning growth, fortification of big and important Brazilian corporations, income distribution, and poverty reduction (Barbosa & Souza 2010). A shift occurred after 2011, when macroeconomic performance became weaker, generating a conflict between individuals protected by vested interests and common people.

Under the poor macroeconomic performance during the years that followed, corporative spheres of society generated an association between the excessive government spending as the reason for the crisis, which was later exacerbated by inflationary trends and unconventional decisions made under an inflation-targeting regime. Hence, corporative spokespersons, strongly supported by the media, insisted that spending on policies for the common people was inefficient and problematic for the public budget. This association became an enabling myth meant to preserve corporative goals. President Lula governed for corporations and common people, at which point he became successful. President Rouseff, under a fragile macroeconomic scenario, chose to privilege policies for the common people, but she was impeached through what can be understood as a coup.



### *Final Remarks*

Industrial and, later, corporative, vested interests have been an extremely important part of public policy in Brazil since the 1930s. Common people became a major concern in Brazil during President Lula's and President Rousseff's terms (2001-2016). President Lula finished his terms, while President Rousseff was impeached during her second term. Hence, the question becomes why people protected by vested interests took President Rousseff out but not President Lula. The key issue is that during President Lula's terms, both corporative people and common people benefited from strong economic performance. In 2016, a coup occurred in Brazil. The organizers of said coup claim that President Rousseff committed a fiscal crime, but even today, President Rousseff's crime has not been proven. However, President Rousseff's deposition was still possible because the Brazilian presidential election is largely a political ritual, rather than a legal one. Our point here is that Rousseff's impeachment was linked to an elite beneficiary of vested interests who rebelled against the privileging of policies for the common people. Her impeachment represents a threat for the improvements achieved in the previous years. Further, the new president publicly endorses a neoliberal agenda. The new president has even admitted, during his speech at the UN Council of Americas meeting, that the impeachment process was motivated by the Rousseff's refusal of the new neoliberal agenda proposed by his party. No fiscal crime was mentioned in his speech.

### *Notes*

<sup>1</sup> The Brazilian literature on this theme is vast. It is beyond the scope of this article to bring an exhaustive literature review on ISI, but details about this theme can be found in Castro (1985), Furtado (1950, 1952 and 1961), Suzigan (2000), Serra (1982), and Tavares (1982).

<sup>2</sup> Economic researchers interested in studying the Brazilian development are usually associated with structuralism (see Boianovsky 2016). In Brazil, nowadays, structuralism is interpreted as an earlier

intellectual movement associated with a larger context called developmentalism (Fonseca 2004). Furthermore, recent years made available a new classification, neo-developmentalism. A clear-cut conceptualization of structuralism, developmentalism, and neo-developmentalism is not necessary for this study. However, it is important to take into account that the state's role strengthened between the 1950s and the 1980s.

<sup>3</sup> A fact that supports this claim is ISI influence over the Brazilian income concentration: see Love (1990) and Morais and Saad-Filho (2011).

<sup>4</sup> This information was obtained from BNDES's website ([http://www.bndes.gov.br/SiteBNDES/bndes/bndes\\_pt/Institucional/O\\_BNDES/A\\_Empresa/](http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/O_BNDES/A_Empresa/)) on August 24, 2016.

<sup>5</sup> To highlight the fact that those policies for the common people took place in Brazil during the 2000s and the first half of 2010s does not imply they did not exist before. For example, President Getúlio Vargas institutionalized some policies for the common people. However, Vargas's measures for the common people are not the major feature of Varga's term (Fonseca, 2011). Also, during the period of stabilization, some social policies were created, though in a heterogeneous, unrelated, manner. (Draibe 2003)

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