Reinvention Without Replacement: The Role of *Inertial Statism* and Brazil's Economic Bureaucracy in Maintaining an Active Developmental State

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Abstract

This paper contests common misunderstandings regarding Brazil's development trajectory by reemphasizing the role of bureaucratic agencies in economic policy formation. Contrary to ideas proposed by recent scholarship that Brazil and the neoliberal poster children of the 80's and 90's are converging, I argue that Brazil's trajectory is unique and part of a long history of developmentalist politics and reform. This contests work done by Kurtz and Brooks on embedded neoliberalism (2008), refuting their claim that labor mobilization has encouraged a *recent* return to state-led developmentalism. Using the specific example of the Brazilian National Development Bank's (BNDES) leading role in privatization reform in the 1990's, this paper demonstrates how Brazil's developmental state has strategically reinvented itself over time, and its central role in economic policy making is anything but *recent*. This "inertial statism" sets Brazil apart in Latin America and will continue to guide Brazil's development trajectory into the future.

Introduction

Recent scholarship on Latin American development trajectories has questioned why, despite presenting an apparent contradiction to globalization, the public sector in many of these economies has expanded alongside trade liberalization. Marcus Kurtz and Sarah Brooks contend that this trend exemplifies the emergence of a *new* state-centric model of development, where the state actively pursues supply-side interventions, while remaining committed to open trade and investment flows (2008). According to these authors' model – *embedded neoliberalism* (see Figure 1) - Brazil has emerged over the last two decades as the archetypal case, with other more traditionally neoliberal economies (Chile, Argentina, and Mexico, to name a few) converging toward it. However, as the following discussion will demonstrate, an *embedded neoliberal* framework misunderstands the Brazilian case in particular; rather, Brazil's path through the neoliberal and supposed embedded neoliberal period was unique, and part of a much longer developmentalist tradition.

This paper recognizes, then, how any attempt to apply overarching frameworks to Latin American development trajectories can be difficult and is, frequently, misguided. The larger contribution of this work is to provide an alternative way of understanding Brazil's development during the neoliberal era through an analysis of its economic bureaucracy. This alternative approach stands apart from much of the recent work done on Brazilian political economy to date, emphasizing how entrenched bureaucratic structures, in particular the Brazilian National Development Bank (BNDES), have continued to guide economic strategy both during and after the neoliberal era. Accordingly, rather than a *new* state-centric model of development, the maintenance of a developmentalist approach by these institutions is part of an ongoing, yet evolving, approach to economic policy-making in Brazil.

This paper is organized into two sections. In the first, I show how Kurtz and Brooks' embedded neoliberal framework fails due to the inordinate weight it gives to organized labor and, in turn, the framework's incorrect assumptions about partisan politics. These authors argue that, *ceteris paribus*, embedded neoliberal strategies will be embraced by conservative governments, as these policy-types most benefit their natural constituency: the educated middle-class and public sector workers, as well as export-oriented firms. However, when faced with a powerful labor movement, these governments will abandon embedded neoliberal reforms and instead pursue economic orthodoxy. This decision is politically-driven, as liberal, orthodox macroeconomic policies favor their conservative supporters, while weakening their union opponents (Kurtz and Brooks 2008).

Alternatively, left and center-left governments may also pursue embedded neoliberal reforms. This will occur only where these governments are pressured by a powerful, active labor movement. Unions, according to Kurtz and Brooks, will exert their influence on the government to distribute resources to the public sector, where unionization rates are high (2008). Left and center-left governments, in addition, require support from these actors in order to resist pressures to adopt liberal macroeconomic policies; consequently, these governments must meet union demands and pursue embedded neoliberal policies.[1]

I address Kurtz and Brooks' assumptions through a comparative case study of organized labor in two "embedded neoliberal" cases – Brazil and Chile. Given their early implementation of import-substitution-industrialization (ISI) and strong, left and center left governments backed by popular sectors during the 1990s and early 2000s, Brazil and Chile represent archetypal cases for these authors' framework. Yet labor unions did not interact with the state as expected in either case, nor did the state respond directly to societal concerns. Accordingly, regardless of union goals, labor mobilization did not make a significant impact on economic policy decisions.

In the second, more substantive portion, I compare the very different development trajectories of Brazil and Chile, both of which have been miscast under Kurtz and Brooks' framework. The weight of this section is given to the Brazilian case, as the state-of-the-art in political economy literature – most notably, the Kurtz and Brooks study - continues to misunderstand it by overlooking the breadth and depth of state-led developmentalism in Brazilian policy-making. In doing so, I hope to focus new attention on the role bureaucratic institutions have played in Brazil's development trajectory.

To make this argument, first I employ a comparative case study on economic development pathways in Brazil and Chile simply to distinguish each from the other and, in turn, from embedded neoliberalism. Here I reveal how, despite modifications to their development models to suit the open market, both Brazil and Chile's economic strategies in practice deviated little throughout the 1990s. In Chile, economic policy has remained wedded to neoliberalism, with some room for minor state interventions aimed toward promoting exports and attracting FDI. Brazil, on the other hand, continues to be characterized by what Montero (2009) calls *"inertial statism,"* where institutions in the economic bureaucracy have maintained a strong developmental state in the context of an open economy. This continuation of developmental policies reflects a longstanding commitment within Brazil's economic bureaucracy to preserve an active industrial policy, even under arguably neoliberal administrations such as Fernando Collor's (1990-1992) and Fernando Henrique Cardoso's (1995-2003).

Next, to demonstrate how the state has sustained its role in economic planning, I conduct an in-depth analysis of the BNDES and its administrative role in privatizations under the

National Destatization Program (PND). In doing so, I show how state-led developmentalism has evolved under new contexts and persists. I demonstrate how the BNDES was able to *reimagine*, *without replacing*, an active role for the state in development during the neoliberal era.

In turn, this paper adds to a broad, ongoing discussion of development pathways in Latin America specifically and the world in general. Scholars such as John Ruggie, Peter Evans, and Kurtz and Brooks, have attempted to understand the joint role of the state and economy. Kurtz and Brooks' *"embedded neoliberal"* thesis builds upon Evan's concept of *"embedded autonomy,"* a key characteristic of developmental states (2005). "Embedded autonomy" posits that the state must maintain sufficient independence so as to maintain free from vested interests, while still embedding itself in dense and varied societal networks. Both of these concepts presuppose the importance of establishing close links between the state, society, and economy. Furthermore, these stand in opposition to competing theories of globalization and the developing world that contend that these governments are unable to actively and intentionally intervene in domestic economic processes (Wibbels 2006). The embedded model advanced by Kurtz and Brooks also differs notably from *"embedded liberalism"* and closed-economy developmentalism in Europe, in that state intervention occurs on the supply-side, particularly in areas such as industrial development and public employment (Ruggie 1982; Kurtz and Brooks 2008).

My argument acknowledges that in some Latin American countries, to varying degrees, the state has remained a fixture in economic development both during and after the neoliberal transition. This characteristic is particularly pronounced in the Brazilian state. I suggest also that this is not necessarily a new phenomenon; rather, a more compelling argument can be made that developmentalism in Brazil has remained a fixture, propelled primarily by bureaucratic institutions such as the BNDES. Accordingly, although under-analyzed to date, work on specific

Brazilian bureaucratic institutions is the best place to build an understanding of Brazilian political economy.

Matthew Taylor's article on the Brazilian Central Bank (BCB) represents one of the most in depth analyses of Brazilian institutional development (Taylor 2009). Taylor identifies that institutional evolution is often an endogenous product of the policy-making process itself, rather than a response to critical junctures. In this way, institutional development is more fluid than abrupt.

Taylor's work offers an important contribution to the scholarship on Brazil and on bureaucratic institutions in general. Yet research like Taylor's has not been repeated adequately for other institutions critical to forming Brazilian economic policy, such as the BNDES. Aside from important pieces on the early formation of the BNDES by Willis (1995), insufficient attention has been paid to this powerful institution, which has been most responsible for Brazil's developmentalist policies since the 1950s.[2] The BNDES, Willis argues, adapted over time to a variety of contexts, increasing its autonomy and decision-making authority along the way. This autonomy resulted from a long history of capable bureaucratic leadership, as well as continued support from Brazilian presidents (Geddes 1994; Willis 1995).[3] Given its strategic importance in economic policy-making, my paper will emphasize the BNDES' role in crafting Brazil's *inertial statist* legacy.

Laura Mera's analysis of the 1995 automotive regime acknowledges the political importance of the BNDES, correctly identifying how BNDES leadership has been at the forefront of economic planning during the neoliberal era. Seeking to explain Brazil's interventionist policies in the mid-1990s, Mera argues that this "illiberal" policy stemmed from two overlapping bargains. In the first, the private sector was able to influence the government's remaining developmentalist supporters – such as the BNDES - to shape a favorable policy design. The second was a critical intrastate bargain between proponents of the prior developmental model and the new, neoliberal technocrats who had centralized economic decision-making since 1993. This second bargain, according to Mera, continued to shape economic reform policy thereafter.

Previous work done by Montero (1998), as well as Doctor (2009), also rightly suggests that developmentalism never fully eroded in Brazil. Yet these scholars deny that the neoliberal agenda ever had the type of opposition power that Mera posited. The types of bargains she proposes were unlikely; rather, these authors posit that few questioned the continuation of developmentalism, so long as it adapted appropriately to suit the realities of the open market. Montero, citing the example of steel privatization in the early 1990s, demonstrates that domestic politics, rather than external economic shocks, were the primary consideration in the National Program of Destatization (PND) begun in 1990. The PND was not, as has been argued previously, a neoliberal response to the fiscal crisis; rather, Collor’s administration, moved by policy ideas composed primarily in the BNDES, saw the program as part of an intentional restructuring – not removal – of the state’s role in industrial policy. The PND was less a bargain between neoliberals and developmentalists than a reimagining of continued state involvement and developmentalist policies in the context of the open market.

Mahrukh Doctor acknowledges more recent developments, citing introduction of programs such as Brazil’s national system of innovation (NSI), as well as the Council of Industrial Development (CNDI) and the Agency of Industrial Development (ABDI) as part of the continuing process of bureaucratic control over economic strategy. Doctor notes that, while traditional industrial policy is gradually giving way to new types of state-led innovation policy, the core of developmentalism has and will remain firmly grounded (Doctor 2009**)**.

It is this type of evolution identified by Montero and Doctor – this inertial statism – that I wish to discuss throughout the rest of this paper. I hope to identify how, over time, the Brazilian developmental state has managed reinvent itself and remain the driving element of Brazil's economic strategy.

Methodology

As mentioned above, in the first part of my paper I respond to the state-of-the-art by doing a rigorous, comparative study of labor mobilization in the cases identified earlier. I measure a) the strength of mobilization (like Kurtz and Brooks) and b) the goals of mobilization (i.e. where labor unions directed their efforts). Part b) extends beyond the way labor is analyzed in the Kurtz and Brooks study, and will elucidate whether labor mobilization actually played the role they say it did.[4] I do this to refute claims that the recent developmentalist turn of some Latin American states is the product of civil societal mobilization.

The primary purpose of this paper, though, is to provide new understanding of Brazil's economic strategy by refocusing attention to its economic bureaucracy. To accomplish this requires the following: first, I establish the Brazilian case as clearly distinct from the neoliberal reformers. I do this by comparing Brazil to the neoliberal poster children of Latin America – Chile, Argentina, and Mexico – using a variety of reform indices. These include measurements of market reform (capital market liberalization) and privatization reform.

Next, I confront the notion that there is convergence among cases of embedded neoliberalism; that is, that the development trajectories of countries such as Chile, Argentina, and Costa Rica are converging toward Brazil. I tackle this by enlisting a comparative case study of developmentalism in Brazil and Chile, as both are identified in the Kurtz and Brooks study as embedded neoliberal. These cases are fit for comparison because of their different legacies of neoliberal reform. In Chile, developmentalism eroded early in favor of market-oriented reforms, and the type of *inertial statism* that still exists in Brazil is not apparent (Acuña et. al. 1994; Montero 2009).

I compare the two across multiple dimensions, including size of developmental programs (funding, number of projects financed, etc.), the scope of development projects (what/who receives financing), as well as types of state interventions. The selection of Chile also has practical foundations; in this section I incorporate interviews conducted at Chilean Ministry of Economy and ProChile, among other offices, which have informed my understanding of the Chilean developmental state.

Finally, to demonstrate how Brazil's economic bureaucracy has evolved to maintain power over time, I employ a case study of BNDES-led privatizations in the 1990s. This section will be supplemented by BNDES documents and speeches made regarding its role in the privatizations. By interrogating these documents, I identify the inertial developmentalism that continues to characterize the BNDES and, moreover, the *intentional* re-crafting of the role of the state in the neoliberal context.

Labor Mobilization in Chile

Anti-neoliberal labor mobilization provides a weak explanation for the supposed developmental thrust of recent reform efforts in Chile. The repression of civil societal groups under Pinochet left labor organizations in disarray and largely ineffectual after the transition to democracy. It is difficult to argue, then, that these groups could be influential in affecting policy change. Moreover, labor organizations' response to neoliberal policies did not necessarily call for wholesale reform of the neoliberal model; rather, labor organizations directed efforts towards reforms in labor legislation, particularly measures that would improve wages and labor protection.

In Chile, re-democratization started late (with the Plebiscite in 1988 and the transition in 1990), and occurred well after economic reform. Accordingly, the succession of events - economic reform in 1975, new labor laws in 1979, and the democratic transition beginning in 1988 - put the reform of the authoritarian regime's *Plan Laboral* on the democratic transition agenda (Frank 2002). Yet while this was acknowledged by both the incoming Concertatión government and labor organizations - "no democracy without labor reform" - the importance of labor reform gradually disappeared from the government's agenda after the first reforms of the *Plan Laboral* between 1990 and 1992 (Frank 2002). The next phase of labor reforms post-1994, and again in 2001, reintroduced labor reform as a pertinent agenda item; however, overall labor legislation – including employment protection, and legal contracts - did not differ significantly by the end of the 1990s from Pinochet era (Cook 2006).

In turn**,** labor mobilization and bargaining was limited by political and economic developments since the 1970s. National level unions were banned between 1973 and 1989; accordingly, union activity during the Pinochet years was limited, and unions could not influence national labor legislation.[5] Pinochet's *Plan Laboral* was very restrictive, allowing collective bargaining to include initial wage adjustments and wage adjustments for inflation at designated times. Unions were thus restricted from raising additional issues concerning organization and firm administration to the bargaining table (Frank 2002).

With the return to democracy in 1990, the tripartite agreement between the Concertación, the *Central Unitaria de Trabajadores* (CUT), and the Production and Commerce Confederation

(CPC, the peak association of businesses) somewhat reasserted unions' bargaining power in national level politics, yet to a modest extent. The labor movement throughout the 1990s remained weak, and subsequent labor legislation did not move beyond the limited 1990 reforms. In turn, unionization rates remained quite low by regional standards, and active unions were further constrained by unfriendly legislation that further hindered mobilization (Cook 2005).[6] Figure 2 compares unionization in Chile to Brazil and the regional average; against both, unionization rates in Chile were relatively small. Accordingly, without much strength in membership, national labor unions at this time sought to exercise what little political will they had to ensure the maintenance of democracy rather than to seek new labor friendly legislation (Frank 2002).[7]

Despite further labor legislation reforms in 1998, following the removal of the Pinochet designated senators, Chilean labor never managed the same sort of influence nor strength that their Brazilian counterparts did.[8] This can be partly attributed to the Brazilian CUT's ability to maintain strong support from the PT, yet remain autonomous from it.[9] The organizational nature of the PT allowed this, which from the beginning was committed to shop-floor autonomy (Keck 1992). The Chilean CUT, in contrast, unsuccessfully established autonomy from the political parties that supported it. While the two strongest parties (in terms of voter support) in the Concertación - the DC and the PS/PPD - were the parties most closely associated with the labor movement, these parties infrequently submitted to labor demands for improved legislation following the democratic transition; this weak relationship precluded labor unions from wielding any serious strength in the political arena (Frank 2002).

Chilean labor struggled to mobilize effectively, a problem compounded also by weak protective mechanisms. Under Chilean labor legislation introduced after 1992, workers engaged in collective bargaining were to be protected up to 30 days after the bargaining (Frank 2002). This, in theory, should have given workers more protection to engage in collective bargaining. However, this infrequently proved to be the case. In a Department of Labor survey of 5,500 firms, 32 percent of the labor force reported having been fired no less than three months after engaging in collective bargaining (Frank 2002). Firms with high rates of unionization reported similar dismissal rates; firms with 70 percent or more of the labor force in unions fired 40 percent of them one month after the final round of collective bargaining (Frank 2002). Consequently, strike activity was also limited. Annual labor strikes peaked at a high of 247 strikes in 1992, leveling-off to less than 180 by 1998 (Figure 3 compares these totals with Brazil; Frank 2002).

The above analysis clearly demonstrates that Kurtz and Brooks miscast the role of labor in the Chilean case. Using their logic, one would expect the existence of strong labor pressure for embedded neoliberal reforms.[10] The truth of the matter is that labor mobilization was weak and, regardless of labor strength, labor pursued reforms of labor legislation, not necessarily Chile's neoliberal project. The labor movement's agenda items reflected real concerns including workers' rights, employment protection, safety, health benefits, unemployment assistance, and wages. While the labor movement did push for a greater role for the government in the economy, it was not in the management of it; rather, the labor movement required that the government ensure the viability of workers and of the labor market.

In Chile, labor did not direct its efforts towards challenging the economic development model. The neoliberal economic model had been in place long before labor unions were reintroduced to national level bargaining. Labor accepted neoliberal, as well as subsequent embedded neoliberal, policies as there was no alternative to doing so. Accordingly, it would be misguided to argue that the successful implementation state-led developmentalist polices owes anything to support from the labor movement. The link between labor goals and mobilization with anti-neoliberal reforms is not apparent.

Labor Mobilization in Brazil

Given the country's comparatively strong labor movement, and its deep experience with import-substitution-industrialization (ISI), Brazil seems to be the archetypal embedded neoliberal case. Yet the following discussion illuminates how, despite having a strong labor movement, this movement was not causally linked to the size of the developmental state in Brazil. As in the Chilean case, Brazilian unions were more concerned with other labor-specific reforms, rather than embedded neoliberal ones; consequently, they directed their efforts to meet those ends. This, though, is only part of the problem. Labor mobilization was also hindered by restrictive bargaining agreements, which instead favored business (industry and manufacturing, etc.) over their interests. Accordingly, labor did not interact with the state in ways that would yield anti-neoliberal policies. Rather, as will become apparent later, bureaucratic politics and business-state interactions produced these types of policy reforms.

The structure of Brazilian labor organizations transformed in response to the military regime (1964-1985) and the subsequent democratic transition. "New unionism" forces – including national organizations like the *Central Única dos Trabalhadores* (CUT) – emerged during the transition, emphasizing autonomy from the state and traditional political parties, while effectively rejecting corporatism (Riethof 2002).[11] Unions existed throughout the country, yet their concentration in large urban areas were highest (Figure 3 highlights this disparity). This is where most forms of mobilization – strikes, collective bargaining, etc. – took place.

From their inception, groups like the CUT benefited from engaging in direct, militant forms of mobilization. Plant-level activism, coupled with new spaces for labor mobility and collective bargaining granted under labor reforms included in the 1988 Constitution, empowered these organizations further. In response, more moderate organizations like the *Central Geral dos Trabalhadores* (CGT) and, later, the *Força Sindical* (FS) arose. These organizations were less willing than their “new union” counterparts to reform corporatist labor codes (Montero 2005). Divisions between labor organizations, accordingly, had implications for certain structural reforms, particularly concerning privatization and trade liberalization.[12]

Yet despite these divisions, cohesion around mass mobilizations in the form of strikes and other acts of protest made Brazilian labor unions influential actors during and after the democratic transition. By the end of the 1980s, Brazilian labor reached new heights of mobilization capacity (Figure 3). Aided also by the political strength of the leftist Worker's Party (PT), labor unions like the CUT wielded considerable influence in the political arena (Cook 2002).

Labor activity during and after the democratic transition was not uniform, however. Rather, the action taken by labor organizations mirrored changes in both political and economic conditions. These distinct phases reflected a broad shift in both the strategy and goals of the labor movement, from a proactive approach throughout the 1980s and early 1990s to a more defensive strategy later (Riethof 2002; Sandoval 2004). The shift represented a departure from the movement's early reluctance to negotiate and bargain with either the government or employers, relying instead upon pressure in the form mobilization and militancy. Inevitably, political and economic conditions required labor unions to adopt a more defensive, bargain-driven approach. Changes in labor goals largely guided this transition, as labor unions' demands gradually shifted away from those concerning wage adjustments and workplace representation to employment protections and other enforcement of legal standards (DIEESE 1999; Montero 2005).

Between 1990 and 1993, in response to expanding economic instability due to hyperinflation, Brazilian labor unions took a direct, militant stand against wage deterioration. Despite an overall decrease in the amount of labor strikes – from 1,952 strikes in 1990 to 732 in 1993 – the average number of workers per strike increased markedly, from around 4,700 to over 7,000 (DIEESE 1999). The CUT directed its mobilization efforts against the Sarney and Collor governments for their administrations' failures to curb inflation. These strikes demonstrated the extent to which the new unionism born out of the 1980s set the stage for an emboldened labor movement capable of coherent, collective action.

Following the implementation of the economic stabilization program – *The Real Plan* – in July of 1994, labor strikes and the total number of strikers receded. The *Real Plan* succeeded in lowering inflation, which is one reason why labor mobilization abated between 1994 and 1996 (Sandoval 2004). Yet as the economic situation threatened again in 1997, the same increase in labor mobilization around wage guarantees did not occur (as might have been expected considering the experience at the beginning of the decade); rather, structural change brought about by the new neoliberal economic programs altered both a) labor's ability to mobilize and, as a result, b) labor’s goals for mobilization (Murillo 2001). Although unionization rates overall remained high (32 percent in 1995), a shift in organizational density occurred, as members of organizations like the CUT left to join more moderate ones like the CGT and FS (Montero 2005). This was due first to rank-and-file members' dissatisfaction with the CUT for maintaining its strict opposition to privatization (Cook 2002; Montero 2005). In addition, this trend reflected current economic circumstances. In a recessionary economy where unemployment concerns were high (unemployment rose from less than 5 percent in 1995 to nearly 8 percent in 2000), asserting demands for wage adjustments became less reasonable (POSC 322 Common Data Set 2009). Rather, unions' focus shifted to protecting employment, which required a strategic movement toward bargaining measures as opposed to direct, proactive militancy (Riethof 2002). Accordingly, contract compliance and job security became the issues most frequently raised in strike actions. Over 30 percent of the strike demands between 1997 and 1999 regarded job security, and 50 percent of them concerned compliance to contracts or legal provisions (DIEESE 1999; Sandoval 2004). While this shift inevitably yielded more power to moderate forces like the CGT and FS, neoliberal economic reforms effectively diminished the collective action capabilities of all labor organizations (Montero 2005).

Despite differences in the strength of mobilization, it is critical to note that the composition of demands in Brazilian strikes, like those in bargaining, were very similar to those in Chile. Although labor undoubtedly occupied an influential role during the late 1980s and throughout the 1990s, it was not involved in the formation of economic policy and development strategies. Labor mobilization both pre- and post-transition was directed toward measures that would directly affect labor. These included labor market legislation, wage demands, employment protection, and workers' rights. The story of labor mobilization throughout this period, then, does not suggest that labor organizations actively supported or pushed for specifically embedded neoliberal policies. Rather, the data and examples I have provided demonstrate that labor mobilization and militancy was directed toward a specific set of goals that did not include anti-neoliberal policies. The Brazilian state pursued some modest neoliberal economic reforms – privatizations, tariff reductions, etc. - while maintaining a strong presence in development efforts through industrial policy; this occurred, though, without any direct role played by labor unions.

What this discussion fails to highlight, however, is how different Brazil's development trajectory is in comparison to Chile, as well as other more heavy neoliberal reformers. One critical flaw in the state-of-the art regarding the post-neoliberal era has been to lump many of these economies together, particularly as more traditional neoliberal countries have begun to adopt illiberal policies, albeit to varying degrees. In the next portion of this paper, I will demonstrate how Brazil's development trajectory has, both before and after the neoliberal transition, remained largely unique from the rest of the region.

Neoliberalism versus Brazilian "Inertial Statism"

Brazil's development trajectory followed a very different path than much of the rest of Latin America during the 1980s and 1990s. While former ISI countries such as Mexico, Chile, and Argentina – to varying degrees – adopted Washington Consensus agenda items, Brazil's path deviated little from its historically more statist approach to economic policy-making. Brazil, during this period, ranked well below these other countries in terms of trade reform - particularly capital market liberalization - as well as in privatization reform (Figures 5 and 6). This is not to say that Brazil completely resisted the opening of markets – economic policy certainly moved in this direction – but its embrace of the neoliberal adjustment agenda was very weak. Significant privatization reforms were enacted throughout the 1990s, and barriers to trade were gradually lifted over time (Table 2). Yet Brazil never made – nor even attempted – a clean break from its developmentalist roots. Whereas Mexico, Chile, and Argentina became poster children of neoliberalism, Brazil continued to follow an alternative approach.

Yet recent scholarship has identified convergence among some of these countries toward Brazil's more state-centric tradition. Chile and Argentina, as well as Costa Rica and Colombia, have been cited as prime examples of this transition; these countries have abandoned, to an extent, aspects of their free market projects by reincorporating the state in development. Accordingly, some scholars have begun to group these countries together with Brazil in ways that acknowledge their renewed state capacity (Kurtz and Brooks 2008; Kurtz 2001).

To say that these countries' approach to economic development is converging with Brazil, however, is a serious overstatement. Examples of their developmentalist projects – Chile's ProChile and CORFO, as well as Colombia's PROEXPORT, to name a few – are miniscule in comparison to similar Brazilian developmental agencies and projects. The Brazilian developmental state, across the board, enlists a broader scope of programs, enjoys an inordinately larger budget, and carries much more significance in policy-making.

In general, the kinds of state interventions made in these other countries have mostly focused around, and been limited to, export promotion and FDI attraction. By contrast, the Brazilian state has remained very active in maintaining a more traditional industrial policy, although one that has been adapted to suit the open market. Brazilian developmentalism is, in this way, clearly distinct, and part of a historically longer, more heavily entrenched, state-led approach to economic policy-making. This *inertial statism* sets Brazil apart. To emphasize the distinction between Brazil's contemporary developmental state and other supposedly converging ones, here I will briefly draw comparisons to the Chilean developmental state.

The Convergence Myth: The Developmental State in Chile and Brazil since 1990

Chile has been heralded as the symbol of economic success and neoliberalism in Latin America for much of the past 20 years, posting strong, consistent growth numbers throughout a period of less-than-positive performance for much of the region. A good deal of this success has been attributed to Chile's unswerving commitment to global economic integration. Recently, however, attention has been drawn to Chile's increasingly activist trade policy and the previously understudied "public foundations of [this] 'free market miracle'" (Kurtz and Schrank 2005; Kurtz 2001). Export promotion programs under the Dirección de Promoción de Exportaciones (ProChile), as well as the Corporación de Fomento de la Producción (CORFO) - the closest thing Chile has to a development bank - have been highlighted as deviations from free market policies, yet nonetheless vital to Chile's continued economic success. ProChile, in particular, has been adopted as a model for similar export promotion programs throughout the region.

Yet, as mentioned above, drawing connections between Chile's developmental state and that of Brazil is quite a stretch. First, this type of transition would certainly be reflected by a public shift in strategy among various government agencies, beginning with the Ministry of Economy and the Ministry of External Affairs. A concurrent agreement would also have to be made by the private sector. Nothing currently suggests a serious turn in policy away from Chile's predominantly neoliberal approach, however. In a meeting with Rodolfo Vilches, a representative at the Ministry of Economy, Vilches acknowledged that despite the notable expansion of state-led development programs under CORFO and ProChile, the overall approach to the economy remains tied to the free market (2009). He commented that the Chilean approach to markets was unswerving, and that the primary concern of his office was to ensure access to and the efficiency of those markets. Overall macroeconomic strategy continues to be guided by these goals, and Chile has remained, even through the recent global recession, one of the most open economies in Latin America.

Marcelo Sepulveda of Graneles de Chile and Agrosuper similarly dismissed arguments lauding the strategic importance these projects as inflated, pointing to the very limited scope of ProChile and CORFO (2009). Sepulveda noted that, given their limited budgets and small range of programs, these types of government agencies have notable, yet overall little, influence in Chilean economic affairs. In Sepulveda's view, the role of the state in development was more or less negligible; his experience in exporting agricultural products for one of Chile's largest export companies – Agrosuper - was entirely divorced from state assistance (Sepulveda 2009).

Rather than being seen as a significant organ of state developmentalism, ProChile itself acknowledges export promotion as an opportunity to enhance Chile's free market approach, not a contradiction to it. Cecilia Arroyo of ProChile observed that export promotion reflects Chile's continued embrace of a neoliberal, free market economic principles (2009). Export promotion, rather than signaling a reassertion of the role of the state in development, represents a minor (albeit, necessary) way to augment, not alter, Chile's free market strategy. This is done through horizontal policy instruments – such as small loans to SMEs – that enhance these enterprises' ability to reap the benefits of the free market; this, in Arroyo's view, was by no means a challenge to Chile's traditional adherence to a free market policy. After all, noted Arroyo, the level assistance provided by ProChile is not very large; in turn, to say that these types of small loans represent an infraction of Chile's free market strategy would be incorrect.

Quantitative comparisons of the primary agencies responsible for development in Chile and Brazil clearly differentiate the two. In 2009, the Brazilian National Development Bank's (BNDES) total loan disbursements reached $60 billion, up $50 billion since 2003 (USD) (BNDES 2009). While CORFO, the most complementary Chilean institution, saw similar growth in its total loan disbursements (more than doubling since the beginning of the decade) its total loan disbursements in 2009 was only $657 million (USD) (ProChile 2010; Agosin 2009). This disparity in loan disbursements for development projects between the two countries is enormous, to say the least. Better comparisons can be drawn between Brazil's national development bank and *international financial institutions* (IFIs). Table 1 compares BNDES assets and total loan disbursements with the Inter-American Development Bank (IDB) and the International Bank for Reconstruction and Development (IBRD) in 2009. Notably, the BNDES has more total assets and disperses more loans than the IDB, and is relatively on par with the IBRD, the primary lending institution of the World Bank (BNDES 2009).

With a budget of only $22 million (USD), ProChile likewise reflects the small scale nature of state development projects in Chile (ProChile 2010). In contrast, EXIM Brazil, the BNDES subsidiary in charge of supporting Brazil's export sector, has in 2010 a portfolio of operations in excess of $13 billion (USD) (BNDES 2010). The primary form of state intervention in the Chilean case, then – export promotion – is severely dwarfed by Brazil. In terms of funding, no accurate comparison can be made between the sizes of developmental projects in the two countries.

Moreover, the way financing is used is rather undynamic in the Chilean case when compared to the types of projects pursued by Brazilian institutions. Disbursements by both ProChile and CORFO are short-term and intended to help those receiving the loans to either a) more efficiently access markets and/or b) attract FDI to enhance production. Beyond these basic functions, Chilean development agencies offer little in terms of more strategic investments. These horizontal policy measures form the bulk of Chile's industrial policy instruments, and include only a limited number of programs: CORFO's Innova Program, which aims to foster innovation in traditional export sectors, as well as FOGAPE, CORFO's policy to guarantee loans to small enterprises. If anything, Chile could be considered what Hausmann, Rodrik, and Sabel (2008) call "industrial policy in the small," meaning the major development projects undertaken by Chilean policy-makers have been limited to solving small market failures and improving productivity (Agosin 2009).

Brazil, by contrast, has a much more expansive agenda, which includes placing *strategic bets* in order to foster innovation and improve investments in high technology.[13] These types of vertical policy instruments are what most distinguish the Chilean and Brazilian cases, as these forms of state intervention represent direct challenges to the efficiency of markets. Brazil, to a much greater extent than Chile, has implemented these market-challenging programs. In this sense, Brazil exemplifies "industrial policy in the large" (Agosin 2009).

Regardless, both Brazil and Chile's approach to developmentalism reflects a conscious plan devised by policy-makers. Clearly, policy-makers in the Chilean case – disregarding some very small scale interventions through ProChile and CORFO, among other agencies – have chosen to limit the role of the state in development in a way that stands far apart from the Brazilian example.

Alternative Approach: Understanding Brazil through its Economic Bureaucracy

The rest of this paper will examine one specific arm of the Brazilian developmental state in more depth - the BNDES - throughout the 1990s. During a period of neoliberal transition for much of Latin America, the power maintained by the developmental state in Brazil was notable to say the least. Along with other development agencies in Brazil, the BNDES adapted itself to the realities posed by the context of opening markets. The BNDES sought new ways throughout this period to assert its relevance in economic policy-making. Accordingly, the BNDES at the end of the decade was much different than the one that had begun it, as the bank evolved in ways that changed its focus from sustaining largely inefficient state-enterprises, to more innovative, strategic financing projects. It is this adaptive ability – Brazil's *inertial statism* – which the following section will explore.

To answer why – and how – Brazil has managed to sustain this alternative development approach is largely historical, and can be teased out through close examination bureaucratic institutions like the BNDES during specific critical junctures. I use the specific case study of the National Program of Destatization (PND) as the best example of this kind of institutional evolution; through its role as the coordinator of PND privatizations, the BNDES was able to *reimagine without replacing* an active, and arguably more efficient, role for the state in development.

This re-imagination did not represent a "de-statification" as the name of the PND implied. Rather, the state's role evolved in a manner that reflected a need for economic adjustment. Privatization became the focal point of the reform agenda, and was led by the BNDES. In this way, the privatization program was less a minimization of state intervention in the economy, but rather it was the BNDES's attempt to streamline state-led development (Montero 1998).

Privatization: Sarney through Cardoso

The privatizations in the late 1980s under the Sarney administration were commonly perceived to be the product of one of two related factors: one being external economic pressure in the form of fiscal crisis; the other an ideological victory by those neoliberals dismayed by the government's reluctance to pursue adjustment reforms (Schneider 1992; Velasco 2002). While these observations are not entirely misleading (fiscal pressures, such as rising federal debt, certainly were a concern), this view is still shortsighted, and largely ignores the fact that the majority of these early privatizations were initiated autonomously by the BNDES.

17 privatizations of publicly owned firms were completed before 1990; among these, 11 were overseen by BNDESpar, a direct subsidiary of BNDES (Velasco 2001). These privatizations in total generated revenue equivalent to $549 million (USD), with debt transfers to the private sector exceeding $620 (USD) (Velasco 2001). These privatizations included major state-owned companies, such as Eletrosiderúrgica Brasileira (ferro-alloys); Aracruz Celulos (paper and pulp); and Caraíba Metais (copper smelter). Overall, 98 percent of the income from these privatizations was acquired through the BNDES (Velasco 2001).

The decision to privatize was driven internally by the BNDES. BNDES leadership at this time was becoming increasingly concerned by the many unprofitable enterprises that had fallen under its control. These companies were, in the BNDES opinion, bleeding the state of resources and reverting attention away from more important strategic economic sectors. Between 1982 and 1987, firms controlled by BNDESpar were responsible for more than 50 percent of the BNDES's total loan disbursements (Velasco 2001). During this time, BNDESpar reported yearly losses, a problem spurred on primarily by the exponential bleeding of the steel sector. BNDES leadership recognized that the continued injection of capital into these public companies was largely unproductive (Velasco 2002).[14] Accordingly, the BNDES decided to take action in order to alleviate this growing burden.

The BNDES-led privatizations were not, though, only concerned with reclaiming lost credit. The BNDES, as the main agency responsible for long-term financing projects in Brazil, was in an advantageous position to assess how the financial crisis would affect the state (Velasco 2001). Privatization offered the BNDES an opportunity to unload unproductive state-enterprises so that capital could be freed for more strategically important investments (Schneider 1992). In this way, the BNDES reduced the state role in a sense – by relinquishing the control of a number of state-enterprises – but enhanced its strategic potential by freeing up time and resources. This transition was, then, less a product of fiscal concern, and more a strategic move that would streamline the BNDES and developmental state in general.

This scenario identifies a recurring feature in economic policy-making in Brazil - a bureaucratic agency with a sizeable degree of control over the economy's strategic planning. The BNDES privatizations under Sarney represented the implementation of policy that was not specifically part of the president's agenda. This ability to act autonomously is reflective of the strategic capacity reserved by bureaucratic agencies in economic decision-making. More important than the funds raised by selling-off state enterprises were the credit lines the BNDES would no longer have to extend to inefficient companies; this, along with the freed time for the BNDES economists to engage in more strategic planning, was critical to the functioning of the bank. Júlio Olímpio Fusaro Mourão, head of the BNDES Department of Planning between 1983 and 1990, reflected on the BNDES role in changing the role of the state:

> "The nature of State intervention in the economy had to be radically changed: instead of provoking distortions in the market to the advantage of production for the domestic market, it had to start to encourage competitiveness…The BNDES embarked upon the task of reformulating the role of the State...In just two and a half years, 14 companies were transparently and efficiently privatized through public auction. Another consequence was that the Bank underwent sweeping reorganization internally, seeking to modernize its operational practices and adapt to the new conditions" (BNDES 2001).

Decisions made by BNDES leaders such as Mourão formed the basis of a new, streamlined approach to state planning. In essence, the decision to privatize was part of broader movement to reassert the bank's ability to intervene in the economy (Velasco 2002).

BNDES and the Brazilian Privatization Program (PND)

Following the dissolution of the Sarney government, privatization remained a focal point of the public agenda. Again, like privatization under Sarney, the thrust of the privatization spirit was championed by the BNDES, except this time the BNDES had an official claim to control of the reforms (Collor assigned the BNDES president to head the Directorate of Privatization). In this way, the PND was not reflective of the emergence of an empowered neoliberal technocracy, as was the case in Mexico and Argentina. Collor, after all, took power without a clear party support base or, as some have argued, a neoliberal mandate (Schneider 1992; Velasco 2002). Collor's proposed reform package was, in fact, a far cry from the neoliberal structural adjustments being implemented by his contemporaries (Menem in Argentina, Fujimori in Peru, etc.) (Montero 1998).

The scope of the PND was very large (Table 2 shows privatizations between 1990 and 1994, as well as 1995 to 2002). It included the restructuring of some of Brazil's largest firms, most notably in the steel sector (Table 3; Schneider 1992). A quick comparison between the first years of the PND and the privatizations that preceded it under Sarney exemplifies this fact: by the end of Collor's presidency (1992), 16 privatization procedures had been completed, totaling $3.9 billion (USD); this, compared with the total sales of the Sarney era privatizations - $549 million (USD) – reflects the enormity of the PND privatization program.

In September 1992, President Collor was impeached and replaced by Vice-President Itamar Franco. Franco, although tentative initially, allowed PND privatizations to continue as scheduled. Overall, 32 state-owned enterprises were sold under the two administrations, representing $11,457 million (USD) in total sales and debt transfers. In 1993, the Ministry of Planning took over the management of the PND, yet allowed the BNDES to remain onboard retain its implementation role (Montero 1998).

The privatization agenda reached its peak later, during the Cardoso years (Table 4). During this time, the composition of the reform agenda changed, as the bulk of privatization moved away from steel toward other sectors of the economy (BNDES 2001). José Pio Borges, President of the Bank from 1998-1999, cited this change:

"Stabilization was underway and the economy was no longer so closed to the outside world. It was the most competitive and successful firms that had to be rewarded, and not firms that had been selected because the government prioritized this or that sector. So there was an adaptation that also involved a major reduction in financing for public companies. At one point, I recall, 70% of BNDES loans had been going to companies that were directly or indirectly government-controlled. But in this new phase, in the late 1990s, it was the opposite: more than 70% was going to the private sector" (BNDES 2001).

The reform agenda of the PND was, then, forward looking, and embraced Brazil's new commitments to competitiveness and the opening markets. Yet, like the privatization reform under Sarney, it was crafted by the BNDES in a way that did not foresee broad changes to Brazil's traditionally more statist economic policy. Accordingly, economic policy actions, such as the PND privatizations, reflected an intentional, strategic movement by Brazilian bureaucratic institutions like the BNDES. This transition was by no means meant to remove nor reduce the state from the development process; rather, the example of the PND can be seen as an attempt by institutions like the BNDES to administer new forms of "sustainable" industrial policies (Montero 1998).

The PND, in turn, became the focal point of BNDES activity and state-led development for much of the 1990s. The BNDES, rather than seeing its function as reducing the role and relevance of the state in development, used its privileged position as a way to recast the state in a way that championed efficiency (Montero 1998). President Cardoso, arguably the most neoliberal of Brazil's presidents in the 1990s, commented on his association with the BNDES and its role in privatization reform:

"My experience in public life has certainly strengthened my belief in the importance of the role of the *State* in laying the ground rules for market mechanisms to work. Not everything will thrive on the basis of private interests, even after the globalization of the productive process, which took place long after BNDES was founded and consolidated. The State–and therefore the political sphere–maintains its prerogative of determining rules for transactions; creating incentives for certain areas and raising hurdles for others; and ultimately charting the territory on which economic agents will function" (BNDES 2001).

Cardoso's view confirms the notion that, even to more neoliberal-minded elements of Brazilian policy-making circles, the role of the state in economic development remains vital. This firm commitment to state-led developmentalism was clearly evident in BNDES decision-making during the PND. According to BNDES thinking, in much the same way that privatizations were aimed toward enhancing the competitiveness lagging Brazilian firms, privatization would similarly streamline the responsibilities of the developmental state. The BNDES became the leading actor in a process that would, over time, improve the state's capacity for intervening in private markets; this was a vital transition in strategy and doctrine, given the context of globalization and opening markets.

Conclusions

The thrust of this paper has been to contest common misunderstandings regarding Brazil's development trajectory by reemphasizing the role of economic bureaucratic agencies in economic policy formation. My analysis contradicts Kurtz and Brooks embedded neoliberal thesis, which posits that labor mobilization has been responsible for the coupling of state-led developmentalism with aspects of the neoliberal agenda. I have demonstrated, rather, that Brazil's economic policy has deviated little from its historically state-driven approach during the neoliberal era. In doing so, I show how Brazil remains largely unique in Latin America in terms of its economic strategy. Accordingly, my research rejects the notion that the development trajectory of Brazil is converging with other Latin American models. Brazil's trajectory is distinct and part of a long history of developmentalist politics and reform.

I argue further that this is not bound to change. The cases I present demonstrate how Brazil's developmental state has strategically reinvented itself over time; in this respect, recent "neoliberal" policy advancements – such as the privatization reform program instituted under the PND – are not evidence of a retreating state, but rather are evident of the way Brazilian developmentalism adapts to specific contexts. The BNDES, in leading privatization reforms throughout the 1990s, reasserted the relevance of the state even in the context of open markets. This type of *inertial statism* sets Brazil apart, and will continue guiding Brazil's development trajectory into the future.

Tables and Figures

Table 1. BNDES, IDB and IBRD Assets and Disbursements, 2009 (US$ Millions)

US$ million	BNDES	IDB	IBRD
Total Assets	118,564	72,510	275,420
Loan Disbursements	49,791	7,149	18,564
Total Loans	92,422	51,173	105,698

Source: BNDES (2009)

Table 2. Privatizations 1990-2002 (US$ Millions)

Period	Sales Proceeds	Transferred Debt	Total Results
1990-1994	8,608	3,266	11,874
1995-2002	78,614	14,810	93,424
Total	87,222	18,076	105,298

Source: BNDES (2001)

Table 3. Sale Results by Sector 1990-1994 (US$ Millions)

Sectors	**Companies**	**Sale Proceeds**	**Transferred Debt**	**Total**
Steel	8	5,562	2,625	8,167
Petrochemical	15	1,882	296	2,178
Fertilizers	5	418	75	493
Other	4	350	269	619
Total	32	8,212	3,265	11,457

Source: BNDES (2001)

Table 4. Sale Results by Sector 1995-2002 (US$ Millions)

Sectors	**Sale Proceeds**	**%**
Infrastructure	63,281	80%
Industry	10,852	14%
Minority Shareholdings	4,481	6%
Total	78,614	100%

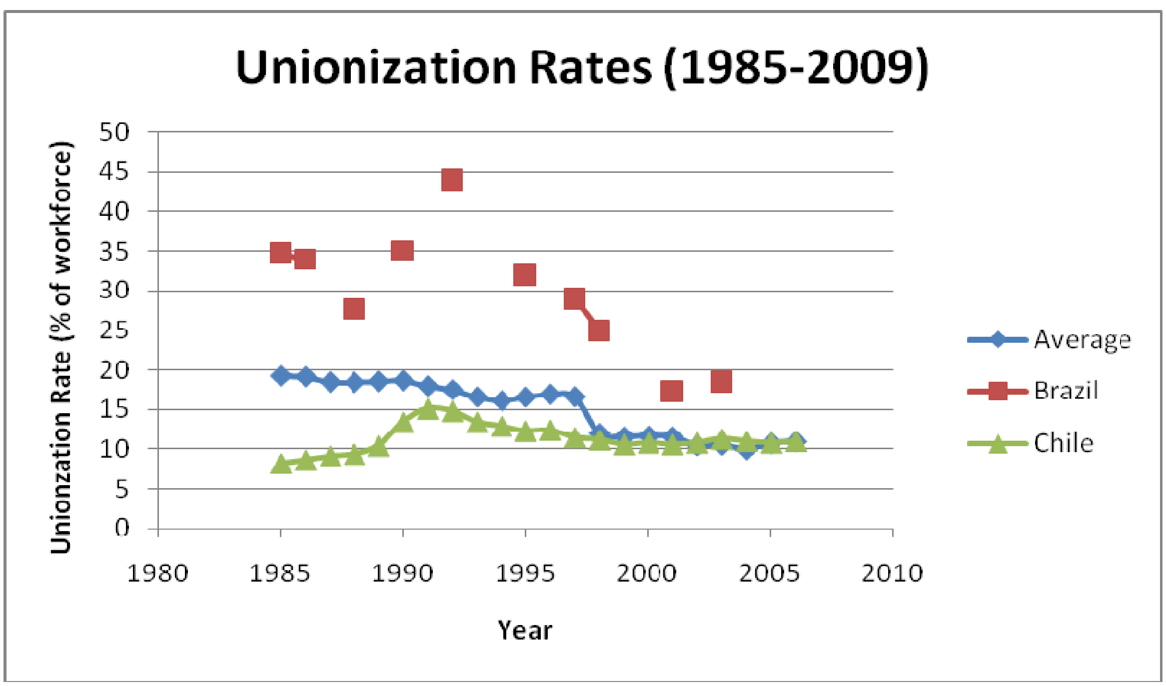
Source: BNDES (2001)

Figure 1. Kurtz and Brooks' Embedded Neoliberal Matrix

	Low Statism	**High Statism**
High Openness	**Orthodox Neoliberalism**	**Embedded Neoliberalism**
Low Openness	**Austerity**	**Statist**

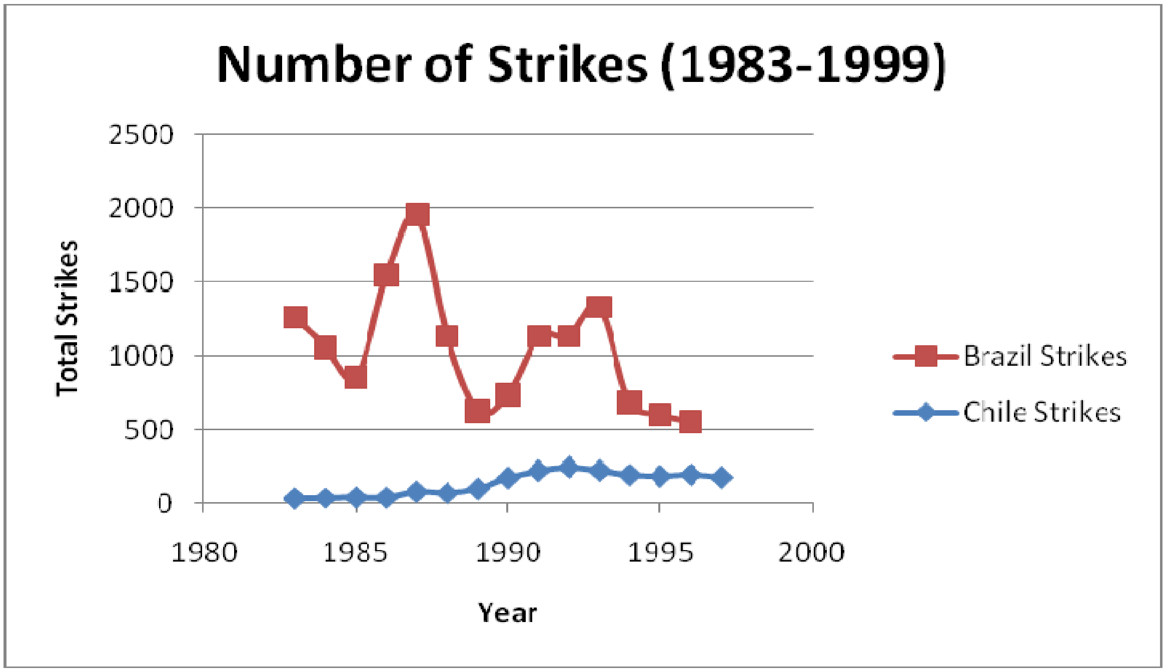
Source: Kurtz and Brooks (200

Figure 2. Unionization Rates (1985-2009)



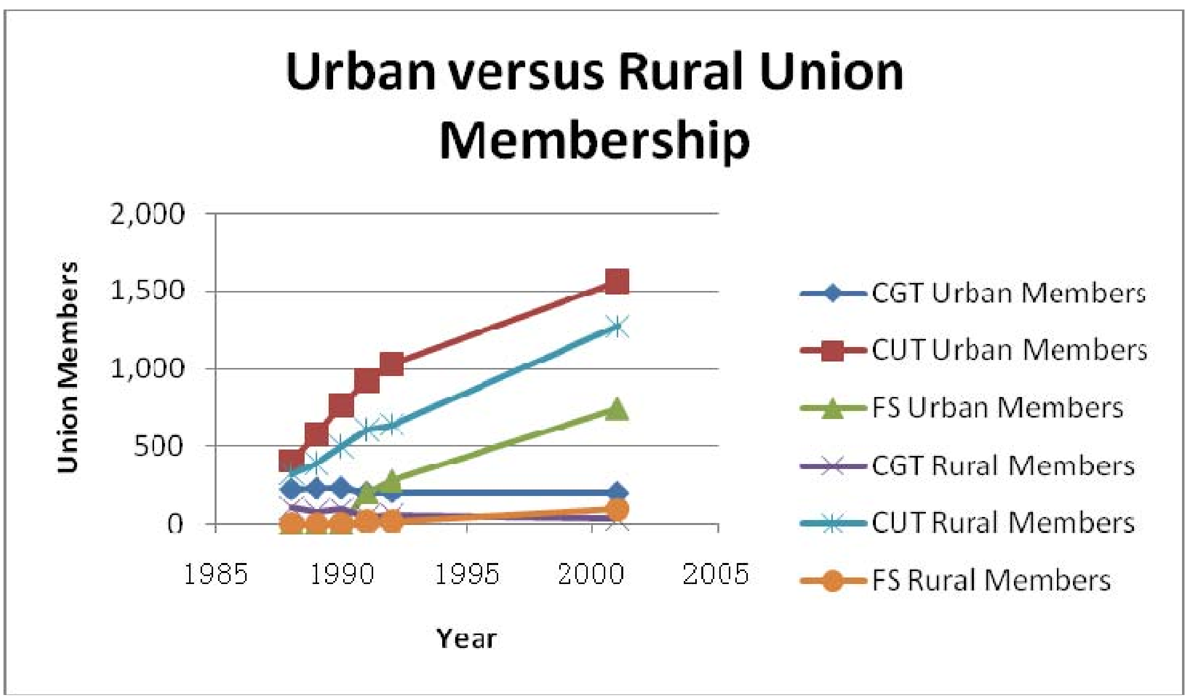
Source: POSC 322 (Fall 2009) Common Dataset.

Figure 3. Number of Strikes (1983-1999)



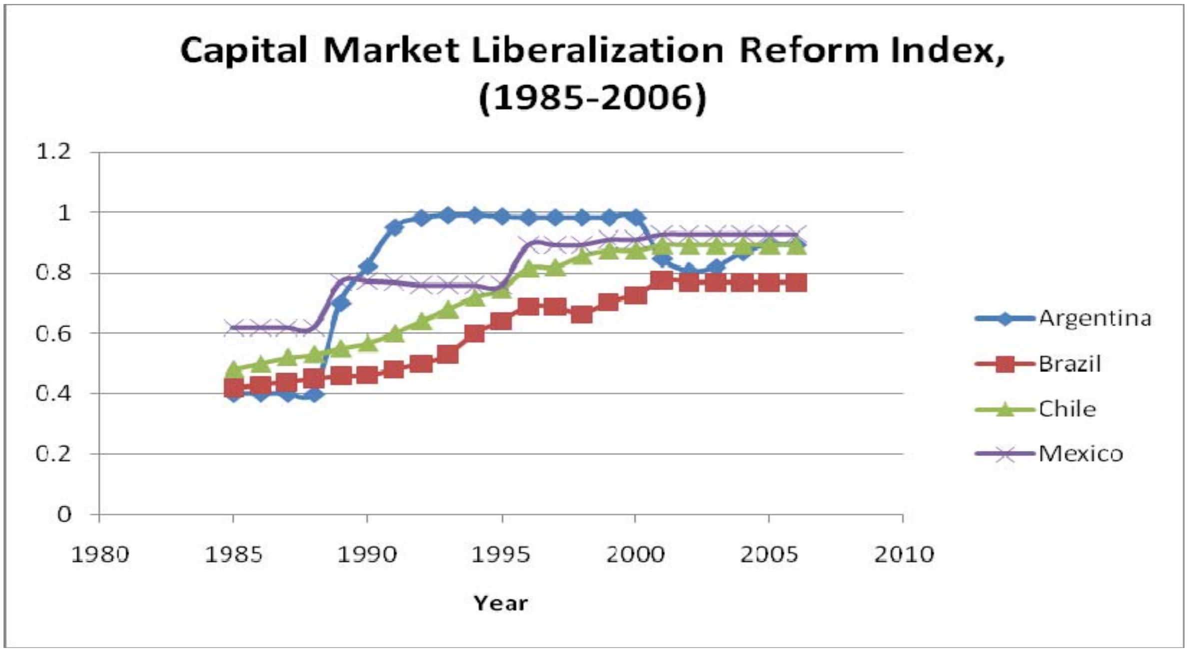
Source: DIEESE (1999); Frank (2002)

Figure 4. Union versus Rural Union Membership



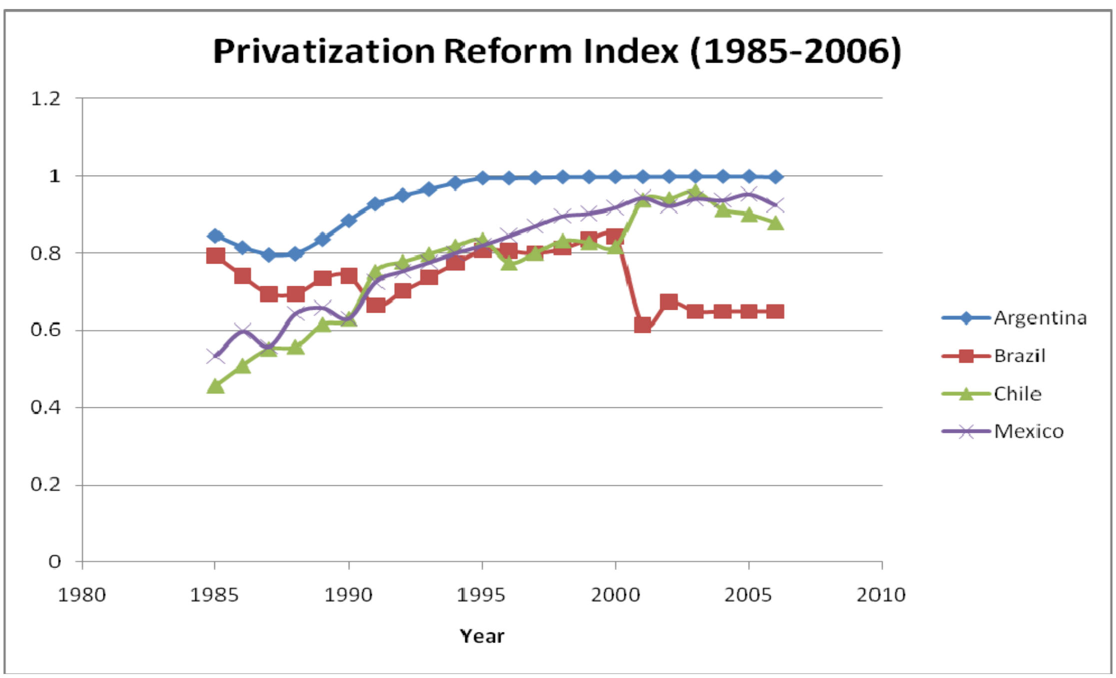
Source: DIEESE (2010)

Figure 5. Capital Market Liberalization Reform Index, 1985-2006



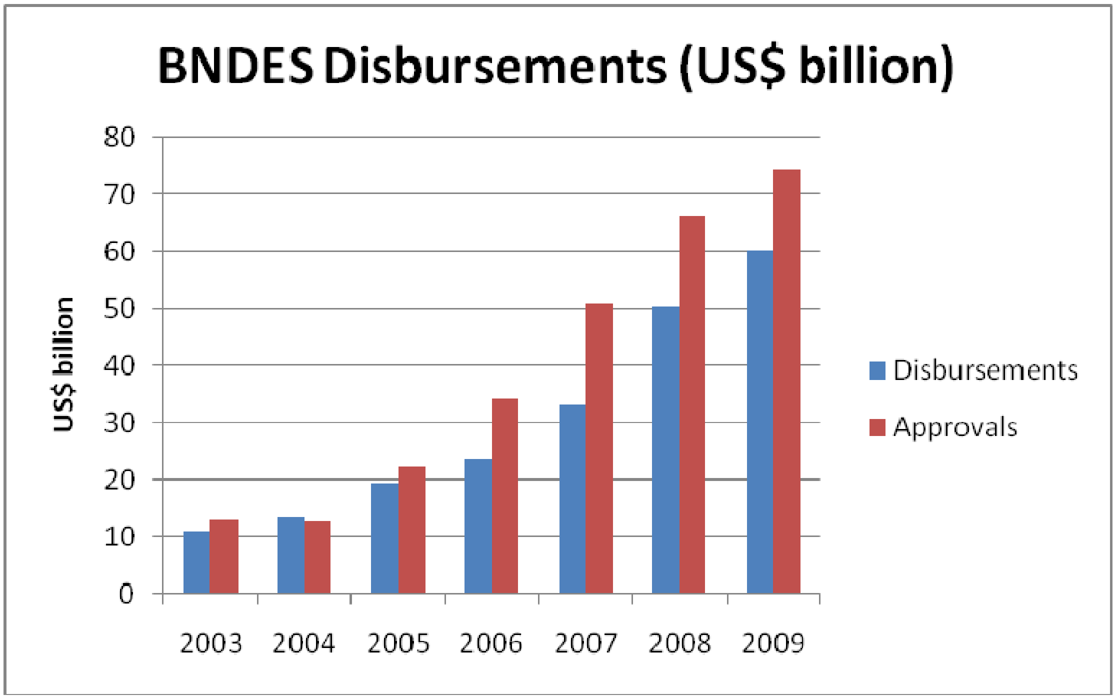
Source: Morley, Machado & Pettinato (1999), updated to 2006 by Roberto Machado (CEPAL). Index calculated from the IMF's Balance of Payments Arrangements annual reports.

Figure 6. Privatization Reform Index, 1985-2006



Source: Morley, Machado & Pettinato (1999), updated to 2006 by Roberto Machado (CEPAL). Index measures 1 minus ratio of value-added by state-owned enterprises to non-agricultural GDP.

Figure 7. BNDES Applications



Source: BNDES (2009)

Notes

[1] In this way, Kurtz and Brooks argument adds to the Polanyian tradition, which has been incorporated into many recent studies that attempt to understand the anti-neoliberal countermovement in Latin America (Silva 2009). Polyani argues that those societal actors most affected by the spread of the market form the natural counter-movement to check it, "re-embedding" protective state structures in order to resist the pernicious effects of economic liberalism. This is a dialectical expression where the state and society inevitably interact in ways that correct for market abuses.

[2] Willis notes that the evolution of the BNDES is reflective of the way in which Brazil's bureaucracy has, over time, managed to assert itself as the focal point of policy-making. Autonomy of the bureaucracy according to Willis, as well as Geddes (1994), was the product of both presidential support and capable leadership.

[3] This second point is particularly important for understanding the maintenance of Brazilian developmentalism during the neoliberal era. The BNDES was granted significant power by Sarney, Collor, Franco, and Cardoso, despite some of their neoliberal leanings.

[4] There are some notable differences between Brazil and Chile that make them good test cases when considering their thesis. While both are characterized as cases of embedded neoliberalism, Brazil ranks much higher on the scale than Chile. This variability is important, as it allows me to determine whether this disparity hinged upon labor being more active and engaged in pursuing embedded neoliberal types of reforms in the Brazilian case. Moreover, labor strength in general (both measured by unionization rates and by inclusion in governing coalitions) is very different in both cases. Unionization rates in Brazil are among the highest in Latin America. Labor mobilization in Chile, by contrast, is low in comparison, and has been hurt even more by neoliberal reforms; Chilean labor organizations also do not enjoy the same sort of strong relationships with governing parties as is true in the Brazilian case (Cook 2007).

[5] There was one major instance of anti-neoliberal contention that lasted from May 1983 to October 1984; this was occurred in the context of limited, controlled political liberalization and economic crises. These, coupled with the consolidation of market society, urged anti-neoliberal mobilization (Silva 2009). The Pinochet regime responded with repression and violence, thus ending the groups' movement for a time.

[6] Labor mobilization was further constrained by divisions between the formal and informal sector, which is wide in Chile. Informal, non-contracted workers did not have the same legal rights to unionize in the way formal sector workers did. This has begun to change since 2001, as informal workers have gained new rights.

[7] The importance of Chilean labor should not be entirely diminished, however. While its ability to affect labor laws was limited, it role in assuring the preservation of democracy throughout the 1990s was nonetheless vital.

[8] These reforms were intended to alleviate employers' abusive powers (Cook 2005; Frank 2002). The new legislation once again enhanced collective bargaining, with even greater emphasis than the 1990-1992 reforms. Furthermore, new measures such as working conditions, incentive pay, and employment protection could now be introduced to the bargaining table by labor unions.

[9] Chilean labor unions faced larger obstacles – both political and organizational – than their Brazilian counterparts. Because of weaker labor legislation, Chilean labor unions encountered stricter punishments

from employers. Furthermore, these unions faced diminishing returns problems, as repeated calls to strike drew increasingly smaller numbers of strikers.

[10] Eduardo Silva argues that this expected response from civil societal groups like labor was repressed by the Pinochet era and never fully recovered (Silva 2009). He further asserts that no large anti-neoliberal response occurred after the transition to democracy because in post transition Chile, the state actively worked with civil societal groups to alleviate harmful market affects from the beginning. Clearly, neither Kurtz and Brooks explanation, nor the Polanyian approach in general, are appropriate for describing the Chilean case.

[11] The CUT was formed in 1983. The CGT arose in the late 1980s, while the FS emerged in the late 1990s.

[12] The moderate CGT and FS unions were more likely to support privatization measures, as well as trade liberalization. The CUT, in contrast, opposed these.

[13] One example of this in the Chilean case is Fundación Chile, an organization within CORFO. However, the amount of funding given to this program is too limited currently to be effective on a scale similar to other Brazilian programs.

[14] This was due largely to common problems faced by many state-owned companies, including ineffective management and an inability to set competitive prices.

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