



---

State Interests and the New Industrial Policy in Brazil: The Privatization of Steel, 1990-1994

Author(s): Alfred P. Montero

Source: *Journal of Interamerican Studies and World Affairs*, Vol. 40, No. 3 (Autumn, 1998), pp. 27-62

Published by: Center for Latin American Studies at the University of Miami

Stable URL: <http://www.jstor.org/stable/166199>

Accessed: 09/03/2009 16:23

---

Your use of the JSTOR archive indicates your acceptance of JSTOR's Terms and Conditions of Use, available at <http://www.jstor.org/page/info/about/policies/terms.jsp>. JSTOR's Terms and Conditions of Use provides, in part, that unless you have obtained prior permission, you may not download an entire issue of a journal or multiple copies of articles, and you may use content in the JSTOR archive only for your personal, non-commercial use.

Please contact the publisher regarding any further use of this work. Publisher contact information may be obtained at <http://www.jstor.org/action/showPublisher?publisherCode=miami>.

Each copy of any part of a JSTOR transmission must contain the same copyright notice that appears on the screen or printed page of such transmission.

JSTOR is a not-for-profit organization founded in 1995 to build trusted digital archives for scholarship. We work with the scholarly community to preserve their work and the materials they rely upon, and to build a common research platform that promotes the discovery and use of these resources. For more information about JSTOR, please contact [support@jstor.org](mailto:support@jstor.org).



Center for Latin American Studies at the University of Miami is collaborating with JSTOR to digitize, preserve and extend access to *Journal of Interamerican Studies and World Affairs*.

<http://www.jstor.org>

# ***State Interests and the New Industrial Policy in Brazil: The Privatization of Steel, 1990–1994***

*Alfred P. Montero*

---

---

It is difficult to argue with success. Brazil's public steel firms—once the crown jewels of a state-led model of development—were, by the late 1980s, heavily indebted, unproductive, and dependent on the financial support of a state in fiscal crisis.<sup>1</sup> As if by a wave of the proverbial magic wand, their privatization in the period 1990–94 made them exponentially more productive, financially sound, and competitive. Of the eight major Brazilian steel enterprises, seven were returning profits by the end of 1994.<sup>2</sup> One of the seven, Usiminas, became the most profitable private firm in Brazil in 1993, two years after it was privatized.

Popular economic periodicals touted such transformations as “a lesson in free enterprise” and evidence that free markets “win” when “nanny state” stays out (*U.S.-Latin Trade* 1994; *Economist* 1995). According to these views, steel privatization in Brazil was the result of a new commitment to neoliberal principles among economic policymakers and the retreat of a bankrupt developmentalist state with few options.

This essay will argue against such interpretations on two levels. First, the privatization of steel in Brazil was a profoundly political process that was not primarily led by either fiscal constraints or “neoliberal” policy ideas. Instead, Brazil's privatization of steel during the 1990–94 period represented a deliberate strategy by a neodevelopmentalist state to implement an industrial policy. Second, to make the new industrial policy politically sustainable, state managers used various policy mechanisms during the privatization process to forge alliances with segments of business and labor. These strategies satisfied state interests by supplying private resources to serve public purposes in restructuring the public steel firms.

The first argument is based on a study of the Fernando Collor administration (1990–92), which initiated the Programa Nacional de Desestatização (PND, National Program of Destatization) in 1990. The Collor government saw privatization as part of a larger program to reorient Brazil's industrial policy along more efficient and sustainable lines. The result would be a stronger state, rid of patrimonial interests and endowed with a strategic sense for retooling the economy. Such ideas were neither “neoliberal” in content nor designed by neoliberal “technopols.” The

technocrats who conceived privatization policy came from the ranks of the National Economic and Social Development Bank (Banco Nacional de Desenvolvimento Econômico e Social, BNDES), the state agency most responsible for Brazil's developmentalist policies from the 1950s through the 1980s.<sup>3</sup> These policy leaders advocated strategic forms of public sector intervention that would enhance rather than replace market forces.

Collor's support for the PND as part of his campaign to restructure the Brazilian state provided the program's managers with extraordinary protection from opposition groups led by nationalists and leftists, who charged that the "patrimony of the Brazilian people" was being sold to the highest bidders. To make privatization policy making autonomous from these voices, Collor created a Directorate of Privatization to manage the PND and assigned the president of the BNDES as its head. Along with the support of the Ministries of Economy and Planning, the directorate, led by Eduardo Modiano, planned the first wave of steel privatizations with blistering speed and through confidential negotiations with business and the BNDES on sale prices.

The second argument is based on the observation that dependence on Collor's support was insufficient to guarantee the PND's success or survival. To find enough capital and political support for privatization, policymakers had to create durable alliances with business and labor. By restructuring the debt of the steel mills, subsidizing potential private buyers, and distributing ownership of the firms to workers, the managers of the PND were able to forge alliances with key economic actors by reducing their risk of investment and feeding their expectations of increasing gains from future privatizations. These alliances produced a growing constituency for privatization that outlived Collor's presidency.

Despite the key role of business and labor, this argument does not forget that these ties were driven by state interests. The PND's various mechanisms were designed to create a sufficiently financed private market for the steel mills—one capable of restructuring the firms according to industrial policy goals established by the BNDES. Because tapping into private resources was essential to implement privatization as industrial policy, the PND could not be conceived in isolation by an autonomous coterie of BNDES elites. The program had to create a web of associations with business and labor.

Peter Evans (1995) argues that structural reforms of industry are best handled when the state is sufficiently autonomous to be independent of societal demands, but well enough connected to economic actors to maintain access to information and other material resources crucial to policy making. Following Evans's notion of "embedded autonomy," this study argues that the PND and its supporting policy constituency enjoyed both the internal coherence of BNDES technocrats and key government supporters (autonomy) and the external connectedness of ties to private

sector interests (embeddedness).<sup>4</sup> The combination of Weberian bureaucratic cohesiveness and associations between policy elites and economic actors signaled to business and labor the government's commitment to industrial reform while it provided the material means (finance and political support) to consolidate structural adjustment.<sup>5</sup>

The crucial test of the durability of the PND's embedded autonomy came after Collor was forced from office in 1992 under mounting evidence of corrupt political practices. He was replaced by his vice president, Itamar Franco, a politician with strong ties to the opponents of privatization. Despite such challenges to the PND, its administrators proved well connected and flexible enough to shift authority to other ministries and rely on supporters in other state agencies. The PND also survived thanks to a formidable constituency of supporters created during the Collor privatizations: large conglomerates with sunk costs in privatized companies, workers with money at stake in future sales, and an increasing pool of interested foreign investors. Without the flexibility that embeddedness afforded the PND's architects, bureaucratic autonomy would not have been enough to guarantee the program's survival.

The case of Brazilian steel privatization challenges several established views in the literature on the political economy of structural reform. First, by emphasizing the political interests of the Brazilian state, the approach followed here highlights the weaknesses of arguments that see the pace and content of reform as the result of economic crises. These formulations portray Latin American states as being pushed and pulled by external and fiscal necessities. Usually market-oriented reforms are seen as the inevitable responses to eroding import substitution industrialization models (Balassa et al. 1986). Such reforms are also treated as the products of political pressures on debtor states by international financial institutions (Stallings 1992).

Although economic crises often catalyze policy change (Gourevitch 1986; Collier and Collier 1991), even the best comparative studies are not always clear on how particular crises determine the specific content of policy (Corrales 1997–98, 618–20). Much recent evidence from Latin America shows that the major external shocks caused by the debt crisis led not to the reign of a neoliberal policy “consensus” but to diverse roads through economic adjustment. Comparative surveys of economic policy have revealed that both the most neoliberal reformers in Latin America (Mexico and Chile) and the most hesitant and gradualist cases (Brazil) have formulated and sought to implement a diverse array of interventionist development policies during the 1990s (Peres 1997a, 1997b; Pérez-Alemán 1997; Montero 1997). Such variance among so many countries facing severe economic constraints suggests that domestic political interests shape reactions to external pressures (Kahler 1992).

The possibility for diverse responses to economic crises is evident in the case of privatization. Privatization is often simplified as “any withdrawal of government from economic activity,” but state interests always intervene to configure the reform process into something more than a mere retreat of the state from the market. The development goals that privatization is meant to serve are potentially legion, ranging from resolving macroeconomic problems to promoting microeconomic restructuring of industry (Bartell 1994, 72–74). These goals are not determined exclusively by economic exigencies. They are shaped by politicians, policy makers, and societal agents.

This study argues that the interests of state and societal actors in Brazil mediated the economic pressures on privatization policy. But it also attempts to address a political economy literature that is not always clear on how to characterize the way political interests affect policy making. On the one hand, many political economists argue that the main influences on the content of structural adjustment emanate from autonomous coterie of technocratic elites, capable of implementing policies despite determined opposition (Waterbury 1992). These “strong states” are well known in the study of East Asian development (Johnson 1987), and efforts to apply these “lessons” to Latin America are now commonplace (for example, Gereffi and Wyman 1990; Wade 1990, 345–81).

On the other hand, in recent years, numerous observers of structural adjustment in developing countries have argued that such policies have been primarily shaped not by autonomous state technocrats but by the interests of business (Frieden 1991; Silva 1993, 1996) or, more broadly, by elites in response to distributive conflicts that threaten the power base of reformers (Olson 1982; Manzetti 1993a; Hellman 1998). Analysis of economic reform therefore has tended to hover between these two irreconcilable extremes—seeing policy either as the product of autonomous state elites or the result of determined societal interests.

Lost in this equation are the interests of politicians and bureaucrats and their relationship to economic actors. In a broad review of the literature, Barbara Geddes (1995) notes that there is little on-the-ground evidence that either completely autonomous state managers or self-interested societal actors have proven capable of determining the content of structural adjustment. Geddes finds a weak relationship between societal interests and government policies.<sup>6</sup> Instead, the interests of politicians and bureaucrats, in concert with the economic strategies of segments of business and labor, have guided reform.

Even when political outsiders have assumed power and produced reform behind an institutionally autonomous policy-making bureaucracy, the survival of these reforms has required strategic alliances with societal actors. These ties have emerged not only to satisfy the electoral interests of reforming politicians, but also to assure technocrats and signal economic

actors that the reform process will persist after the politicians who inaugurated it vanish from the scene. Without an enduring constituency for reform (privatization in this case), policy making becomes politically vulnerable to opposition actors who seek to inhibit the process (Manzetti 1993b, 435). Without substantial state commitments to the reform process, economic actors who are required to bear the costs and risk investment in privatized companies will not see official adjustment efforts as credible.<sup>7</sup> Therefore, by focusing on the organization of the state and its relations with societal actors, the notion of embedded autonomy traverses the gap between neopluralist and statist arguments, providing a more useful analysis of how structural reforms are conceived, implemented, and enabled to survive.

The dual purpose of this essay is to correct economically determinist arguments about the adjustment process in Brazil and to provide further evidence for the utility of embedded autonomy through a case study of steel privatization. The following section discusses how the Collor administration packaged privatization as part of a larger program to restructure the role of the Brazilian state in the economy. Collor's role proved crucial for moving new industrial policy ideas, composed mostly within the BNDES, to the foreground of economic policy making. The next section shows how these ideas were put into practice before, during, and after the auctioning of the steel mills. The evidence proves that the state's fiscal crisis was only a secondary policy consideration. Privatization was implemented in ways that made the competitive restructuring of the steel mills policy priorities.

The final two sections flesh out how privatization mechanisms were designed to create sustainable political alliances among state agencies, businesses, and workers. These ties imbued the PND with enough political flexibility to survive popular opposition to privatization and even the concerted efforts of some segments of the Itamar Franco administration. Collor's initial support was crucial for getting the PND moving, but it was not enough to explain its survival through repeated political attacks after Collor abandoned the presidency. The embedded autonomy of steel privatization policy explains these unexpected outcomes.

## **COLLOR AND THE FORMULATION OF THE NEW INDUSTRIAL POLICY**

The unlikely advent of Fernando Collor de Mello to the Brazilian presidency in 1989 was the most important political catalyst for advancing the country's structural reform agenda. The PND would not have been possible without Collor, and it was clear that the BNDES's ideas about using privatization as a means to implement a new industrial policy satisfied the president's plans for restructuring the Brazilian state. Collor's embrace of

the PND gave BNDES managers the necessary protection they needed from nationalist opponents of privatization. At the same time, the new industrial policy promised to respond to the demands of public steel firms eager for a new infusion of capital that they required for productivity-enhancing restructuring. With its focus on steel, the new industrial policy promised to hand Collor his first major successful structural adjustment, one that would send strong signals to the multilateral agencies and the business world that Brazil was serious about economic reform.

Collor's sudden rise to the presidency in the late-1989 elections was a consequence of a popular backlash against the failed policies of his predecessor and fears of what his most powerful opponents on the left would do if elected. José Sarney and his New Republic (1985–90) had proved incapable of reversing Brazil's steep economic decline. Mega-inflation and slow growth doomed Sarney's numerous anti-inflation plans and all other efforts to keep Brazil from slipping into a fiscal crisis that could seriously erode the capacity of the central state (Bresser Pereira 1993).

The explosion of clientelist politics under the New Republic further fragmented Brazil's political society and paralyzed all attempts to reform the state (Weyland 1996; Schneider 1988–89). These failures also strengthened the organized left, led most prominently by Luiz Inácio Lula da Silva, the fiery head of the Workers' Party (Partido dos Trabalhadores, PT). By the time of the 1989 presidential elections, Brazilians were demanding an outsider who would revamp the country's politics. In response, Fernando Collor promised middle- and upper-class voters a sea change without the wrenching sociopolitical upheavals many feared from Lula.

Central to Collor's electoral campaign was the idea of reforming the state in order to strengthen it (Weyland forthcoming). Collor vowed to jettison the indolent *marajás* ("maharajas") of the state who reaped untold rewards from the corruption and patronage of public office. Intent on excluding the parochial interests that penetrated the public firms, Collor justified privatization as a tool for sweeping away patrimonialism in the economic bureaucracy and enhancing the efficiency of public policy (Collor 1989). Along with liberalization, deregulation, and aggressive plans to "kill inflation with a single shot," Collor's campaign made privatization of public firms a priority (Schneider 1992: 231).

At no point, however, was Collor's reform package a carbon copy of the neoliberal structural adjustments championed by other Latin American leaders, such as Carlos Menem (Argentina), Alberto Fujimori (Peru), or Carlos Salinas de Gortari (Mexico). Collor and his reform-minded ministers did not see the state as the problem and the market as the solution. To assume otherwise glosses over their vision of the Brazilian state's very active role in restructuring the public steel firms and the importance of using structural adjustment to strengthen the state's role in the economy.

The new president advocated neoliberal reform with the avowed intention of empowering the state, not forcing the state into retreat in favor of market forces (Collor 1990a, 1990b).<sup>8</sup> Unlike Mexico, the Brazilian state was not captured by a neoliberal technocracy.<sup>9</sup> Collor's economic team did not generally share a common educational background, as did Chile's "Chicago Boys" of the 1970s and 1980s. Indeed, few of Collor's ministers held graduate degrees from foreign universities (Schneider 1992, 228–29).

Unlike Menem and Salinas, Collor was not compelled to adopt neoliberal policies by right-wing parties or business associations. Brazilian businesses offered almost no clear signals of any support for privatization (Bartell 1994, 88–89). Brazil's major business associations, especially the Federation of São Paulo Industries (FIESP), remained skeptical of the benefits of privatization. Smaller business groups gave hesitant support to structural reforms. Yet no widespread right-wing or business sentiment called for privatization before or during the Collor administration (Kingstone 1994; Schneider 1992: 226). Also, unlike Margaret Thatcher in the United Kingdom or General Augusto Pinochet in Chile, Collor did not implement privatization policy as a response to the actions of a strong political left.

Instead of embracing neoliberal ideas, key policy statements during the Collor administration expressed support for new forms of "sustainable" industrial policies. In early 1991, the Collor government launched the Programa de Competitividade Industrial (PCI, Industrial Competitiveness Program) as a mix of federal tax incentives, subsidized credit, and tariff adjustments that would reduce the price of investment in a select group of agroindustrial, manufacturing, and high technology sectors. Observers remarked that the PCI had pretensions of returning Brazil to its developmentalist industrial policy of the 1950s, when Juscelino Kubitschek organized "sectoral groups" of business leaders who, along with state technocrats, designed and implemented investment plans (Erber 1992).<sup>10</sup>

The PCI, however, was not purely developmentalist. It focused on promoting industrial sectors with comparative advantages, industries viewed as "generators and diffusers of innovation and technological progress." As such, the program envisioned an "active industrial policy" designed to "catalyze" private production around performance targets established by the market (Ministério da Economia, Fazenda e Planejamento 1991).

The neodevelopmentalist ideas behind the PCI were general and, in the end, were not implemented to the ambitious extent first conceived. Nevertheless, the importance of these ideas was not lost on the technocrats in Brazil's national development bank. With the decline of state-led developmentalism during the 1980s, BNDES leaders had focused on alternative mechanisms of industrial policy that would, as the PCI argued, "catalyze" market forces. Gone was the emphasis on public production. Instead, by 1989, the bank had privatized nearly all the public firms in its holding company, BNDES-Par.

The shift in BNDES's bureaucratic mission was the result of several factors. First, the development bank became more market-oriented as it fell under the influence of bank presidents with a private sector background. Marcio Fortes, BNDES president during the Sarney administration, favored policies designed to enhance the competitiveness of private firms in foreign and domestic markets (Schneider 1988–89, 99). During this time, public funds for industrial automation became a prominent issue for BNDES directors (see, for example, BNDES 1988).

Second, continued circulation of bank elites between the BNDES and the private sector during the 1990s reinforced market-oriented approaches (Lima 1996; Castanheira 1995). Several PND heads during the Collor and post-Collor privatizations came from and later returned to the private sector. This was true of Eduardo Modiano and of Elena Landau, head of the PND from 1994 through early 1996.

Finally, the bank's own experience with privatization during the 1980s convinced many of its executives that the same could be done with the rest of the Brazilian state, but in ways that would also reorganize the BNDES's (and more broadly, the Brazilian state's) capacity to intervene in private markets. Bank technocrats embraced new directives circulated during the latter half of the decade that focused on creating a role for the bank in facilitating long-term finance for large firms eager to restructure their production and orient themselves toward the external market (Amarante de Andrade et al. 1994). Increasingly, support for infrastructure projects and specialized finance programs replaced wholesale support for public firms (Meilman 1996; Carneiro 1996; BNDES 1996). These represented qualitative shifts from developmentalism to a mixed approach at the BNDES.

Privatization became a centerpiece of the new thinking at BNDES, but in a manner quite opposed to neoliberal ideas that sought the minimization of state intervention in the economy. BNDES managers saw privatization as a mechanism for making state intervention more efficient. Eduardo Modiano articulated the general intention more directly, shortly after announcing the first plans for privatization in early 1991.

The reform of the state [through privatization] is not intended to debilitate the state. On the contrary, the objective of privatization is to strengthen the state and make it more capable of performing those functions that are a part of its undelegetable attributes; functions that have been neglected in recent years. (*Jornal do Brasil* 1991a)

Despite the change of government and Modiano's departure in 1992, BNDES officials in charge of the privatization process a year later articulated the same goals. André Franco Montoro Filho, director of the commission for the PND under the Itamar Franco administration (1992–94), would argue,

I think that we have demonstrated that this program is very important for the reformulation of the Brazilian state; for the capacity of the state to recuperate its power to coordinate, articulate and implement policy. (*Estado de São Paulo* 1993)

In the case of the public steel firms, BNDES leaders saw privatization as essential for making the mills competitive. Although Brazilian steel had achieved some export growth during the late 1980s, productivity was low, and the sector was too specialized in low-end steel. Unlike the world's leading steel producers, most steel manufacturing in Brazil used low-productivity, antiquated methods. Only about half of Brazilian steel production employed continued stamping and hot laminating processes, whereas more than 80 percent of the European and 94 percent of the Japanese and South Korean producers employed this more productive method (*U.S./Latin Trade* 1994).

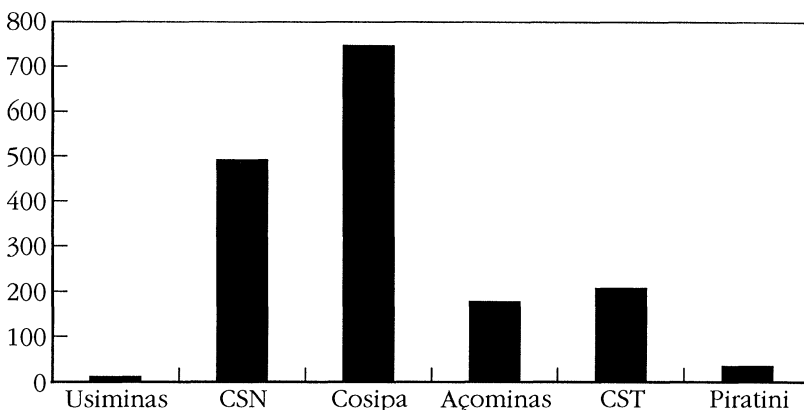
Most Brazilian steel producers focused on the export of common alloys, not the high value-added specialized steels (such as stainless steel) most in demand in the advanced markets of Europe, Asia, and North America. As the supplier of only 3 percent of the world's steel, Brazil would have to advance several costly restructuring programs at its major enterprises to compete in the global market. Proposed investments for restructuring the firms with new production techniques required an average of US\$3 billion per firm, an amount well beyond the financial capacity of either the state or the firms themselves (Amarante de Andrade et al. 1994).

The primary impediments to systemic restructuring at the steel mills were financial—not excessive protection or low export activity. By the early 1990s, with the country's recession and the decline in the internal market for steel, more than 50 percent of steel production in Brazil was being exported (Coutinho and Ferraz 1994, 265). Brazilian economists consistently argued that steel was one of the few industrial sectors in Brazil that showed good chances of becoming more competitive in world markets, if it could be restructured (see, for example, Coutinho and Ferraz 1994, 261–81).

Decades of developmentalist policy, however, had left the public steel mills heavily indebted.<sup>11</sup> As a group, the steel firms ran heavy losses because of their financial commitments (see figure 1). Siderbrás, the state holding company for the steel firms, was mired in more than \$7 billion of debt—a condition that led to prolonged freezes in its plans to expand public investments.

BNDES leaders agreed with steel firm managers that public steel was too “overbureaucratized” and “underfinanced” to improve productivity. Many also held the view that state ownership was insufficient to make the steel firms internationally competitive.<sup>12</sup> For BNDES technocrats, moreover, the fiscal crisis severely limited what the administration could spend

Figure 1  
Net Losses for Major Brazilian Steel Firms, September 1990  
(in millions of dollars)



Source: *Gazeta Mercantil* 1990b.

on restructuring the steel firms. By mid-1990, most new investments by the public steel firms were halted for lack of government funding. As a result, the Second National Steel Plan (Pedesid), an elaborate road map of directives that foresaw investments of more than \$10 billion by the public steel firms, was relegated to the planning attic by Ministry of Infrastructure officials.

More strategic forms of state intervention, however, along with an infusion of private capital, could provide the resources Brazilian steel needed. The Institute of Brazilian Steel (Instituto Brasileiro de Siderurgia, IBS), the sector's major business association, embraced such a mixed approach (*Gazeta Mercantil* 1993). IBS members' arguments for privatization invoked the need for public finance; as private firms, the steel mills would be eligible for an array of official credits from the national development bank, still the chief financier of productive restructuring investments in Brazil. In this way, BNDES officials and steel firm managers viewed privatization as part of a larger, state-initiated process of productive restructuring of the steel sector that would persist with an important state component even after the sell-offs (see, for example, Landau 1995).

Support for privatization actually had been growing for some time among the steel firm managers. Saddled with debt, each of Brazil's major public steel enterprises was running annual losses close to \$2 billion. In early 1990, several managers announced their support of a plan first proposed by the outgoing president of Siderbrás, Moacélio Mendes, to convert the holding company into a "development agency."<sup>13</sup> The essence of the proposal was a call to reduce public liabilities in the steel sector and at the same time to provide enough capital to allow the steel firms to

restructure and become more competitive in international markets (*Gazeta Mercantil* 1990b). During the policy debates that followed the Siderbrás proposal, BNDES leaders, Collor administration ministers, and the heads of the state steel companies agreed that privatization would be the preferred course of action.

Actually transforming these ideas into policy required, first and foremost, a political catalyst supplied by the Collor administration. The architects of privatization policy were afraid of losing control over the process to legislators and other political interests. For this reason, the Directorate of Privatization of the PND, led by Eduardo Modiano, defended its independence from the congress that initially had sanctioned its creation and approved its members (Modiano 1991). Modiano and the directorate also defended the presidency's continued control over the "minimum price" of the firms to go on sale. This would prove to be a crucial authority, for the minimum price would become the greatest target of anti-privatization forces and, at the same time, the most important lever for subsidizing domestic buyers.

Support by Collor and his closest economic advisers proved essential for protecting the autonomy of the PND directorate from opposition voices. Zélia Cardoso de Mello, Collor's first minister of economy, insisted that all government ministries support the "destatization" program. At times, her determination to keep other members of the government in line led to public squabbles with other ministers and public firm executives.<sup>14</sup> More than a year later, after Zélia (as she was popularly known) had left the Collor administration, her replacement proved to be a more ardent defender of the PND. Márcio Marques Moreira reassured Modiano and BNDES officials that the new economic team would stick to the established schedule of privatization auctions. Moreira also defended the PND directorate's authority over the selection of purchasing modalities and other mechanisms crucial to the sales.

Although the PND's managers enjoyed a high level of political autonomy, they recognized the dangers of becoming too insulated from economic actors. Surviving ministerial shake-ups in 1991, Eduardo Modiano was the only high-ranking economic official of the Collor administration to remain in his job through much of 1992. In May 1992, however, Modiano's position as head of both the PND and the BNDES was threatened by a proposed plan to replace privatization auctions with a system of direct negotiation between a new Secretariat of Privatization and buyers. Several government observers admitted that the proposed reform was actually an attempt to use the BNDES in the routine exchange of political appointments and patronage common in Brazilian politics (*Estado de São Paulo* 1992a).<sup>15</sup>

Daniel Dantas, president of the Icatu Bank, and Bahia governor Antônio Carlos Magalhães, the very symbol of patronage in Brazilian

politics, were said to have instigated the move. A few days later, however, Moreira's support of Modiano made it clear that the BNDES president would not be replaced and no substantial adjustment to the PND would be made. Accusations that Dantas's proposed reform would eliminate "transparency" from the privatization process forced Dantas to cancel his attempt to upstage Modiano. These events suggested that the PND required the political support of key ministers such as Moreira, but insulation of policy making would invite interference from arbitrary and parochial interests.

The foregoing explanation shows that the PND was made possible by two complementary processes. First, the existence and increasing sophistication of sustainable industrial policies in the BNDES made industrial reform the centerpiece of the PND. This satisfied the interests of both state technocrats and public steel firm elites who believed that only a mixture of public and private financial support could provide the resources needed for productive restructuring of the mills. These were technical grounds to support the PND as industrial policy. Collor, however, supported the PND as part of a larger political campaign to strengthen the state. The BNDES's industrial policy ideas fit neatly into the Collor government's plans for restructuring the state; they provided the means for reorganizing state intervention in ways that would enhance official goals for industrial reform. The Collor administration's support provided the key political catalyst that got the PND moving as part of a larger package of economic reforms.

The PND's original goals were preserved partly by the coherence of its management under Modiano and by the autonomy enjoyed by the directorate—an autonomy protected by the political support of consecutive economy ministers during the Collor administration. The PND also relied, however, on numerous contacts in Brazil's private markets. By the end of the first wave of privatizations, support for the PND could be found among influential industrial, financial, and even labor groups. Over time, these groups created a constituency for reform that proved crucial in moving the PND forward. This support was engineered by the very mechanisms of privatization policies in the steel sector. Mere reference to economic and fiscal pressures surrounding the Brazilian state does not explain either the content or the political organization of those policies.

## **USING PRIVATE RESOURCES FOR PUBLIC INTERESTS**

The alliances among steel firm managers, BNDES technocrats, and financial and industrial elites created an emerging constituency for using privatization policy as a mechanism of industrial policy. This belied the widely held assumption that the sell-offs were intended to solve the state's fiscal problems. Instead, the process relied on strategic state expenditures directed by the new industrial policy.

The popular view that fiscal crises forced Brazilian state managers to pursue privatization is not completely misleading. After all, the original executive decree initiating the PND stipulated that proceeds from the sale of state firms would be applied to the federal debt. The PND's architects continued publicly to articulate this principle as a key goal, and Collor embraced it as central to privatization (see comments by Moreira and Modiano in *Gazeta Mercantil* 1991c).

A cursory look at the aggregate performance of privatization policy would even suggest that the Collor government succeeded to a certain degree. It sold 17 firms between October 1991 and October 1992, including some of the large steel mills, generating \$3.9 billion for the federal government's coffers (BNDES 1992). A closer look, however, reveals that fiscal arguments and fiscal mechanisms were manipulated for political purposes. Although the process reduced much medium-term and some long-term debt, these gains were partly offset by dozens of public financial mechanisms designed to make candidate firms "privatizable." Adding to the \$11.3 billion it spent on the Brazilian steel mills between 1986 and 1992, the state spent more than \$757 million upgrading and restructuring production and reducing debt at its steel enterprises between 1990 and 1993.

During the Sarney administration, more than \$7.6 billion of debt was transferred from the steel firms themselves to Siderbrás. As a result, firms such as CSN and Cosipa, which faced perennial losses because of heavy indebtedness, had their finances stabilized months before their privatization. The restructuring of debt cleared the way for state investment in the restructuring of production (Amarante de Andrade et al. 1994, 87–88). In justifying such public investments in the restructuring of these firms, Eduardo Modiano echoed the arguments of his predecessors at BNDES: "There is not a firm that must be privatized that must not first undergo a process of restructuring" (*Jornal do Brasil* 1992).

Among the steel firms to go to sale, Usiminas, Cosipa, Açominas, CSN, Acesita, and Piratini all underwent significant restructuring before privatization, all of it paid for by public sector expenditures. Concerns for completing restructuring programs determined which steel mills would be first on the auction block. The first steel firm to be privatized during the Collor administration, Usiminas, had the most advanced program of productive and financial restructuring in the sector. Usiminas had never posted the large losses of Cosipa and CSN, but it produced only minimal profits and modest losses in the years leading up to its privatization.

The steel mill's inadequate levels of productivity were not ignored by firm managers, who in 1986 began a \$745 million investment program with Usiminas. These new investments significantly improved automation and quality control, boosting productive capacity and efficiency (*Correio Braziliense* 1991a; *Jornal de Brasília* 1992). By the time it was sold in October 1991, Usiminas had dramatically improved its competitiveness in

both the domestic and international markets, making it far more valuable than it had been at the start of restructuring (Corrêa 1991).

Another example of restructuring is the case of Companhia Siderúrgica Nacional (CSN), the venerable National Steel Company that had initiated the Brazilian state's involvement in the sector in 1941. By the time BNDES officials placed CSN on the auction block in 1992, its total debt had been reduced by 73 percent (\$1.9 billion of \$2.6 billion). The firm's tax debt with the state of Rio de Janeiro was cut from \$220 million to \$160 million through a combination of write-offs and shifting of liabilities from the state government to Brasília. CSN's labor force was downsized from 24,000 workers to just fewer than 17,000, and its production system was significantly retooled to reduce costs and increase output (Netto 1993).

Yet another noteworthy example is that of Acesita (Aços Especiais Itabira). Acesita started as a private, non-flat steel plate firm in 1944. In 1950 it was bought by the Banco do Brasil, a national public bank. In 1974, the military government led by General Ernesto Geisel imported Japanese technology and employed Banco do Brasil resources to transform Acesita into a specialized producer of rustproof steel plate, making it the only Latin American producer of this product. As a result of its transformation, however, the firm assumed heavy debts with the Banco do Brasil, totaling \$1.1 billion by 1982.<sup>16</sup>

Like the other public steel firms on the eve of privatization, Acesita engaged in an extensive program of restructuring its production, inventory systems, payroll, and external debt in anticipation of being sold off. In July 1991, the company initiated a Plan of Demobilization that sold more than 880,000 square meters of the company's land to the municipality of Timóteo (Minas Gerais) as payment for local taxes and the use of other municipal services and properties. More than 10 percent of the work force was laid off. These changes generated a total of \$30 million in cost savings (*Gazeta Mercantil* 1991a).

On the financial side, Acesita restructured its debt with the Banco do Brasil, which held 97 percent of the firm's stock. The bank employed a complex international transaction to swap Acesita's foreign debt of \$220 million for Brazilian debt at a discounted price, an operation that effectively reduced the firm's total debt with the Banco do Brasil to \$90 million. As a result of the firm's restructuring and simply its placement on the privatization block, its stock value rose markedly.<sup>17</sup>

The BNDES's view of privatization as industrial policy justified such examples of official facilitation of productive restructuring and revaluation (Tourinho and Vianna 1993: 68–69). PND chief Modiano, for example, argued before the sale of Usiminas that privatization was only the most politically sensitive portion of a firm's several years of productive restructuring (*Correio Braziliense* 1991b).

In justifying these measures, fiscal concerns were rendered secondary to the interest of making the firms more productive. PND founder and BNDES executive Luís Chrysostomo de Oliveira Filho minimized the fiscal effect of privatization, claiming that the sell-offs would affect less than 20 percent of Brazil's external debt, while the productivity improvements at privatized firms would more fundamentally "reorient the state's role in Brazilian development, benefiting both firms and the state" (*Gazeta Mercantil* 1991e). That the PND started with Usiminas, arguably the steel firm in the best financial position of the major public producers, suggests that consolidating improvements in production, and not minimizing the state's fiscal costs, were foremost among the interests of BNDES managers.

The political and financial resources BNDES poured into the steel firms made it important for these firms to receive the best possible price in the market. There were many reasons to believe that the privatization process could go terribly wrong for the steel firms. Until this time, Brazil had had only a very modest experience with privatization, which was limited to selling nonsteel firms with serious problems. Those privatizations were not designed to make firms more efficient; they were meant simply for the state to unload fiscal weight. That experience was not an appropriate benchmark for restructuring steel firms. Another hazard was the poor financial state of the private market. During the 1980s, several of the Sarney administration privatizations were delayed or abandoned because of a scarcity of buyers with sufficient resources. Many of these problems carried over into the early 1990s. With few buyers having sufficient capital, and in the midst of a recession, BNDES officials feared that the steel firms would be sold to groups that would prove unable to meet "minimum price" (the official "asking price"). Worse still, even if they did meet such requirements, buyers might not have the capital to make the necessary investments that would complete the steel firms' productive restructuring.

The perceived limits to the size and financial capacity of the private market encouraged state managers to use fiscal mechanisms to provide incentives to buyers. The early months of planning for the implementation of the PND were dominated by concerns that the program had to use financial mechanisms engineered, as Modiano put it, to "accommodate the characteristics of demand" (see *Gazeta Mercantil* 1991b).

An array of fiscal mechanisms were employed. In January 1991, the government announced that certificates of public external debt (deposit facility agreements, or DFAs) would be accepted as "currency" during the first wave of sales, which included the steel giants Usiminas and Companhia Siderúrgica Tubarão (CST). Prospective buyers would have to purchase these certificates and then use them as "privatization currency" in public auctions. Soon other forms of public debt paper, including certificates of agricultural debt, joined the expanding pool of "privatization monies." The

DFAs became a staple currency in privatizations and were preferred to “live” money (financial liquidity). During the first full wave of privatizations under the Collor government, between 1991 and mid-1992, the use of DFAs minimized the use of “live” money, to only \$10 million to \$15 million.<sup>18</sup>

The government approved the use of public external debt as currency in order to finance undercapitalized buyers who would otherwise stall the process indefinitely. Without prior approval by the legislature, the Collor administration’s unilateral decision to accept DFAs instantly freed up more than \$50 billion in Central Bank accounts.

Other financial and fiscal maneuvering enlarged the potential buyers’ market. The government approved the creation of new funds in the currency of the government’s macroeconomic stabilization package, the Collor Plan’s *cruzados novos*. This provision freed up more than \$36 billion in *cruzados novos* that the Collor Plan had frozen in Central Bank accounts and made them an additional source of capital in the privatization auctions. Small investors gradually purchased these accounts and jumped into the first wave of privatizations. Like the DFAs, the debt of the public firms up for sale, including recent Siderbrás debentures acquired under restructuring plans, could be purchased for “certificates of privatization” (CPs) by prospective buyers. Banks were required by law to purchase CPs and hold them for client buyers. The conversion of debt paper (both DFAs and CPs) and the use of *cruzado* accounts rapidly infused \$109 billion into the market of potential buyers. Brazilian stock market authorities then created funds of DFAs and CPs, the value of which would fluctuate daily.<sup>19</sup>

The complex financial transactions that underpinned Brazilian privatization represented more than simply a direct swap of equal value between public debt and equity. The DFAs and assorted certificates of privatization depreciated as they were held in the months before purchase. International financial markets and creditors concerned with the overall pace of debt negotiation and structural reform in Brazil exerted the most pressure on the value of Brazilian debt paper. The real value of the notes dropped as international investor confidence in the reform process flagged.

Government leaders had anticipated these problems by guaranteeing domestic buyers of privatization certificates the difference (the so-called *deságio*) between the instruments’ face value and real value. As a result, buyers of DFAs and CPs would pay the depreciated market value for this debt paper, but the face value would be counted during the actual privatizations against the minimum price set by the state.<sup>20</sup> Because the face value of the DFAs and CPs no longer reflected their value on international and domestic financial markets, the price that buyers actually paid was considerably less than the face value of the DFAs and CPs they held. Nevertheless, the final price fetched by privatized firms was often above

the minimum price (denoted by the face value of DFAs and CPs), because bidding within the small pool of CP-holding buyers tended to increase the final bid (again, denoted by the face value of debt notes).

This practice effectively subsidized the purchase of the public firms while preserving the minimum price requirements. Rules allowing buyers to purchase DFAs and CPs with other debt paper compounded the positive financial effect for holders of privatization monies. In this way, Usiminas sold for \$1.1 billion, but the buyers paid only \$800 million for it.

The conversion of debentures held by Siderbrás into CPs provided added incentives to buyers who knew they were purchasing firms with a much-improved debt structure. In this way, the state relieved some of the privatized firms' debt burden during the sell-offs and reduced or eliminated its own future financial obligations to the steel firms. In certain cases, such as the sale of Cosipa, the BNDES added financing. Bozano Simonsen, an industrial-financial group, received \$278 million in BNDES loans to finance the purchase of CPs in the sale of Cosipa.

Both the preprivatization process and the actual sales involved an important, articulating role for the state and, increasingly, the other members of the policy constituency. Yet even after the sell-offs, BNDES officials continued to make the privatized steel firms privileged recipients of the development bank's array of subsidized financing. For example, BNDES continued to play a role in restructuring Usiminas after its privatization. In 1992, the steel firm received \$75 million in low-interest development loans to continue its modernization. The development bank added \$200 million the next year for the same purpose. In October 1993, the BNDES announced that it would invest more than \$2.5 billion in the now private and soon to be private steel companies. The lion's share of this money would go into automation and other productivity-enhancing reforms.

Similar commitments were made by national fiscal authorities, who guaranteed the steel firms the continuation of public credits based on exemptions from the national tax on industrialized products. Such credits amounted to an estimated \$484 million by 1996. Although no longer strapped with going concerns in the sector, the Brazilian state nonetheless remained a key player in shaping the investment strategies of the steel firms.

Privatization did reduce short-term debt, but when the cost of restructuring the firms and employing subsidized purchasing modalities is figured in and placed in the context of an expanding internal and external debt in the 1990s, the fiscal gain from privatization was marginal (Mello 1994; Pinheiro and Giambiagi 1993). The fiscal impact was too modest and came too late to improve public accounts (Pinheiro and Schneider 1995; Werneck 1991).<sup>21</sup>

Privatization of steel in Brazil was driven by much more than fiscal pressures. It was actively guided by a state interested in restructuring the steel mills. The prior financial restructuring of debt and production at the steel firms, the subsidization of purchases, and the use of public finance after the sales sought to diminish the perceptions of risk in investment among prospective buyers and maximize the competitive potential of the public enterprises (Tourinho and Vianna 1993, 75).

Like other industrial policy-making bodies in developing countries (see, for example, Evans 1995), the PND relied on more than the autonomy of state technocrats and reformist politicians. The mechanisms of privatization policy followed a political logic of constructing a constituency for the sell-offs that would guarantee the PND's own survival.

## **ALLIANCE BUILDING THROUGH PRIVATIZATION**

Purchasing instruments such as DFAs, CPs, Siderbrás debentures, and direct BNDES loans made possible the sale of the steel firms by subsidizing an underfinanced private market. Such fiscal and financial sleight-of-hand also helped to silence nationalist voices that predicted the "sell-off of the public patrimony at bargain prices" by artificially overclaiming the final selling price. The official rationale for this array of "privatization monies" (popularly known as "rotten money," *moedas podres*) underscored the necessity of starting the privatization process with state-directed mechanisms. BNDES leaders believed that the use of a diverse set of fiscal mechanisms would create the necessary pool of buyers to make the first wave of privatizations possible. Modiano and other PND officials made this point consistently.<sup>22</sup> The *moedas podres*, then, were a necessity born of market constraints.<sup>23</sup> In the initial sale of Usiminas, for example, economists note that the auction of the steel mill would not have been possible without the use of *moedas podres* (Prado 1993, 109).

Nevertheless, the purchasing modalities used in the privatization of the steel mills satisfied more than the economic requirements for the sales. These mechanisms enhanced the credibility of the government's commitment to structural reform and created a political base of support for the auctions that became broader and increasingly more important to the PND's survival than the protection afforded by Collor and his economic ministers.

The members of the constituency of business and financial supporters for the PND were carefully selected by the program's planners. This was evident from the concentration of purchases in the hands of large conglomerates. The Bozano Simonsen group, a conglomerate with extensive holdings in finance and extractive industries, became a major buyer during the steel privatizations, taking over the presidency of Usiminas and holding significant influence in Cosipa (12.4 percent of shares) and

Table 1  
Brazilian Steel Sector Privatizations, 1991–1993

Firm	Sale date	Sale price <sup>a</sup>	Former owner	Buyers	Percent of shares
Cosinor	Nov. 1991	13.6	Siderbrás	Gerdau Group	100.00
Usiminas	Oct. 1991	1,112.0	Siderbrás	Foundations	27.89
				Banks	15.83
				CVRD	10.00
				Nippon	13.84
				Workers	10.00
				Bozano Group	7.60
				Distrib. Aço	4.39
				Others	10.45
Piratini	Feb. 1992	106.0	Siderbrás	Gerdau Group	100.00
CST	July 1992	332.0	Siderbrás	Bozano Group	29.59
				Unibanco	21.82
				CVRD	19.05
				Workers	12.22
				Ilva Group	5.24
				KSC Group	5.24
				Others	6.84
Acesita	Oct. 1992	450.0	Banco do Brasil	Previ	15.00
				Banco do Brasil	5.94
				Ciga	9.89
				Sistel	9.16
				Albatroz	6.80
				Banco Real	5.56
				Bancesa	4.21
				Others	41.55
CSN	Apr. 1993	1,057.0	Siderbrás	Vicunha Group	9.20
				Bamerindus	9.20
				CVRD	9.40
				Workers	20.00
				Banco Nacional	4.00
				Banco Real	2.50
				Itaú	7.30
				Others	38.40
Cosipa	Aug. 1993	331.0	Siderbrás	Usiminas	48.78
				Brastubo	12.40
				Workers	20.00
				Distrib. Aço	8.90
				Others	8.92
Açominas	Sept. 1993	597.6	Siderbrás	Mendes Jr.	31.69
				Workers	20.00
				BCN	10.00
				Banco Econômico	10.00
				Villares Group	6.19
				CVRD	5.00
				Banco Real	6.46
				Bemge	4.19
				Others	6.47

<sup>a</sup>In millions of dollars.

Source: Amarante de Andrade et al. 1994, 88–90.

controlling shares in Acesita, Brazil's only major producer of stainless steel. Bozano Simonsen exerted additional influence on Cosipa through Usiminas, which became the principal investor in Cosipa.

Such influence was not limited to private sector investors. Companhia Vale do Rio Doce (CVRD), the gigantic public mining group, bought up outstanding shares of Usiminas, CSN, Companhia Siderúrgica de Tubarão (CST), and Açominas. Bozano Simonsen and CVRD teamed with a second private financial group, Unibanco, in the purchase of CST, Brazil's chief producer of semicompleted metal plates for export. Grupo Gerdau, the largest private steel producer before the public firms were sold, continued as a major manufacturer of metal plate with its majority purchase of Cosinor and Aços Finos Piratini and its ownership of Usiba, the largest steel producer in Brazil's poor Northeast region. Mendes Jr., one of Brazil's largest groups with financial, industrial, and public contracting interests, purchased Açominas.

The PND's selective mechanisms might have avoided the concentration of ownership as depicted in table 1. That interest, however, was less important for BNDES officials than restructuring the firms and creating a powerful business constituency for continued privatization.

The economic potential of this concentration of ownership was tremendous. By September 1994, six industrial and financial groups dominated the Brazilian steel sector: Usiminas-Cosipa, CSN, CST, Gerdau (Piratini), Mendes Jr.-Açominas, and Acesita. Usiminas and Cosipa alone controlled 61 percent of the market for flat, unalloyed steel plate used by the major producers in Brazil's extensive automobile manufacturing complex. CSN commanded the other 39 percent. Considering interconnections among the six groups through common ownership of shares, the industrial-financial conglomerates behind these groups exerted a formidable influence on the working of the steel sector. Bozano Simonsen's steel empire controlled 90 percent of semicompleted metal plates and 100 percent of large plates. The Gerdau group came to control 41 percent of the market for laminated metal plate and 14 percent of the market for metal beams and spikes (*Exame* 1994; *U.S./Latin Trade* 1994; *Estado de São Paulo* 1994).

By defining the industrial groups that would control these firms through the prior sale of *moedas podres*, BNDES managers were able to create additional incentives for the participation of foreign and domestic firms linked to these private groups during the second wave of stock market sales of shares. As several of Brazil's large industrial and financial groups became involved in the purchase of *moedas podres*, affiliated and competing industrial and financial interests were drawn into the Brazilian market. This tactic constituted an additional guarantee on appreciation in the value of outstanding minority shares of privatizing firms while it

provided added assurance that the newly private firms would be adequately financed.

The use of *moedas podres* also attracted the support of Brazil's largest banks for continuing the PND. Having been required to purchase certificates of privatization in 1990, Brazil's largest banks grew eager to unload them and the government debt they represented. These banks embraced privatization as a means for expanding their own interests in Brazilian industry and, at the same time, reducing their outstanding debt, particularly the \$3 billion in Siderbrás debentures they held. As a result, Brazil's largest private banks became key owners of newly privatized firms. Bamerindus, Itaú, and Unibanco added their capital to emerging industrial-financial groups led by Bozano Simonsen and CVRD.

Why did such apparent collusion among the Brazilian political and economic elite not inspire opposition to the government's privatization policy? One reason was that the true nature of the purchasing modalities was hidden through secret negotiations and the red herring of holding the auctions "in public." The use of the stock market to organize sales helped refute claims by those opposed to privatization, particularly the Workers' Party (PT), that the process lacked "transparency." PND supporters, ignoring the selective ways that privatization initially empowered a particular group of buyers, employed references to the stock market sales as "evidence" that all was being done above the table (*Gazeta Mercantil* 1991b).

The opposition to privatization was not entirely fooled. The auctions of state firms witnessed often violent demonstrations, including the rare bombing by leftist unions and political parties. The PT and the populist governor of Rio de Janeiro, Leonel Brizola, continually attacked privatization as an illicit and corrupt attempt to create private monopolies.<sup>24</sup> Brazilian unions, particularly those led by the confederations Central Unica dos Trabalhadores (CUT, Workers' Singular Peak Association) and the Central Geral dos Trabalhadores (CGT, General Workers' Central), blasted privatization as the "giving away of the public patrimony" (Neto 1993).

In response, BNDES leaders attempted to undercut the opposition by adding workers, as allies, to the privatization policy coalition. In early 1992, Eduardo Modiano proposed the use of \$1.5 billion owed by the federal treasury to a forced savings scheme for severance pay called the Guarantee Fund for Time Worked (Fundo de Garantia por Tempo de Serviço, FGTS) in the first wave of privatizations.<sup>25</sup> Modiano's proposal called for the government's debt to the FGTS to be converted, at the discretion of workers, to certificates of privatization. The federal government agreed not to tax this money for two years, and the BNDES arranged subsidized finance for additional purchases of stock by workers using FGTS monies. The proposal sought to inject more than \$20 billion of buying power into the market for public firms.

The unions, which controlled the council that oversaw the FGTS system, strongly opposed the bank's initial proposal for absolute freedom of investment. The BNDES's second proposal, to allow workers discretion with 30 percent of their FGTS monies, was also struck down. The unions argued that any use of FGTS funds should give workers a voice in the firm's decision making. BNDES officials vehemently rejected the union's approach on the grounds that it would politicize the financing of newly privatized firms.

Faced with another stalemate, the bank's officials went on the offensive. They marketed earlier proposals for the use of FGTS monies by employing the idea of "popular capitalism," an idea first coined by Margaret Thatcher during the first wave of privatizations in Great Britain. As in the United Kingdom, the intent was to fragment union opposition to privatization. BNDES officials proposed to have FGTS monies converted into *moedas sociais* ("social money"). They argued that an infusion of "social money" would "democratize" the privatization process. Workers would be able to convert their FGTS accounts held at banks to CPs at a 70 percent discount. As a further incentive, BNDES would provide ten-year loans with subsidized interest on additional purchases of CPs.

The *moedas sociais* idea gave BNDES leaders a powerful political weapon against the union and political opponents of privatization. Development bank leaders argued that the investment by workers in newly privatized firm stock would perform well above the 3 percent annual output of FGTS accounts. This was enough to persuade many workers to depart from their unions' resistance to the use of FGTS funds. In the steel sector, it drove a larger wedge between the rank and file of the metallurgical unions and their confederations, the CUT and Força Sindical. Local union leaders, along with their members, systematically defected from their confederations' opposition to privatization. Even before FGTS funds were infused into the process, workers at Usiminas had split from CUT's opposition to the sale and formed a club of investors that eventually gained 10 percent of the shares of the steel mill.<sup>26</sup>

By June 1995, more than 105,000 workers in the public sector had purchased shares with *moedas sociais* averaging 10 percent of total shares for each public firm set for auction. The financial gains for workers who participated were remarkable. Labor purchased \$290 million in shares that, by 1995, were worth more than \$1 billion (Veja 1995, 60).

At the same time, the infusion of FGTS money into future privatizations looked likely to expand the range of "privatizable" firms. BNDES officials correctly hypothesized that the most likely buyers for public firms in the worst financial shape would be their own workers (see the interview with Elena Landau in *Folha de São Paulo* 1994).

This was clearly the case with Cobra, a troubled public computer firm, and Embraer, once the chief public aeronautics firm. Labor (cum

capital) from previous privatizations added to this growing constituency for sustaining the policy of sell-offs. Indeed, auctions in the steel sector continued to confirm the importance of labor's buying power. The Club of Usiminas Investors, the group composed of 17,000 Usiminas workers who had bought ordinary and preferential shares in that firm, became one of the key players in the privatization of Acesita.

Again, opinions about the use of the FGTS and the expected gains for workers divided union opposition. During the privatization of Embraer, for example, the rank and file threatened to abandon the union when their leaders opposed the sale of the aeronautical firm in 1994. During the Acesita privatization, local leaders of the metallurgical workers' union sided with the Club of Usiminas Investors, to the chagrin of the national union, which opposed privatization of the steel companies.

This pieced-together "new triple alliance" for privatization among the state, private industrial-financial groups, and the privileged "labor aristocracy" lacked one member of the "old triple alliance": foreign capital. To avoid kindling the opposition to privatization, the state managers who designed the rules governing the use of DFAs, CPs, FGTS funds, and other "privatization monies" restricted investors' opportunities to sell their shares. Foreign investors were dissuaded from participating in the Usiminas sale and other auctions in 1991 with the rule that investments would have to remain in Brazil for 12 years. Domestic investors could not sell their shares on the Brazilian stock exchanges for 2 years.

By early 1992, however, Central Bank and BNDES officials recognized that such rules, although important for refuting opposition claims that the public patrimony would be sold and moved abroad, also discouraged the private market from owning public firms (see comments by Arminio Fraga, director of international affairs of the Central Bank, in *Estado de São Paulo* 1992b). Ironically, such limitations would be reversed only during the administration of Itamar Franco, who, at least in principle, opposed the acceleration of privatization. Meanwhile, the negative effects of the absence of noteworthy participation by foreign capital in the first wave of sales were attenuated by policy mechanisms such as the *moedas podres*, which financed the domestic pool of buyers.

The policy constituency of business, finance, and labor created by the various instruments of the PND sought to achieve nothing less than the implementation of a new industrial policy. After Collor's ignominious exit from the presidency and the advent of Itamar Franco, the PND's survival would depend even more on the support of these allies and the capacity of program administrators to shift their authority to like-minded ministries and politicians.

## TESTING THE PRIVATIZATION CONSTITUENCY

Embroided in a corruption scandal and facing imminent impeachment, Fernando Collor de Mello was forced from the presidency in late 1992. Collor's dramatic exit created problems for the PND. Itamar Franco had none of Collor's enthusiasm for the program. As a longtime defender of public steel and mining companies in his native state of Minas Gerais, Franco was suspicious of privatization. For example, he had opposed the privatization of Usiminas as "an act that would weaken the state" (Castro 1995).

Itamar Franco's assumption of the presidency thus empowered privatization opponents and other like-minded forces both inside and outside his cabinet. Chief among them were Paulino Cícero, minister of mines and energy and a former president of Usiminas; Maurício Corrêa, minister of justice and a fervent opponent of the PND in the Brazilian congress; Junia Marise, senator from Minas Gerais and author of an executive decree designed to stop the Usiminas sale; and Pedro Simon, senator from the state of Rio Grande do Sul and one of the notable leaders of congressional opposition to the steel mill sell-offs.

Collor's exit and Itamar Franco's promotion also marked changes at the highest levels of the PND. Modiano left his post as head of the PND directorate. Franco installed Antônio Barros de Castro, a gifted economist who was sympathetic to Brazil's history of state-led growth, as president of the BNDES. Castro's vice president, Marcos Vianna, took over the PND. Vianna, like Castro, was suspicious of privatization, and for good reason. Vianna was a past president of the BNDES and a key architect of the second National Development Plan (ironically, its acronym in Portuguese is PND) during the military governments of the 1970s. Both Castro and Vianna talked vaguely about a "new industrial policy" for Brazil, but their initial concerns focused on "rethinking" privatization policy (Castro 1995).

The new policy discourse focused on the *moedas podres*. True to their developmentalist background, Itamar Franco and Antônio Barros de Castro questioned the exchange of equity for debt that left nothing for "public investments" and social policies. Moreover, Cícero and other privatization opponents argued that the PND's lack of transparency disguised the wholesale subsidization of buyers that many in the policy opposition suspected was built into the *moedas podres* purchasing modality (*O Globo* 1992). Critics argued that privileged industrial and financial groups were conniving to create a de facto oligopoly in the steel sector. Not surprisingly, the Bozano Simonsen group was singled out for castigation.<sup>27</sup>

The Itamar Franco administration made it more difficult for the BNDES to sell off the public firms according to the schedule first established by Collor. The new president had a dual strategy: decrease the

attractiveness of the public firms by making them more costly to purchase and increase the political influence of privatization opponents. On December 23, 1992, Franco signed a decree reforming the PND in ways that satisfied these goals. First, the reform required that a large portion of any bid on a public firm be composed of nondebt paper, “live” money. *Moedas podres* would no longer be accepted as the chief financial mechanism in selling public firms. The new policy required any prospective buyer to introduce an amount of “live” money equal to the value of firm assets and profits.

Without access to *moedas podres*, potential buyers were left without the subsidized mechanisms that had once made privatization financially possible and very attractive for domestic industrial-financial groups. The December reform also forced firms that were placed on the auction block to expend millions more on restructuring to meet more stringent environmental standards. This provision placed additional financial burdens on the public firms, thereby reducing their attractiveness to buyers.

The December 1992 reform empowered societal opponents of privatization with more information. The Itamar Franco government made the technical and financial data of the firm viability reports available to the public. Previously, these were produced by private consulting firms before public auctions and intended only for the eyes of a select group of financial, industrial, and BNDES elites. As financial and technical figures from the economic viability studies became more widely available, the phase-out of the *moedas podres* provision was made a greater deterrent to potential buyers. Prospective buyers who normally prized the secrecy surrounding their everyday financial deals faced the prospect of having their actions subjected to greater public scrutiny. Privatization opponents who previously had no access to such confidential yet politically explosive information about the ingredients of auction pricing were now armed with details to feed their claims that the public patrimony was being sold on the cheap.

The political gain for the administration was clear. The reform played to the president’s pseudopopulist message (perhaps a page taken from Collor’s own rhetoric about the “maharajahs”). By injecting transparency into privatization policy making, Itamar Franco was seen as pulling the curtain on the wizards of state and financial interests who were selling the patrimony of the nation undemocratically, without the say of the people. As José de Castro Ferreira, Franco’s general counsel, made clear in defending the December reform:

[Data about these public firms] should not be protected as, if they were state secrets as they have until now. In reality, a privatization auction is a commercial act to which not just some supposed buyers are privy. The people must also oversee the process. (*Gazeta Mercantil* 1992b)

Although his government's ambivalence toward privatization succeeded in slowing the process, the new president did not attempt to stop privatization altogether. In part, this was because of the continued activities of proponents of privatization in the BNDES, the state firms, private investors, and key members of Itamar Franco's cabinet.

Paulo Haddad, the new minister of planning, was, like Marcus Vianna, a member of the developmentalist old guard. Given Brazil's intense fiscal crisis, however, Haddad doubted that the country could return to its developmentalist past. Instead, the planning minister embraced privatization as a viable mechanism of industrial policy and viewed the management of privatization policy as being in line with the BNDES's classic role as a "development bank" (*Gazeta Mercantil* 1992a).

Similarly, the Ministry of Finance (later renamed Economy) came to be commanded by individuals who did not embrace neoliberal ideas but did agree with BNDES officials who saw privatization as a means of improving the financial stability of both the state and privatized firms. Eliseu Resende, minister of finance in early 1993, supported the unlimited inclusion of foreign capital in the privatization process. His successor in May 1993, Fernando Henrique Cardoso, a sociologist and senator from São Paulo, announced his intention to accelerate the privatization of the steel and energy sectors at midyear.

Cardoso was not a neoliberal, either. His arguments reflected those of BNDES managers. For example, Cardoso embraced the use of FGTS monies in the privatization auctions. By September 1993, the Ministry of Economy; the head of the PND, André Franco Montoro Filho; and the new BNDES president, Pêrsio Arida, agreed on a plan that would inject \$40 billion from FGTS and workers' pension funds into the privatization auctions and would expand the scope of the PND to strategic and more politically sensitive sectors, such as energy, infrastructure, and mining.<sup>28</sup> In October 1993, Cardoso spearheaded the preparation of Decree 362, which required that all "live" money generated by future privatizations be used to reduce public debt. The decree also allowed foreigners to buy up to 100 percent of shares of public companies that were up for sale.

BNDES's leadership continued to control much of the forward thrust of privatization. Despite political pressures to alter it, BNDES officials succeeded in keeping the original schedule of firms for privatization roughly on track. The process was slowed, but not significantly altered or derailed. As part of the October 1993 reform, the Ministry of Economy took over the administration of privatization but preserved the PND and the BNDES as the implementers of policy. The move was a calculated one. Arida and other BNDES leaders sought to inject additional capital into the privatization process through swaps of National Treasury debt. Because the development bank lacked authority over the treasury, Arida advocated

shifting control of the PND's policy-making function to the Ministry of Economy (see his depiction of the rationale in *O Globo* 1993).

The BNDES's strategic support of the Ministry of Economy's new command over privatization made sense only in the context of newfound political support for new *moedas podres*. Despite the December 1992 reform's intention to reduce the use of *moedas podres*, several additional provisions in 1993 expanded their availability. In June 1993, Itamar Franco, after prompting from BNDES and Ministry of Economy leaders, sanctioned the use of national treasury notes (*notas do tesouro nacional*, NTN's), public debt held by private contractors, as "privatization money." The NTN's purpose was to finance the purchases of state firms by private contractors, many of whom had already participated in the first wave of sales.

With the creation of NTN's, major business groups, such as Odebrecht, Bozano Simonsen, Andrade Gutierrez, PIC, PPE, and Safra, expanded their interests in the privatization process. Labor groups that already had a stake in privatized firms campaigned for future privatizations that would guarantee substantial earnings for pension funds and FGTS accounts. By the end of 1993, the reforms initiated by the Ministry of Economy and implemented by the BNDES and the PND directorate, including the use of NTN's, FGTS, and other monies and the inclusion of larger amounts of foreign capital in privatization, substantially expanded the policy constituency for public auctions of state firms.

Even reforms intended to reduce the use of *moedas podres* had salutary effects on the overall course of privatization. The emphasis placed on "live" money did not halt the PND. On the contrary, new privatizations under the Itamar Franco government generated \$2 billion, 72 percent of which was now in liquid currency. The use of live money efficiently funded government without the *deságio* that subsidized firm buyers and penalized public accounts. In addition, the removal of many restrictions on the factors determining firm minimum pricing allowed BNDES managers to employ "book building," the practice of floating the price when demand was high to take advantage of marginal increases in value on the eve of auctions. For Cosipa, based in São Paulo, book building in the internal market generated \$200 million in live money during the firm's purchase, an amount more than 10 percent above the original value first predicted by BNDES officials.

Of course, book building was a more viable strategy now that greater international confidence had been established in the value of privatized steel firms. The profitable performance of Usiminas after privatization appreciated the value of the minority shares the state continued to hold in the enterprise. The sale in 1994 of 16 percent of those shares on foreign stock markets generated \$480 million. Usiminas's good performance also appreciated the value of other steel firms on the auction block.

Thus by the beginning of 1994, the privatization program in the steel sector had been firmly established with a series of ongoing policy mechanisms that linked the interests of state managers in the Ministry of

Economy, the BNDES, and the PND with an array of powerful financial and industrial groups and labor interests. Despite significant political challenges to this policy constituency, the embedded autonomy of Brazilian privatization guaranteed the continuation of the process.

## CONCLUSIONS

Privatization policy in Brazil was not governed by a weak state forced to sell off decaying public industries because of fiscal and political pressures. Instead, the process was part of a larger, very active restructuring of the public steel firms before, during, and after their sale. Far from yielding to private interests, public policy makers actively molded the financial capacities of potential buyers and facilitated purchases and further productive restructuring.

The modalities of Brazilian privatization forged a supporting constituency for reform within the state apparatus and between state agencies and societal actors. The PND managers established ties with like-minded ministries and politicians that preserved the autonomy of privatization policy but also broadened the pool of political support and made it more flexible in response to changes in government. The mechanisms of the PND extended the resources of the state among networks of financial, industrial, and labor elites who provided crucial material resources and political support for the program.

This embedded autonomous policy structure proved sufficiently resistant to pressures from privatization opponents, some from below (the national labor confederations and political leaders, such as Brizola and Lula) and some with significant potential to derail the process from above (Itamar Franco as president and key politicians who opposed the public auctions). The result was a structural reform process that proved credible to the business and labor members of the privatization constituency.

Brazil's experience with steel privatization demonstrates that embedded autonomy is an effective means for solving credibility problems in structural reforms. Through financial incentives, firms and workers received positive signals, as well as capacitating support that convinced them that participation in privatization would bring future rewards. By investing heavily in the restructuring of debt and production at the steel mills, the PND managers also developed sunk costs, commitments indicating that the government would follow through on efforts to improve the performance of the steel firms even after their sale. The PND followed a consistent strategy of industrial reform both before and after; and, as a result, it attracted an expanding pool of buyers as the program matured.

By employing the embedded autonomy concept, this study reinforces Evans's (1992) notion that the study of economic policy must focus on the state apparatus and its relations with society—ideas central to the “third

wave of thinking about the state.” The practice of embedded autonomy in the case of the privatization of Brazilian steel demonstrates that structural reform requires an association between state and economic interests rather than insulated (“strong”) states. At the same time, however, the case shows that the state is not an empty vessel that is filled with the interests of privileged societal actors. Instead, state interests direct the reform process in ways that employ private sector resources and political support. Embedded autonomy in this case also illustrates the simplistic fallacies of popular perceptions of structural reform as the result of economic necessities and fiscal exigencies. Politics shapes the content and credibility of reforms, but understanding what kind of politics matter is a task for those who are willing to rethink the state and its relations with society.

## NOTES

The author thanks Bryan Daves, Eduardo Silva, and four anonymous reviewers for their useful comments on this piece. The author also recognizes the Institute for the Study of World Politics, and the Institute of Latin American and Iberian Studies and the Department of Political Science, both of Columbia University, for funding some of the research used in this article. All errors that remain are, of course, the author’s responsibility.

1. The role of public steel in Brazil’s development is discussed in a number of important studies, including Evans 1979; Baer 1965, 1969; Schneider 1991; Shapiro 1994.

2. The seven profitable steel firms in 1994 were Companhia Siderúrgica Nacional (CSN), Usiminas, Companhia Siderúrgica de Tubarão (CST), Acesita, Açominas, and Piratini. Cosipa, the only steel firm showing a loss at the end of 1994, was also the last to be privatized (*Exame* 1994).

3. Among the most important studies of the BNDES that analyze the interests, structure, and efficiency of the bank during its developmentalist period are Willis 1986, 1995; and Martins 1985.

4. This study differs from Evans’s work in two fundamental ways. First, it focuses on structural adjustment, not the developmentalist period of industrial transformation that Evans analyzes. Doing so, however, verifies Evans’s argument (1992, 142) that “an understanding of industrial transformation may not be irrelevant to the eventual construction of an analysis of the state’s role in successful adjustment.” Second, the study applies embedded autonomy as a proximate cause for economic policy outcomes, not an intervening or dependent variable, as it sometimes is in Evans’s work.

5. Schneider (1997, 200–1) makes a similar argument regarding the credibility of reform, except that his focus is on “concertation”—the routinized negotiation between state managers and business of the details of policy implementation. I prefer the term *embedded autonomy* because of the centrality it affords state interests. The centrality of state interests is apparent in Schneider’s own Mexican and Brazilian cases; as he points out, “concertation collapsed quickly . . . especially when the state withdrew from it” (1997, 210).

6. Geddes (1995, 204–6) finds that even when reforms impose heavy costs on society, political incumbents tend to stay in office.

7. For a theoretical treatment of “signaling” and the “credibility gap” in economic reform processes, see Rodrik 1989.

8. Unlike Menem and Fujimori but like Salinas, Collor did not hide his advocacy of neoliberal reform before being elected president. Therefore Collor was not a “stealth” neoliberal candidate. I thank an anonymous reviewer for this point.

9. The role of a neoliberal technocracy in Mexico explains, at least in part, why that country shifted to market-oriented structural reform policies several years before Brazil did. For more on the Mexican technocracy and neoliberal reform, see Centeno 1994.

10. The ideas undergirding the Grupos Executivos da Política Setorial (GEPS, Executive Groups of Sectoral Policy) as part of the PCI included a return to the executive councils employed by Kubitschek’s Plano de Metas for the auto industry and heavy manufacturing during the 1950s (Oliveira 1994). For the official view of the PCI, see the column by João da Silva Maia in *Visão* (1990). These ideas were also applied to new industrial policies designed to promote science and technology. See Comissão Especial 1990.

11. Indebtedness resulted from using state enterprises to bring in foreign exchange in the form of debt, which financed chronic balance of payments deficits. See Werneck 1991; Baer and Villela 1994.

12. Luís Chrysostomo de Oliveira Filho, one of the original architects of the PND, compared the performance of private and public firms to justify his position that privatization would raise the performance of Brazil’s public firms to private sector standards. Elena Landau argued that the state could not make the financial commitment it would take to consolidate the restructuring of steel (*O Globo* 1994). Steel firm managers shared these views. See the testimony of Usiminas president Rinaldo Campos Soares (*Gazeta Mercantil* 1991d); the former secretary of planning for CSN, Fernando da Silveira Cotrim (*Gazeta Mercantil* 1990a); and Roberto Procópio de Lima Netto, former head of CSN (1993, 187–88).

13. The steel firms represented in the 1990 Siderbrás plan were Usiminas, Açominas, CST, CSN, and Cosipa. Moacélio Mendes was the last Siderbrás president in the Sarney administration.

14. A notable example of Zélia’s policing role in the government was her semipublic feud, early in the privatization process, with Evilásio Soriano, the last public executive of Petroquisa, a large state petrochemical firm. Soriano spoke for several government leaders who clung tenaciously to the idea that Brazil’s industrial development still required public firms. See *Estado de São Paulo* 1991.

15. For a discussion of patrimonialism and Brazilian politics, see Hagopian 1996.

16. For a historical analysis of Acesita, see *Veja* 1989.

17. Between July 1991 and January 1992, Acesita’s stock price had risen 572 percent nominally, 272 percent over the average São Paulo stock market rate for the same period (*Gazeta Mercantil* 1992c).

18. These figures are an approximation. The exact amount of “live money” during the Collor privatization was subsequently disputed among ex-Collor and Itamar Franco technocrats. The general view is that during the first stage, it was extremely limited. For a perspective from post-Collor managers of the PND, see the interviews with Elena Landau in *Folha de São Paulo* 1994 and *Estado de São Paulo*

1994. For an assessment of the use of debt paper and liquidity during the Collor privatizations, see Baer and Villela 1994.

19. The Central Bank controlled the DFA funds, while the CPs were administered by commercial and investment banks and fund management companies.

20. For a complete explanation of how state managers set minimum price and then calculated the *deságio*, see Prado 1993, 106–7, n. 18.

21. Among the Latin American cases, only in Argentina did privatization have an appreciable effect on public accounts. See Pinheiro and Schneider 1995; Manzetti 1993b.

22. In February 1991, Eduardo Modiano gave a talk before the U.S. Chamber of Commerce in Brazil and was greeted by the publication of a poll showing that the majority of the organization's members (54 percent) believed that the privatization program would stall from bureaucratic intransigence. Modiano's primary response was to emphasize that the PND's rich array of financial mechanisms would stimulate substantial business demand for the state firms (*Gazeta Mercantil* 1991b).

23. Modiano admitted as much in hindsight: "We never accepted these notes as part of some dogma. It was always a practical question created by the circumstances and by the market that we had to face" (Modiano 1992).

24. Because of deep mutual suspicions and political rivalries, Brizola and PT leader Lula da Silva failed to team up publicly on the antiprivatization campaign. Each directed his own movement against the PND. Later, Brizola gave qualified support to the privatization of CSN, a decision that raised the PT's ire (Netto 1993). For the PT's view of privatization, see the interview with Lula in *Jornal do Brasil* 1991b.

25. The federal treasury owed this amount to the Fundo de Compensação de Variações Salariais (FCVS, Compensation Fund for Salary Variations), a fund linked to the FGTS.

26. Before the actual sale of Usiminas, polls showed that 45 percent of the steel mill's workers supported privatization and 35 percent opposed the sale (*Folha de São Paulo* 1991).

27. For an exposition of the accusations lodged against the Bozano Simonsen group during this time, see Cícero's comments in *Jornal da Tarde* 1992.

28. Some members of the antiprivatization camp, moreover, did not get much chance to take action. Antônio Barros de Castro was president of the BNDES for only a couple of months before being replaced in January 1993 in a disagreement with Counsel General Ferreira over minimum pricing of a fertilizer firm.

## REFERENCES

- Amarante de Andrade, Maria Lúcia, Luiz Mauricio da Silva Cunha, and José Ricardo Martins Viera. 1994. A siderurgia brasileira no contexto mundial. *Revista do BNDES*, June: 71–96.
- Baer, Werner. 1965. *Industrialization and Economic Development in Brazil*. Homewood, IL: Richard D. Irwin.

- . 1969. *The Development of the Brazilian Steel Industry*. Nashville: Vanderbilt University Press.
- Baer, Werner, and Annibal V. Villela. 1994. Privatization and the Changing Role of the State in Brazil. In *Privatization in Latin America: New Roles for the Public and Private Sectors*, ed. Baer and Melissa H. Birch. Westport: Praeger. 1–19.
- Balassa, Bela, Gerardo M. Bueno, Pedro-Pablo Kuczynski, and Mario Henrique Simonsen. 1986. *Toward Renewed Economic Growth in Latin America*. Mexico City: El Colegio de México.
- Banco Nacional de Desenvolvimento Econômico e Social (BNDES). 1988. *Questões relativas a competitividade da indústria de bens de capital: bens de capital sob encomenda e máquinas-ferramenta*. Report. Rio de Janeiro: BNDES.
- . 1992. *Programa nacional de desestatização*. Rio de Janeiro: BNDES.
- . 1996. A atuação do BNDES em 1995/6. Unpublished internal document. Rio de Janeiro.
- Bartell, Ernest. 1994. Privatization: The Role of Domestic Business Elites. In *Privatization in Latin America: New Roles for the Public and Private Sectors*, ed. Werner Baer and Melissa H. Birch. Westport: Praeger. 71–94.
- Brazil. Ministério da Economia, Fazenda e Planejamento. 1991. *Política industrial e de comércio exterior: programa de competitividade industrial*. Brasília: MEFP.
- Brazil. Ministério da Economia, Fazenda e Planejamento e do Secretário de Ciência e Tecnologia. Comissão Especial. 1990. *Política industrial e de comércio exterior (PICE): apoio à capacitação tecnológica da indústria*. Brasília: Collor Government.
- Bresser Pereira, Luiz Carlos. 1993. Economic Reforms and Economic Growth: Efficiency and Politics in Latin America. In *Economic Reforms in New Democracies: A Social-Democratic Approach*, ed. Bresser Pereira, José María Maravall, and Adam Przeworski. New York: Cambridge University Press. 15–76.
- Carneiro, Maria Christina. 1996. Adviser for the Planning Directorate, BNDES. Author interview. Rio de Janeiro, 7 June.
- Castanheira, José Afonso Alves. 1995. Former BNDES Executive. Author interview. São Paulo, 6 March.
- Castro, Antônio Barros de. 1995. Former president, BNDES, Itamar Franco Administration. Author interview. Rio de Janeiro, 27 March.
- Centeno, Miguel Angel. 1994. *Democracy Within Reason: Technocratic Revolution in Mexico*. University Park: Pennsylvania State University Press.
- Collier, Ruth Berins, and David Collier. 1991. *Shaping the Political Arena: Critical Junctures, the Labor Movement, and Regime Dynamics in Latin America*. Princeton: Princeton University Press.
- Collor de Mello, Fernando. 1989. Diretrizes de ação do governo Fernando Collor de Mello. Pamphlet. Brasília: Collor Presidential Election Campaign.
- . 1990a. Speech. Yale University, New Haven, CT. 28 September. Brasília: Collor Government.
- . 1990b. Press conference. Brasília. 27 March. Brasília: Collor Government.
- Corrales, Javier. 1997–98. Do Economic Crises Contribute to Economic Reform? Argentina and Venezuela in the 1990s. *Political Science Quarterly* 112, 4 (Winter): 617–44.

- Corrêa, Maurício. 1991. Situação da Usiminas é ótima. *Estado de São Paulo*. 25 January.
- Correio Braziliense* (Brasília). 1991a. Preço da usiminas ainda provoca polêmica. 5 August: 9.
- . 1991b. Projeto pode inviabilizar privatização: entrevista com Eduardo Modiano. 1 July: 9.
- Coutinho, Luciano, and João Carlos Ferraz, eds. 1994. Estudo da competitividade da indústria brasileira. São Paulo: Papirus.
- Economist*. 1995. A Survey of Brazil: Half Empty or Half Full? 29 April: 1–34.
- Erber, Fábio. 1992. Mudanças estruturais e política industrial. Internal report no. 05/92. Brasília: Instituto de Pesquisa Econômica Aplicada.
- Estado de São Paulo*. 1991. Privatização enfrenta resistência no governo. 31 March.
- . 1992a. Pressões podem mudar a privatização. *Economia*, 19 May: 1.
- . 1992b. BC reduz prazos para capital externo. 9 January.
- . 1993. Montoro aponta pressões de congressistas. 4 July: 8.
- . 1994. BNDES define cronograma de privatizações. 13 December: B5.
- Evans, Peter B. 1979. *Dependent Development: The Alliance of Multinational, State, and Local Capital in Brazil*. Princeton: Princeton University Press.
- . 1992. The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change. In Haggard and Kaufman 1992. 139–81.
- . 1995. *Embedded Autonomy: States and Industrial Transformation*. Princeton: Princeton University Press.
- Exame* (São Paulo). 1994. Aleluia! Um negócio bom para todos. 31 August: 51–52.
- Folha de São Paulo*. 1991. Funcionários apóiam venda da Usiminas. 20 October: 1–8.
- . 1994. BNDES quer leiloar mais 34 empresas em 94. 30 May: 1–10.
- Frieden, Jeffrey A. 1991. *Debt, Development, and Democracy: Modern Political Economy and Latin America, 1965–1985*. Princeton: Princeton University Press.
- Gazeta Mercantil* (São Paulo). 1990a. Siderurgia, não deixar a rota para o mundo moderno. 28 August.
- . 1990b. Usinas estatais querem que a Siderbrás promova a privatização. 12 March.
- . 1991a. Ajustes internos preparam acesita para o programa de privatização. 2 July.
- . 1991b. Lucro de US\$ 11,3 milhões em 90. 21 February: 40.
- . 1991c. Para ministro, leis que regem o programa não necessitam alterações. 1 October.
- . 1991d. Siderurgia brasileira diante de profundas transformações. 8 January.
- . 1991e. Superadas tentativas anteriores. 15 August: 26.
- . 1992a. 12 December.
- . 1992b. Calendário já definido do programa deve ser mantido no governo Itamar. 6 October.
- . 1992c. Os lucros da privatização. 31 January.
- . 1993. Privatização leva o setor do aço a unificar entidade representativa. 31 May.

- Geddes, Barbara. 1995. The Politics of Economic Liberalization. *Latin American Research Review* 30, 2: 195–214.
- Gereffi, Gary, and Donald L. Wyman, eds. 1990. *Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia*. Princeton: Princeton University Press.
- O Globo* (Rio de Janeiro). 1992. Privatização: novo governo deve rever o uso de moedas podres. 5 October.
- . 1993. Fazenda fica com a privatização. 23 October: 26.
- . 1994. A privatização está acima de ideologias: uma entrevista com Elena Landau. 20 March: 42.
- Gourevitch, Peter. 1986. *Politics in Hard Times: Comparative Responses to International Economic Crises*. Ithaca: Cornell University Press.
- Haggard, Stephan, and Robert R. Kaufman, eds. 1992. *The Politics of Economic Adjustment: International Constraints, Distributive Conflicts, and the State*. Princeton: Princeton University Press.
- Hagopian, Frances. 1996. *Traditional Politics and Regime Change in Brazil*. New York: Cambridge University Press.
- Hellman, Joel S. 1998. Winners Take All: The Politics of Partial Reform in Postcommunist Transitions. *World Politics* 50, 2 (January): 203–34.
- Johnson, Chalmers. 1987. Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan. In *The Political Economy of the New Asian Industrialism*, ed. Frederic C. Deyo. Ithaca: Cornell University Press. 136–64.
- Jornal da Tarde* (São Paulo). 1992. Itamar teme monopólio privado. 28 December.
- Jornal de Brasília*. 1992. Débitos da usiminas já são menores. 16 January.
- Jornal do Brasil* (Rio de Janeiro). 1991a. Desestatização, uma reforma estrutural. 20 January: 11.
- . 1991b. PT denuncia privatização. 5 July.
- . 1992. Privatização faz 1 ano. 31 May.
- . 1994. Mercado espera definições na privatização. 7 October: 15.
- Kahler, Miles. 1992. External Influence, Conditionality, and the Politics of Adjustment. In Haggard and Kaufman 1992. 89–136.
- Kingstone, Peter. 1994. Shaping Business Interests: The Politics of Neo-Liberalism in Brazil, 1985–1992. Ph.D. diss., Department of Political Science, University of California, Berkeley.
- Landau, Elena. 1995. Privatizações: lições para o programa fundamental. *Jornal do Brasil*, 1 January.
- Lima, Marco Antonio de Araujo. 1996. Former Executive Director, BNDES. Author interview. Rio de Janeiro, 5 June.
- Maia, João da Silva. 1990. Ordem é modernizar. Mas esta é a saída? *Visão* (São Paulo), 11 July: 14–21.
- Manzetti, Luigi. 1993a. *Institutions, Parties, and Coalitions in Argentine Politics*. Pittsburgh: University of Pittsburgh Press.
- . 1993b. The Political Economy of Privatization Through Divestiture in Lesser Developed Economies. *Comparative Politics* 25, 4 (July): 429–54.
- Martins, Luciano. 1985. *Estado capitalista e burocracia no Brasil pós 64*. Rio de Janeiro: Paz e Terra.

- Meilman, Doris Lustman. 1996. Director of Planning, BNDES. Author interview. Rio de Janeiro, 5 June.
- Mello, Marina Figueira de. 1993. Privatização e ajuste fiscal no Brasil. *Pesquisa e Planejamento Econômico* 24, 3 (December): 445–518.
- Modiano, Eduardo. 1991. Desestatização, uma reforma estrutural. *Jornal do Brasil*, 20 January.
- . 1992. As moedas da demagogia. *Folha de São Paulo*, 15 September.
- Montero, Alfred P. 1997. Shifting States in Uneven Markets: Political Decentralization and Industrial Policy in Contemporary Brazil and Spain. Ph.D. diss., Department of Political Science, Columbia University.
- Neto, Antonio. 1993. As “privatizações” não passam de doações do patrimônio público. Testimony by the national president of the Central Geral dos Trabalhadores before the Commission of Public Inquiry on Privatization, 19 May. Pamphlet.
- Netto, Roberto Procúpio de Lima. 1993. *Volta por cima: a história da salvação da CSN—Companhia Siderúrgica Nacional, símbolo da industrialização brasileira*. Rio de Janeiro: Editora Record.
- Oliveira, Gesner. 1994. Former Adjunct Secretary of Political Economy for the Itamar Franco Administration, Ministerio da Fazenda. Author interview. Brasília, 7 December.
- Olson, Mancur. 1982. *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities*. New Haven: Yale University Press.
- Peres, Wilson. 1997a. Competitiveness Policies in Latin America and the Caribbean in the Mid-1990s: General Perspectives and the Importance of the Local Dimension. Paper presented at the inaugural meeting of the Working Group on Subnational Economic Governance in Latin America and Southern Europe, Columbia University, New York, 12–13 September.
- , ed. 1997b. *Políticas de competitividad industrial: América Latina y el Caribe en los años noventa*. Mexico City: Siglo Veintiuno.
- Pérez-Alemán, Paola. 1997. Institutional Transformations and Economic Development in Chile: Learning, Inter-Firm Networks, and the State. Paper presented at the inaugural meeting of the Working Group on Subnational Economic Governance in Latin America and Southern Europe, Columbia University, New York, 12–13 September.
- Pinheiro, Armando Castelar, and Fabio Giambiagi. 1993. Privatização: aspectos fiscais e outras considerações. In *Perspectivas da economia brasileira, 1994*, Vol. 1, ed. Instituto de Pesquisa Econômica Aplicada. Rio de Janeiro: IPEA. 277–95.
- Pinheiro, Armando Castelar, and Ben Ross Schneider. 1995. The Fiscal Impact of Privatisation in Latin America. *Journal of Development Studies* 31, 5 (June): 751–85.
- Prado, Sérgio. 1993. Crise do estado e privatização: limites da visão neoliberal. In *Crise brasileira: anos oitenta e governo Collor*, ed. Central Unica dos Trabalhadores. São Paulo: DESEP. 83–141.
- Rodrik, Dani. 1989. Promises, Promises: Credible Policy Reform via Signaling. *Economic Journal* 99 (September): 756–72.

- Schneider, Ben Ross. 1988–89. Partly for Sale: Privatization and State Strength in Brazil and Mexico. *Journal of Interamerican Studies and World Affairs* 30, 4 (Winter): 89–116.
- . 1991. *Politics Within the State: Elite Bureaucrats and Industrial Policy in Authoritarian Brazil*. Pittsburgh: University of Pittsburgh Press.
- . 1992. Privatization in the Collor Government: Triumph of Liberalism or Collapse of the Developmental State? In *The Right and Democracy in Latin America*, ed. Douglas Chalmers, Atilio Borón, and Maria do Carmo Campello de Souza. New York: Praeger. 225–38.
- . 1997. Big Business and the Politics of Economic Reform: Confidence and Concertation in Brazil and Mexico. In *Business and the State in Developing Countries*, ed. Sylvia Maxfield and Schneider. Ithaca: Cornell University Press. 191–215.
- Shapiro, Helen. 1994. *Engines of Growth: The State and Transnational Auto Companies in Brazil*. New York: Cambridge University Press.
- Silva, Eduardo. 1993. Capitalist Coalitions, the State, and Neoliberal Economic Restructuring: Chile, 1973–88. *World Politics* 45, 4 (July): 526–59.
- . 1996. *The State and Capital in Chile: Business Elites, Technocrats, and Market Economics*. Boulder: Westview Press.
- Stallings, Barbara. 1992. International Influence on Economic Policy: Debt, Stabilization, and Structural Reform. In Haggard and Kaufman 1992. 41–88.
- Tourinho, Octavio A. F., and Ricardo L. Vianna. 1993. Avaliação e agenda do programa nacional de desestatização. In *Perspectivas da economia brasileira, 1994*, vol. 1, ed. Instituto de Pesquisa Econômica Aplicada. Rio de Janeiro: IPEA. 65–92.
- U.S./Latin Trade*. 1994. The Privatization of Brazilian Steel. September: 82–88, 98.
- Veja* (São Paulo). 1989. Campea endividada. 10 May.
- . 1995. Dinheiro em papel. 14 June: 60–62.
- Wade, Robert. 1990. *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*. Princeton: Princeton University Press.
- Waterbury, John. 1992. The Heart of the Matter? Public Enterprise and the Adjustment Process. In Haggard and Kaufman 1992. 182–217.
- Werneck, Rogério L. Furquim. 1991. *Empresas estatais e política macroeconômica*. Rio de Janeiro: Editora Campus.
- Weyland, Kurt. 1996. *Democracy Without Equity: Failures of Reform in Brazil*. Pittsburgh: University of Pittsburgh Press.
- . Forthcoming. The Brazilian State in the New Democracy. In *Democratic Brazil*, ed. Timothy Power and Peter Kingstone. Pittsburgh: University of Pittsburgh Press.
- Willis, Eliza. 1986. The State as Banker: The Expansion of the Public Sector in Brazil. Ph.D. diss., Department of Political Science, University of Texas, Austin.
- . 1995. Explaining Bureaucratic Independence in Brazil: The Experience of the National Economic Development Bank. *Journal of Latin American Studies* 27, 3: 625–61.