RENT SEEKING AND BUSINESS ORGANIZATIONS:
AN EXPLANATORY STUDY OF BUSINESS ORGANIZATION’S ROLE
DURING BRAZIL’S TRADE LIBERALIZATION ERA

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RENT SEEKING AND BUSINESS ORGANIZATIONS: AN EXPLANATORY STUDY OF BUSINESS ORGANIZATION’S ROLE DURING BRAZIL’S TRADE LIBERALIZATION ERA

Thesis presented to Escola de Administração de Empresas de São Paulo of Fundação Getulio Vargas, as a requirement to obtain the title of Master in International Management (MPGI).

Knowledge Field: Political Economy

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Abstract

Brazil partially shifted from state-led development to market economy following its switch to democracy. This affected the economy in two ways: first the state initiated a wave of privatization in the wake of the fiscal crisis under President Collor. Second, the economy started opening up to international competition through the enactment of certain trade reforms. However, the economy still displays erratic levels of protectionism. The literature on rent seeking argues that organized interest groups devote resources to capture and try to influence and neutralize the liberalization of the economy, which would endanger the rents they benefit from under existing rules.

After decades of state nurturing under the ISI model, the business sector in Brazil was crucial to shaping the path for a new growth model. However, their role in promoting trade openness was far more nuanced. The present work looks at business groups in Brazil since the second half of the twentieth century and the role they played before and during the transition and how their opposition to trade reforms suggests potential rent-seeking behaviors. The transition to democracy witnessed the emergence of new business organizations with independent actions that I will account for in this paper. Business organizations were not united at the time of economic reforms and thus reacted differently according to the interests of their members. Institutional factors, amongst which the rise of a new civil society, as well as conjectural factors further constrained the path of economic reforms.

Keywords: rent seeking, business organizations, collective action, trade liberalization
Resumo:

O Brasil sofreu uma parcial mudança, do desenvolvimento estatal à economia de mercado, em seguimento à sua transição à democracia. A economia abriu-se para o comércio internacional, mas ainda hoje apresenta níveis erráticos de protecionismo. O fenômeno da rent-seeking (“busca de renda”) destaca a tentativa de grupos organizados em captar recursos estatais para atividades improdutivas. Como consequência direta, este fenômeno dificulta a realização de reformas comerciais, como grupos de pressão organizados (lobbies), com o fim de proteger os seus próprios interesses. Depois de décadas de modelo de industrialização via substituição de importações (ISI model) incentivado pelo Estado, o setor de negócios no Brasil demonstrou-se crucial para moldar o caminho em direção a reformas econômicas. O presente trabalho analisa o papel desenvolvido pelos grupos empresariais, antes e durante esta transição, e examina como a sua oposição a abertura econômica sugere provável busca de renda.

Este trabalho argumenta que as limitações da estrutura corporativa combinadas com o surgimento de novos grupos de pressão, concorrentes entre si, fragmentou a intermediação de interesses. Paradoxalmente, essa fragmentação de interesses e fraqueza coletiva de grupos de pressões limitou os obstáculos as reformas econômicas. O surgimento de uma nova sociedade civil e os fatores institucionais do regime democrático são outros fatores que dificultaram a criação de reformas econômicas.

Palavras-chaves: Busca de renda, ação coletiva, organizações empresariais, liberalização do comércio
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1. Introduction

Throughout the second half of the twentieth century, Brazil shifted radically its economic growth model. Whilst at King’s College London, I produced a paper that investigated the political aspect of this transformation and looked at the underlying institutional framework, arguing that despite the transition from authoritarianism to democracy, the “rules of the game had not changed”. (Bouyer, 2013). Much in the same vein, the purpose of this thesis is to look at Brazil’s transition from an inward-looking developmental model to a liberalized economy and the obstacles to such transition.

From 1957 to 1988, the Brazilian economy was characterized by a prohibitive tariff structure, redundancy at all points of the productive chain and special import regimes linked to a policy of import substitution. (Averbug, 2002). After this period, and most notably under President Fernando Henrique Cardoso, Brazil embraced a new development strategy; privatizing state-owned firms, lowering trade barriers and deregulating the economy. (Alfaro, 2001). The process of trade liberalization could potentially confer major benefits to Brazilian productivity and competitiveness and hence reduce significantly the Brazil cost, characterized most notably by a high tax burden and inadequate infrastructure. The notion of the Brazil cost is also confirmed in reports such as the World Bank’s Ease of Doing Business 2016 that ranks Brazil 123rd out 190 countries in total2.

The gains from opening up are considerable since they have improved Brazil’s chances of sustainable growth (Mesquita Moreira, 2004). However, the country’s poor economic performance following the process of trade liberalization point at other factors impeding to unleash Brazil’s full potential as “a country of the future”. (Alfaro, 2002). The purpose of my thesis is to show how the institutional framework along with an adverse macroeconomic environment has diluted the gains from trade productivity. I will limit

1 “A society dense with narrow special interests organizations is like a china shop filled with wrestlers battling over its contents, and breaking far more than they can carry away.” (Olson, 1986)

the scope of my research to one area of analysis, which is the concept of rent seeking. What is more, I will apply my theoretical findings to the study of one specific group, namely Brazil’s business lobbies.

Broadly speaking, rent seeking involves increasing one’s share of wealth without contributing to overall wealth creation and leads to cases of inefficient allocation of resources, lost government revenue and increased income inequality. The point of departure of my thesis is the analysis of organizations, and my first claim is the following: men join together through organizations to advance collective goals and protect common interests. The logic behind this assumption is that without an established set of preferences amongst the group, the latter would not exist since “there is no group without its interest” (Bentley, 1950).

The logic of Collective Action (Olson, 1965) argues that concentrated interests will edge diffuse costs due to a free-rider dilemma. Organizations display different levels of development with features such as group size, level of preference alignment and selective incentives, which can enhance their capacity at collectively organizing and coordinating action. (Olson, 1965). Depending on the characteristics of organizations, some are better placed to game the rules of the political system in their favour. Business groups are in general well-organized entities, which is the reason why I chose to focus on Brazilian business groups specifically. (Schattenschneider, 1975). In my analysis, I will look at rational motives behind group organization that lead primarily to cases of rent seeking.

The hypothesis I would like to test is the following: to what extent Brazilian business organizations engaged in rent seeking activities to prevent trade liberalization? On one hand Brazil’s main business organizations accepted privatization because they suffered from state involvement in the economy and its subsequent fiscal crisis and policy paralysis. Yet on the other hand, they opposed trade reforms because it exposed them to international competition and threatened their economic interests. In other words, domestic players prevented foreign companies from entering the Brazilian market and aimed at framing the legislature accordingly. The degree of openness of Brazil’s economy is a testimony to these organizations’ actions. (Canuto, Fleischhaker and Schellekens, 2015) However, I will show that despite evident cases of rent seeking, business organizations in Brazil did not represent the main obstacles to trade liberalization. Differing business organizations reacted differently to trade openness according to their
sectoral location and dependence on the state. I will attempt to distinguish the reasons behind their opposition in light of this fact.

Historically, rent seeking arose in Brazil from state promotion of business organization with the case of regional industry federations and state preference for individual ties with narrow sectors of the economy. (Kingstone, 1999). Paradoxically, this preference for informal networks fragmented interest representation and stimulated the creation of competing business organizations in the late 1980s, as will be shown with the cases of IEDI and PNBE. (Schneider, 2003) Business groups were thus weak and divided at the time of reforms, which limited their political projection and power to oppose trade reforms. Other impediments to trade reforms can be found in the overall institutional weakness of the young Brazilian democracy (Ames, 2001) and the fiscal and political crisis that plagued the reformist agenda. I will touch upon these factors last.

The structure of this thesis is as follows. My literature review will assess group interest theory and its relevance to the concept of a limited access order (North, Wallis and Weingast, 2006). My arguments on group formation will build on Olson’s framework as put forth in The Logic of Collective Action. (Olson, 1965) In my analysis, I aim to check the framework’s relevance to explaining the limits of trade liberalization in Brazil. I will look into Brazil’s historical economic policies, the ties the state held with the business community overtime and its role in incentivizing business organization. I will also analyse the reaction of business organizations to trade reforms and the reasons underlying sectoral opposition to trade openness. Finally, I will elaborate on both structural and conjectural factors that help account for obstacles to trade liberalization.
2 – Theoretical background

2.1 Defining rent seeking

Rent seeking (Krueger, 1973) refers to the use of resources to obtain economic gain from the legislature without reciprocating any benefits to society. Examples of rent seeking activities include imposition of regulation on competitors, regulatory capture with the collusion involved between companies and government agencies or political rent creation and the attendant corruption of public servants. Whereas rent creation occurs through innovation in a competitive framework, it can also be achieved by limiting competition under rent seeking patterns.

The rent seeking literature (Krueger, 1973; Keating, Buchanan, Tullock and Tollison, 1982) proposes that public policies related to redistribution of income are subject to political struggle by interest groups. I intend to look at the actions and behaviours of specific interest groups, namely business lobbies. Whilst the “Lava Jato” case reminds us that outright corruption does exist in Brazil, I will be looking at instances where interest groups legally lobbied the state for rents such as subsidies, tariffs or the implementation of a special regulation, which would all subsequently hinder foreign competition. In doing so, I aim to assess business organization’s attempt at blocking free trade reforms as a closed economy usually displays unproductive sectors all other things constant.

Rent seeking behaviour matters because it limits the scope and reach of public goods that could otherwise benefit society as a whole. A public good is a good that is both non-excludable and non-rivalrous; meaning that consumption of the good by an individual does not diminish availability to others. (Cowen, 2008). The logic is the following: business organizations with narrow interests lobby the state for privileges and turn public resources into private subsidies. They will thus incur two costs on society. The first is incurred because lobbying resources are spent in non-productive activity and results in inefficient allocation of resources. The second cost lies in the diminution of public resources available to latent and inactive groups.

Brazil witnessed a transition from authoritarian rule to democracy. In economic terms, the country shifted partially from state-led development to a more open economy. However, the country still displays significant features of protectionism. (Averybug, 1990)
Rent seeking is amongst the reasons invoked to explain the impediments to economic liberalization. Other reasons lie in the institutional framework of Brazil’s democracy and the economic context through which these reforms were enacted. (Ames, 2001; Bartell, 1993, Pinheiro, 1994) I will develop these points last in my analysis.

2.2 Past studies on institutional reforms of the economy in Brazil

Industrialists played a crucial role in supporting governing coalitions (Kingstone, 1999). Following decades of nurturing by the state under the import substitution industrialization (ISI), the industrial sector in Brazil shifted from aggressive support of the reformist agenda to overt opposition during Brazil’s liberalization era. Kingstone argues that the key to understanding the behavior of Brazilian industrialists lies in the impact of four factors: (i) the effect of the economic crisis and the viability of the previous growth model, (ii) the sectoral location and the advantages it derived from historical state protection, (iii) the adjustment options to international competition and, finally, (iv) the credibility of government reforms.

Whilst the Brazilian business community was critical to endorsing government reforms, another line of argument reverses the logic and looks at how and why states organized and disorganized businesses in Latin America (Schneider, 2003). Instead of conceptualizing the state as a passive actor, Schneider argues that the state is active and independent with top officials in the economic bureaucracy acting as pivotal causal agents shaping business organization. This line of thought shows how rent-seeking behaviors was contained by the weak political projection of seemingly powerful business organizations. This reasoning is reverberated by Weyland in his analysis of health reforms in Brazil. (Weyland, 1996). However, it also shows how rent seeking emanates from public spheres through a process of political rent creation that is poorly accounted for by the rent seeking literature.

When accounting for the process of liberalization of the economy in Latin America and Brazil more specifically, Harberger (1993) emphasizes the uncompromising stance of certain actors that was crucial to implement trade reforms. He argues that the action of a key group of individuals, amongst which planning minister Roberto Campos in Brazil in the 1960s and other individuals at a later point in time, helped for a better allocation of
resources and triggered growth in the longer run, namely the Brazilian miracle in the late 1960s. An opposing view sees the actions of new distributional coalitions as inducing state withdrawal from the economy (Schamis, 2002).

Other causes preventing a broader shift to market economy in Brazil have also been treated in the literature. Studies on the pension system in Brazil have documented the role of ideas and perceptions in determining a path-dependent constrained choice. (Almeida, 1995a; Melo, 1990). Still on the subject of the pension system and its attempted reform, another line of thought claims that economic forces exerted limited political influence and sees the origin of failure in the fragmentation of social forces and the institutional quality of Brazil’s constitutional system (Weyland, 1996).

Many authors contend that the transition to democracy aggravated the policy-making context with a fragmentation of civil society. (Lopez, 1996; Diniz, 1995a). In the same vein, the overall instability of the governing coalition, as well as the weakness of Brazil’s political parties, have contributed to the political pressures linked to the failure of economic liberalization. (Haggard and Kaufman, 1995, p 193-98; Martin, 1994). In my third part, I will point to others factors outside the rent seeking behaviors of organized business that effectively limited the scope of trade reforms.

3. **Theoretical framework**

3.1 **Literature review**

<table>
<thead>
<tr>
<th>Rent seeking</th>
<th>Selective Incentives</th>
<th>By-product activity</th>
<th>Limited access orders</th>
</tr>
</thead>
<tbody>
<tr>
<td>The use of resources to obtain economic gain without reciprocating any benefits to society</td>
<td>Private goods made available on the basis of contribution to a collective good; they can either reward or punish non-participants</td>
<td>The theory contending that groups are in fact organized for another purpose than their lobbying motives</td>
<td>The organization of society through distribution of key functions to elite factions</td>
</tr>
</tbody>
</table>

| Gordon Tullock, Ann Krueger | Mancur Olson | Mancur Olson | Douglas North |

**Figure 1: Theoretical concepts**
The literature on collective action (Olson, 1965; Olson, 1984) looks primarily at group formation, namely why do interest groups form and what society can expect from the multiplication of such organizations. It is primarily concerned with the causal dynamics that drive individuals to invest both time and resources in interest groups. The problem of the free rider (Olson, 1965) holds that rational individuals will have incentives to correct all the efforts of other members, unless the organization provides benefits only to its active participants. Much in the same respect, rent seeking activities will occur at the group level since some organizations will be better off from engaging in unproductive activities that will reap higher rewards, with no regards whatsoever towards inefficient allocation of resources.

I will use the concepts of selective incentives and by product activity widely in my thesis and will start by defining them here. Selective incentives are private goods made available to people on the basis of contribution to collective action. The case of the syndical tax (imposto sindical) from FIESP and other regional federations is one such case of a selective incentive that I will touch upon in my analysis. In turn, the by-product theory refers to the fact that large organizations with significant lobbying power are in fact also organized for some other purpose and draw their strength and support because they perform this additional function. Again, I aim to use this concept when treating the subject of corporatist business organizations and their mandatory membership.

With their focus on redistribution, distributional coalitions constrain growth and increase the complexity of regulation and the role of government (Olson, 1986). Building on Olson’s work, the rent seeking literature points at the potential harmful consequences democracies can fear from organized business. (Schneider, 2003). They put forward that rent-seeking opportunities are defined as being “directly related to the scope and range of government activity in the economy, to the relative size of the public sector” (Buchanan, 1980). Individuals or groups with entrenched relations to the government will invest in corporate lobbying such as prohibitive import tariffs and thus impose costs on the silent and demobilized majority.

Where business organizations are given prime importance in relation to rent seeking
behaviors, the state is often relegated to the periphery as some “downplay the possibility that a significant set of pressures may have emanated from the bureaucratic or political institutions of the government itself” (Frieden, 1991, 39). Whilst I consider that organized groups can indeed reap selective benefits from concerted action, the rent seeking literature rests mainly on a capture theory where distributional coalitions target state resources. Yet this fails to consider the supply side, that government actors provide a market for rent seeking, one through which state officials effectively adopt rent seeking behaviors through a process of political rent creation. This view is contended by Schneider and will form the basis of my argumentation in this thesis.

The rent seeking literature reduces the role of state actors and their capacity at providing the constitutional, legal and political framework within which social organizations “arise and operate” (Edwards and Foley, 2001, p13). I contend that strategic interactions between members of the elite, both inside and outside of the state structure present a more comprehensive understanding of power relations and rent seeking patterns. In other words, it is in the overall interactions between business organizations and members of the public sphere in Brazil that rent seeking emanates. Through the control of the regulatory framework, members of the bureaucracy can barter for rents such as votes or campaign contributions (McChesney, 1987). I regard the state as a distinct actor with its own capacity and choice; my analysis will encompass interactions between pressure groups and state actors in assessing the phenomenon of rent seeking.

New Institutional Economics (Williamson, 1996) helps mend the gap of the rent seeking literature by treating actors within and outside the state structure equally. It attempts to expand the reach of economics assumptions by focusing on the social norms and rules that underpin economic performance. The subject of attention lies in the institutional framework as it forms the incentive structure of a society (North, 1994). The institutional strength is key to understanding economic policies as strategic interactions and policy designs between disputing parties are deeply embedded in a country’s history and economic performance overtime and may demonstrate path-dependent sequence of change. Applying the concept of path-dependency to the case of economic reforms in Brazil, one could argue that the choices presented to reformers in Brazil in the 1990s were deeply constrained, even though these had become irrelevant at the time of reforms. In other words, the corporatist framework inherited from past policy decisions
significantly reduced the choices and scope of potential reforms.

The concept of the limited access order (North, Wallis, Weingast, 2011) advances the idea that societies grant control over parts of the economy to ruling elites, which thus ensures support in exchange of rent extraction. Limited access orders foster specialization and the creation of incentives for groups to compete peacefully. The dynamic begins with rent creation and distribution towards elite factions, prompting loyalty to the system and thus protecting vested interests from potential new entrants. An important feature of the limited access order is that it limits entry to competition and allows only certain groups to form organizations. Rent creation lies in the exclusive privilege granted to those performing key functions through organizations such as corporations, labor unions, and political parties that shape the civil society. Echoing the argument of the rent seeking literature, I will use this concept when looking at the legislation surrounding business organizations in Brazil under corporatist rule and how it has affected business organizations since.

According to the rent-seeking theory, the framework under which distributional coalitions thrive is one where main business organizations capture state resources through targeted lobbying and profit from subsequent subsidies, tariffs and regulations. In its encompassing scope treating interest groups and state actors alike, the logic of limited access order argues that the ruling coalition prompts loyalty to the system through stable and safe distribution of rents. If the latter condition is not met, elite factions within the ruling coalition start challenging the system for lack of reward for their support. I contend that it is such a dynamic that pushed Brazil’s main business organizations to oppose the authoritarian regime and subsequently triggered the waves of privatization and trade reforms.
3.2 Scope of analysis

Figure 2: Timeline of my analysis

The approach I have employed will use the theoretical implications of group organizations and limited access orders discussed in the literature review to shed some light on the Brazilian reality. First, it will build on the account of the role business organizations assumed under the ISI model. In line with the concept of path-dependency, I hold that past policy decisions deeply constrained the choices presented to state reformers in the early 1990s in Brazil. It is therefore essential to my analysis that I review past policy regimes that precluded trade reforms in the 1990s.

In my second part, I will analyse the rise of competing business organizations such as PNBE and IEDI that preceded trade liberalization. This serves two purposes; the first is to shed light on the lack of relevance of the corporatist framework towards policy making during the reformist era. The second is to show that since business lobbies were highly fragmented, overall they displayed weak political projection at the time of reforms.

In my third part, I aim to show both institutional and conjectural factors that impeded trade reforms in Brazil. Since reforms do not happen in a constitutional void, my intention is to show how Brazil’s new Constitution and political system amongst other factors further limited economic reforms. I will also show how conjectural and most notably external factors also played a part in restraining reforms.

Overall, Brazil’s transition to a more open economy has often been described broadly as “neoliberal economic policies” (Saad Filho, 2014). Through this thesis, I aim to demonstrate the limitations of such paradigm shift by looking at how business
organizations reacted to the wave of privatization but also opposed trade liberalization. Business preferences were not the key drivers of policy reforms and whereas they are still representative of some form of collusion, it is in both structural and conjectural factors that I see the main obstacles to trade liberalization. In the build-up towards trade openness, Brazil faced fiscal and budgetary crises that deeply affected the state’s capacity at implementing thorough reforms. New segments of society also thwarted further change by vetoing reforms that would shift the cost of adjustment to them.
4. Analysis

4.1 The role of corporatist business organizations

The aim of this chapter is to demonstrate the evolution of the business community’s ties with the regime in place and to show how it shifted from a cozy relationship to one of direct confrontation with the executive. Most importantly, it aims to answer the reasons behind such opposition and also factors in the appearance of new players.

4.1.1 State organization of business under Gétulio Vargas

In this first part, I aim to review the Brazilian state’s crucial role in promoting business organization. The starting point of my analysis looks at the birth of corporatist organizations, namely FIESP and CNI, in the early 1930s and onwards. At the same time, the Brazilian State promoted a policy of import substitution industrialization (ISI) that advocated replacing foreign imports with domestic production, as opposed to export-led growth. I will show how the Brazilian State prompted business organization and through what mechanisms

Corporatism is the organization of society by major interest groups and has been a common feature of Brazilian society in the twentieth century. Corporatist business organizations first emerged under the presidency of Getulio Vargas and managed to gather considerable influence through the implementation of corporatist laws such as the Constitution of 1934, the Carta of 1937 and the Consolidaçao das Leis do Trabalho (Schneider, 2003). Alongside the corporatist structure the ISI model aimed at achieving three distinct purposes: economic growth, greater economic independence and self-sufficiency in industry (Baer, 1972). In economic terms, high trade barriers were erected for imports that directly competed with national production. Rent seeking behavior began in this context where those granting import licenses and investment permits became the targets of lobbying and interest group manipulation (Bruton, 1998).

The ISI growth model rested on two pillars. The first was state intervention in the
economy to bolster key strategic sectors such as industrial production and energy. The second was its reliance on extensive patronage resources channeled through corporate organizations. (Kingstone, 1999). Echoing the idea of a limited access order (North, Wallis and Weingast, 2011), these patronage resources helped satisfy the coalition of elites in rewarding their support through distribution of rents. The main weakness of such a system relied in its unsustainable use of financial resources, which in turn drove the state to rely heavily on foreign borrowing and deficit financing. (Fishlow, 1987). Whilst business remained a privileged benefactor from state subsidies, other sectors such as labor associations managed to organize and subsequently promote their interests (Kingstone, 1999).

In the next part of my work, I will often refer to corporatist organizations and their correspondent legislative framework to account for relationships between the state and the business sphere. Since literature was most available for both FIESP and CNI, I have chosen them as main reference points when looking at corporatist organizations. The Federacao das Industrias do Estado de Sao Paulo (FIESP) and the Confederacao Nacional da Industria (CNI) stand out as legacies of Brazil’s past corporatist regime. The former, with its combination of more than a hundred and twenty syndicates and representation of more than two million people has been christened a “mini state within the Brazilian republic” (Kingstone, 1999). Since its inception in 1931, its primary function was to act as an agent (idea of “despachante”) for firms and syndicates that were too small to influence government agenda on their own. CNI was created in 1938 and originally grouped together state federations of Sao Paulo, Rio de Janeiro and Rio Grande do Sul and nowadays represents state federations all over Brazil.

The strong coalition of interests between labor, business and the military that was built under President Vargas was enabled largely by the privileged access and other rents these factions received. During the early phase of corporatism in the 1930s decade, the state provided incentives for business to organize, which included institutionalized access to policy making, compulsory membership and funding (imposto sindical), representational monopolies and the exclusive business control over state-created training and social funds (Schneider, 2003). This growth model prompted strong business organization and collective action since it “functioned well to channel all manner of rents to the business community” (Kingstone, 1999).
Framing the context in Olsonian terms, state-sponsored business lobbies mushroomed under the corporatist framework since they were the main recipients of selective incentives, including state funds. With privileged access to social funds and the capacity to organize and represent business relations as a by-product activity of their lobbying arm, business organizations thrived and expanded as a reaction to the evolving institutional design. Going back to the Logic of Collective Action (Olson, 1965) central argument, demobilized segments of society lost out to organized groups, in this case corporate lobbies, as they managed to turn potential public goods in private subsidies.

### 4.1.2 Distortions of corporatist representation

In this part, I aim to show that corporatism generated a framework under which the state funded business organizations but also paradoxically undermined their influence. On the one hand, business lobbies became the main recipients of social funds through the mechanisms mentioned above. On the other hand, the legislative framework surrounding corporatist statutes obstructed broad linkages across different sectors of the economy through voting restrictions. It also promoted differential treatment of business associations and generated competition amongst them with the introduction of parallel and sometimes directly competing specialized agencies.

Corporatist statutes on regional and sectoral voting limited the scope of business representation of organizations since their inception (Wiarda, 1997). In the case of the CNI, statutes permitted one syndicate to form per category of production and collected all votes under the principle of one syndicate, one vote; hence hindering broad linkages across the economy. Another feature of the corporatist structure was the equal weighting of votes under the syndicate, which delegated over-representation and influence to the many small firms and federations and marginalized the influence of bigger players (Kingstone, 1999). Finally, the prohibition of involvement in politics through the syndical law further active since the implementation of the corporatist framework in the early 1950s undermined the role assumed by business organizations.

Since its initial phase the corporatist framework incentivized the differential treatment of
business associations according to a firm’s access to decision-makers. (Fishlow, 1987) Through the corporatist system, the state provided largely privileges to particular firms or sectors of the industry. (Weyland, 1996) This in turn accentuated existing tensions in the business structure and led to open dissatisfaction against representatives of the main business organizations. The emergence of competing business lobbies in the following decades were a direct consequence of this dissatisfaction.

The developmental state also gave birth to state enterprises or specialized agencies that would further fragment and sometimes directly compete with historical associations. The likes of ABDIB\(^3\) (capital goods), ANFAVEA (automobiles), ABIMAQ (machinery) ABINEE (electrical equipment) and ABIQUIM (chemicals), which were all founded under authoritarian rule, eroded the rent distribution scheme that had been operating in the early phase of the developmental state. (Schneider, 2003) By allowing entry of competitors and contesting the exclusive privilege of business organizations to perform key functions, the corporatist regime further undermined the influence of associations such as CNI.

The situation where strong and concentrated business associations soon came to lose their political clout is thus paradoxical. The limited access order framework helps solve this puzzle: by introducing new actors and limiting the scope and action of historical organizations, the multiplication of recipients for state subsidies eroded the rent distribution system at work and the attendant adherence of its ruling coalition. These form the premises to a fragmented and highly politicized business representation.

### 4.1.3 Gradual removal from policy spheres

Whilst the Brazilian state witnessed a political regime transition in the early 1960s, traditional business organizations saw their influence decline. The logic behind such decline lies in the subsequent diminution of state subsidies these organizations received. Both competition with other agencies and external factors related to the international economy decreased the share of state resources available. Another reason invoked points at authoritarian rule’s preference for personalized networks instead of traditional channels of interest intermediation through business organizations.

\(^3\) For a full list of state agencies refer to Schneider, 2003
Accounts of business organizations’ role in the coup leading to implementation of the dictatorship differ (Payne, 1994, Skidmore 1977). Business did organize to counter what it perceived as threatening measures under the government of Goulart, which partially promoted the establishment of the dictatorship. (Schneider, 2003) However, authoritarian rule did not foster a revival of corporatist associations’ influence, as individualized contacts between business and state elites were favored instead. (Cardoso, 1975). As a result, the business community invested less time and money in these formal organizations that were subsequently marginalized from bureaucratic rings.

By distributing fewer incentives to business organizations, the state discouraged investment of time and resources on behalf of its members and business organizations’ influence started a secular decline. The point I am trying to make here is that state distribution of selective incentives prompted business organization. As state resources diminished, business organization and interest representation declined. One could argue that with depleting state resources, capture of subsidies became more important between competing agencies. However, Brazil’s business lobbies became less effective at coordinating and organizing collective action simply because they became less able at capturing state resources. (Schneider, 2003).

What is more, following the episode of the Brazilian Miracle from 1968 to 1973 and the beginning of the Oil Crisis, the state started facing fiscal and budgetary constraints. The ruling coalition’s disregard for the main corporatist associations was thus furthered by the state’s tight fiscal situation and heavy reliance on foreign borrowing. Business organizations’ functions became obsolete, as they no longer represented relevant channels of interest intermediation. (Schneider, 2003) As a result, industrialists actively manifested opposition to the regime outside the scope of traditional organizations and sapped support for the governing coalition. With weak representation and particularistic interests taking over general ones, prominent industrialists organized to oppose the dictatorship and question state involvement in the economy. (Diniz and Boschi, 1988) In line with this trend and as will be shown in the next section, the 1980s saw the emergence of new organizations that soon contested the leadership of business representation to what they considered biased and out-of-touch organizations, such as FIESP or CNI.
4.2 Contesting traditional business representation

4.2.1 Business revolt against the state

In this part, I want to interpret business organizations’ overt opposition to the regime as a reaction to its loss of influence in the policy-making process. Besides, business’ opposition to the state might have been motivated by political reasons but these are not the prime purpose of my analysis and as such shall not feature in the next section. Building from concrete examples where the business sector openly challenged the state, I aim to link this behavior to the framework of limited access mentioned in my theoretical background. The reasoning is as follows: the business sector represented a faction behind the ruling coalition and as the rents it receives declined, it started eroding support for the ruling coalition.

In line with discontent of the Brazilian public with authoritarian rule, the wider business community started openly challenging the dictatorship and its heavy involvement and regulation of economic affairs. What is more, the lack of access to key stakeholders and the gradual exclusion from policy forums further prompted business reaction and opposition to the regime (Remmer, 1992; Dreifuss, 1981; Payne, 1994). On purely economic terms, I claim that the business community switched from allegiance to opposition to dirigisme as it had seen the gains from such coalition decline sharply. Whilst the developmental growth model satisfied limited sectors of the economy through retribution of state subsidies, the business sector advocated for a framework that would shift the existing incentive structure. By the end of the dictatorship, businesses in Brazil challenged state intervention in the economy and started advocating for privatization of public enterprises.

Published on the 26th of June 1978 in a Brazilian business newspaper (Gazetta Mercantil), the “primeiro documento dos empresários” or “Documento dos Oito” (Bianchi, 2001) marks a symbolic decline in the relation between the state and the main business organizations. Initially launched in reaction to strikes and the question of workers’ and entrepreneurs’ syndical representation, the movement soon shifted to a
stance of containment towards state intervention ("desestatização") and triggered the first steps towards privatization (Font, 2003). Whilst it was later counter-balanced by a letter of support for the regime on behalf of another group of industrialists (Payne, 1994), this document disputes the idea of durable rent redistribution and a stable ruling coalition. The limited access order advances the argument that elite factions exchange loyalty towards the ruling coalition in exchange of redistribution of rents. Since the main business organizations no longer benefited from the framework of rent redistribution, whether directly through state funding or indirectly through privileged access to policymakers, they switched from allegiance to confrontation to the regime. Other arguments point at the declining growth that characterized the end of the authoritarian regime and possibly contributed to business opposition to the dictatorship, notwithstanding the violence of the regime and the overall loss of freedom of its citizens.

The publication in 1978 of the Documento dos Oito serves two distinct purposes. First, it shows that the state and main business organizations had deviated from a cozy and mutually supportive relationship that had characterized their relationship initially. Rent seeking originally stemmed from state granting economic and political functions to business organizations. (Kingstone, 1999; Fishlow, 1987). Secondly, it foresees the internal rifts that would soon come to shake the main corporatist organizations, and subsequent leadership crisis related to issues of business representation. These reasons help account for the overall fragmentation and weakness of the business class in Brazil.

In another vein, the business community manifested its alleged adoption of the market economy through the demand for new growth models. One such example lies in the publication of the “Livre para crescer: Proposta para um Brasil Moderno” proposal that was published in 1990 on behalf of FIESP. Through this document, the signatories explicit their conversion for a development model that is based on a competitive integration to the world economy where the state would limit the scope of action to regalian functions, essentially focusing investments in education, health and nutrition issues (Oliveira, 2003). However, I will show to what extent this paradigm shift was incomplete with the case of business organizations’ reactions to trade reforms. Meanwhile, this shows that industrialists within Brazil’s main business organizations stood against government stance on the economy and welcomed a shift to a less state-dependent growth model.
Business organizations had thus evolved from acquiescence to and support of the regime during the early period of the developmental state to active opposition in the second phase of the dictatorship. The multiplication of channels of communication and the precedence that individual networks took over traditional corporatist channels eroded support for the governing coalition.

4.2.2 Emergence of new business organizations

In this part, I want to review first the inconsistencies of the traditional corporatist framework that provoked intense dissatisfaction with the issue of representation. Then, I want to build on two particular initiatives, the case of PNBE and IEDI, that each attempted at voiding the organizational deficiencies left behind by regional and national federations. Essentially, this helps me confirm my initial thought those business organizations were non-aligned with historical organizations at the time trade reforms were enacted.

Aside from opposition to the dictatorship, business representation also displayed inherent contradictions that were inherited from the past corporatist regime. As mentioned beforehand, corporatist rule around syndical and regional representation limited the emergence of a nation-wide peak organization as CNI never assumed overall representation. (Figuereido, 1992). Instead, it charged strong regional associations, such as FIESP, to hold the position of “de facto national mouthpiece for industry” (Diniz and Boschi, 1988).

In the 1980s decade, active movements from the business community emerged to contest the legitimacy and question governance practices of corporatist legacies such as FIESP and CNI. Essentially composed of Sao Paulo industrialists, these new initiatives attempted at correcting the representational flaws inherited from past policy decisions, as I will show in the subsequent section. The state’s fiscal crisis further intensified in the 1980s, which reduced the rents once available and sparked intense struggle over representational issues. (Kingstone, 1999). Put it simply, new demands emerged out of dissatisfaction with the way business representation was handled and attempted at capturing their share of state resources.
The wave of new associations included the Liberal Institute in 1983, PNBE (Pensamento Nacional das Bases Empresariais) in 1989, IEDI (Instituto de Estudos para o Desenvolvimento Industrial) in 1990, SIMPI (Sindicato da Micro e Pequena Industria do Estado de Sao Paulo) in 1988 amongst others. Most notable in this list, PNBE and IEDI charged themselves with better representing segments of the industry that did not benefit from close ties with government officials and criticized FIESP stance for accommodating the government agenda. I will review both initiatives and link them to the wider topic of state involvement in the economy that polarized the business community at the time of trade reforms.

Figure 3: PNBE Mission statement: 1987

The mission statement of PNBE is to orient entrepreneurs and businesses towards a more developed economy, and a fairer and more democratic polity. In order to do so, it aims at showcasing the positive impact businesses have in inducing change and free initiative along with NGOs and other organizations.

According to its by-laws, the principal objective of PNBE was to “contribute for the improvement of the democracy and for the political formation of entrepreneurs through their participation in the discussion and decision processes of relevant national and social questions of general interest” (Gomes and Guimaraes, 2001). Through its clear commitment to a new form of governance, the organization departed from the corporatist arbitrary stance on representation. PNBE’s rise was mainly a reaction to FIESP’s blatant clientelism and subsequent conflict of interest due to its close relationship to the majority of traditional unions. (Bianchi, 2001). PNBE leaders denounced the voting system, criticizing the organization’s privilege contacts to narrow
sectors of the economy and offered an alternative model of interests’ intermediation. (Bianchi, 2001) In stark contrast with FIESP’s closed system, membership was open to all regardless of region, segment of production or size. (Kingstone, 1999).

The organization founded by Emerson Kapaz and Oded Grajew also advocated for business involvement with social issues. (Reed, Utting, and Mukherjee-Reed, 2012). In relation to the nature of public goods, PNBE committed itself to open negotiation and promoted equitable distribution of taxes in any public policy. Whilst it first rose as an attempt at better defending the interests of small and medium entrepreneurs, through articulation of political and economic concerns, it challenged FIESP’s corporatist vision of fighting for the interests of a particular firm or sector.

Figure 4: IEDI Mission statement: 11/08/1997

IEDI’s mission statement is to implement a strategy of industrial development alongside the state. Its objectives are threefold; increase Brazil’s share of the world’s industrial production, move Brazil up the ladder of global value chains and grow the country’s GDP.

IEDI was founded in 1989 in the middle of a deep crisis and state of policy paralysis. It
initially formed as an attempt to engage the dialogue with the state on national development goals. The organization grouped together thirty of the most influential business people and thus easily surpassed potential problems of collective action and mobilization (Olson, 1965; Kingstone, 1999). It soon emerged as a serious player in the field of business representation, given the particular influence of each of its members.

Amarílio Proença de Macêdo – J. Macêdo Alimentos S/A
Bernardo Gradin – GranBio S/A
Carlos Eduardo Sanchez – EMS - Indústria Farmacêutica Ltda
Carlos Mariani Bittencourt – PIN Petroquímica S/A
Cláudio Bardella – Bardella S/A Indústrias Mecânicas
Claudio Gerda Johannpeter – Gerdau Aços Longos S/A
Dan Ioschpe – Iochpe-Maxion S/A
Daniel Feffer – Grupo Suzano S/A
Déció da Silva – WEG S/A
Eugênio Emílio Staub – Conselheiro Emérito
Fabio Hering – Companhia Hering S/A
Flávio Gurgel Rocha – Confecções Guararapes S/A
Frederico Fleury Curado – Membro Colaborador
Geraldo Luciano Mattos Júnior – M. Dias Branco S.A
Hélio Bruck Rotenberg – Positivo Informática S/A.
Henri Armand Slezynger – Unigel S.A
Ivo Rosset – Rosset & Cia. Ltda.
Ivoncy Brochmann Ioschpe – Conselheiro Emérito
João Guilherme Sabino Ometto – Grupo São Martinho S/A
José Antonio Fernandes Martins – Marcopolo S/A
José Carlos Grubisich – Eldorado Brasil Celulose S/A
José Roberto Ermírio de Moraes – Votorantim Participações S/A
Josué Christiano Gomes da Silva – Cia. de Tecidos Norte de Minas-Coteminas
Laércio José de Lucena Cosentino – TOTVS S/A
Lírio Albino Parisotto – Videolar S/A
Lucas Santos Rodas – Companhia Nitro Química Brasileira S.A.
Luiz Alberto Garcia – Algar S/A Empreendimentos e Participações
Luiz de Mendonça – Odebrecht Agroindustrial S/A
Marcos Paletta Camara – Paranapanema S.A.
Murilo Pinto de Oliveira Ferreira – Vale S.A.
Ogari de Castro Pacheco – Cristália Produtos Químicos Farmacêuticos Ltda.
Olavo Monteiro de Carvalho – Monteiro Aranha S/A
Otto Rudolf Becker Von Sothen – Tigre S/A
Paulo Cesar de Souza e Silva – Embraer S/A
Paulo Diederichsen Villares – Membro Colaborador
Paulo Francini – Membro Colaborador
Paulo Guilherme Aguiar Cunha – Conselheiro Emérito
Pedro Franco Piva – Klabin S/A
Pedro Luiz Barreiros Passos – Natura Cosméticos S/A
Pedro Wongtschowski – Ultrapar Participações S/A
Ricardo Steinbruch – Vicunha Têxtil S.A.
Roberto Caiuby Vidigal – Membro Colaborador
Rodolfo Villela Marino – Elekeiroz S.A.
Rubens Ometto Silveira Mello – Cosan S/A Ind e Com
Salo Davi Seibel – Duratex S/A
Sergio Leite de Andrade – Usinas Siderúrgicas de Minas Gerais - USIMINAS
Victório Carlos De Marchi – Cia. de Bebidas das Américas - AmBev
In contrast to the bottom-up approach of PNBE, IEDI attempted at influencing policy-making by disseminating studies and reports that would diagnose the structural factors impeding growth. Its first paper, “Mudar para competir: modernização competitiva, democracia e justiça social” (IEDI, 1992) focuses on the main triggers to growth and modernization of the economy. It also laid out the fundamental principles from which the country could restore growth, including the drastic reduction of inflation, gradual trade liberalization and necessary investments in training of human capital.

Whilst the concrete examples included above are not exhaustive, they show the extent to which new initiatives offered alternative models of interest intermediation and pointed at the inconsistencies of FIESP and other organizations developed under past corporatist frameworks. However, upon realization that new initiatives had failed in dislodging traditional corporatist organizations, business support demobilized. (Schneider, 2003). New organizations displayed little institutional strength and their capacity at influencing policy-making subsequently waned overtime.

Emergence of new business organizations stresses two points. Firstly, traditional organizations faced a leadership crisis as many businessmen diverted from investing time and resources in them. The business community witnessed intense struggle over the issue of business representation and limitations of the corporatist framework gave birth to new kinds of associations. Secondly, the fact that the business community was weak and divided reduced its capacity to influence trade reforms and paradoxically contained its rent-seeking behavior. This in turn forecasts a lack of consensus over the reformist agenda.

4.2.3 Erratic support for trade reforms

In this part, I want to review the issue of trade liberalization and the business sector’s reaction to the reformist agenda. Given their overall lack of cohesion, I also want to point at the fact that business organizations effectively carried little leverage on the way trade reforms were enacted.
I aim to advance two informed opinions in relation to business support or opposition for the trade liberalization agenda. The first is that businesses that were less dependent on state subsidies and more apt at integrating competitively backed the reform process, whilst less autonomous business sectors actively opposed it. (Kingstone, 1999) The second contends that given the lack of overall cohesion, the business sector mainly adopted a passive stance to the way reforms were enacted and as such bore little impact to influence the course of liberalization.

Whilst they opposed the state on the basis of little access to policy-makers and overall poor economic policies, industrialists have been far more nuanced in their endorsement of free trade policies, shifting from aggressive support to overt opposition to liberal reforms (Kingstone, 1999). In line with the argument that business actors are inherently rational (Schattschneider, 1975), industrialists at the time endorsed reforms that they perceived to be the most beneficial to them in the longer run. However, the origin of businesses, their relation to the state and the credibility on behalf of the government to deliver on its commitments consistently shaped businesses’ reactions to trade reforms. (Kingstone, 1999)

Support for free trade reforms was unevenly distributed across the spectrum. Sectors that had been nurtured by decades of state funding and protection were much less likely to support trade reforms than those endowed with comparative advantages. A detailed analysis of three distinct sectors of the economy, namely pulp/paper, auto-parts and machine tools and equipment, tests the hypothesis that support for free trade reforms was dependent on international competitiveness and autonomy from the state (Kingstone, 1999). Each sector differed on several fronts, including their international competitiveness, maturity, capital intensity and previous links to the state. Realizing the shift from the incentive structure and subsequent removal from state subsidies implied by the reforming agenda, sectors reacted differently with some endorsing and others challenging trade reforms. As illustrated by Kingstone, pulp/paper, auto-parts and machine tools and equipment as industrial sectors were endowed with very different advantages, both comparatively and competitive, and as such opted for different courses of action in the face of reforms.

Brazilian industrialists were a highly divided polity, which restrained their ability at
influencing the course of policy making. The weakness of traditional business organizations and the emergence of new business groups such as IEDI and PNBE further clouded an already fuzzy policy process. On few instances such as the “March toward Brasilia” in May 1996 (Pereira, Alston and Melo, 2016), where business leaders amongst which CNI president Fernando Bezerra protested against the slow pace in lowering interest rates, the Brazilian business community displayed a united front. Brazilian industrialists also appeared unanimous in their condemnation of the 1988 Constitution as the detailed description of social rights and nationalist stance around strategic sectors made it essentially an anti market document. The preference it gave to national versus foreign capital was deemed a source of grave concern, as the state depended on much needed foreign capital for financing. (Font, 2003). However, disputes over representational leadership and subsequent emergence of new interest groups further the point that business organizations were weak and divided at the time of reforms.

4.3 State-engineered fragmentation of interests

4.3.1 Survival of the protectionist agenda

The point I will demonstrate in the following section is that business organizations opposed trade liberalization in general. Reasons behind such opposition vary from fear of international competition often labeled as unfair, and a widespread adhesion to the former protectionist agenda. However, the business sector displayed little unity and could not prevent the advent of certain reforms.

It is important that I locate Brazil’s liberalization era in its context, one where policymakers were faced with a daunting challenge of democratic consolidation as well as trade reforms. Labeled a “transition from above” (Font, 2003), the switch to democracy in Brazil exhibited unusual continuity with past practices hence pointing at the probable survival of ideas and behaviors associated with past corporatist practices. (Bouyer, 2013) I contend that the gridlock that prevented adoption of much needed reforms in the first phase of democratic consolidation can be linked to the survival of the corporatist framework and the capacity of potential losers to engage in collective action and oppose trade reforms.
In a study on campaign contributions in the context of trade politics in developing countries (Mukherjee, 2016), the author tests the link between the decline in contributions and the advent of democracy. Building on the CNI’s survey of business opinion that was conducted in each presidential year, the author examines trade policy preferences expressed by industrialists. To the question of whether they opposed trade liberalization, industrialists consistently scored above 70% (Mukherjee, 2016). In line with other research on the politics of trade policy (Armijo and Kearney, 2007) this result confirms that the transition towards trade liberalization was more the result of unilateral implementation by governments than the promotion of business interests.

Aeronautical; automobiles; chemical industries, electrical machinery; iron and steel; leather and footwear; mineral extraction; nonmetallic minerals; petrochemicals; pharmaceuticals; transport equipment; wood and furniture

**Panel B**

<table>
<thead>
<tr>
<th>Industrialists from twelve industries listed in panel A</th>
<th>1994 election (1)</th>
<th>1998 election (2)</th>
<th>2002 election (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>72.4 %</td>
<td>73.7 %</td>
<td>71.5%</td>
</tr>
</tbody>
</table>

Figure 6: Descriptive results from CNI survey

Source: Democracy and trade policy in developing countries, Bumba Mukherjee, 2016, p178

Critics of trade liberalization, amongst which Brazil’s past finance minister Delfim Netto, denounced government policy for exposing sectors of the economy to external shocks. Business organizations were no strangers to this stance on government policies, as illustrated by FIESP’s attempt at building a lobby in Congress through the organization of an event labeled “The Pact for Production and Jobs”. Whilst they had previously supported Cardoso’s pro-reform stance, industrialists from FIESP and IEDI continued their demand for a development strategy centered on national industry. (Font, 2003). Although they did not oppose the waves of privatization that characterized one side of the economic reforms, business organizations denounced trade reforms on the grounds that it would induce unfair foreign competition. (Font, 2003) In turn, limits to rent-
seeking behaviors find their roots in the lack of cohesiveness on the part of the main business organizations. I thus contend that the protectionist agenda survived amongst traditional corporatist business organizations despite a rhetoric centered on economic reforms.

Ideas also play a part in promoting or impeding change. Decades of state-led development and import substitution policies had become hallmarks of Brazilian economic thinking and by the time of the budgetary and fiscal crisis many still viewed state-centered rather than market reforms as the most appropriate policy response. (Almeida, 1995a). Echoing the idea of path-dependency, the inward looking developmental model championing state promotion of national industries had not only regulated Brazilian economic affairs for decades but also restricted the scope of economic perspective through the first phase of reforms. Whilst ideas and ideology alone cannot account for the persistence of a protectionist agenda and the failure of reforms, they “serve important functions in coalition building and thus need to be considered as factors shaping the politics of reform”. (Font, 2003).

Pressures to shift the growth model came from industrialists’ realization that the state did not service its interests and imposed high costs through lack of fiscal discipline and control of inflation. However, reactions to privatization initiatives and opposition to trade reforms demonstrate that the business community was much more nuanced in its endorsement of the neoliberal agenda. In turn, I have argued that industrialists’ lack of consensus and inability at replacing the old corporatist framework favored rent-seeking behaviors. Besides, institutional and conjectural factors beyond the scope of business organizations also limited trade liberalization.

4.3.2 Institutional constraints to economic reforms

In the past sections of my analysis, I have underlined the potentially rent seeking behavior of business organizations in Brazil. However, I have also stressed their inner divisions at the time of reforms, which paradoxically contained rent seeking on their behalf. In the next two sections, I aim to develop on the main obstacles to trade liberalization outside of the scope of business organizations. Whilst I could have
dedicated an entire analysis to these factors alone, I contend it is intellectually speaking worth mentioning them here as they accounted for much of the trade reforms gridlock.

The democratization process involved the emergence of competing claims from new segments of civil society. Public workers and labor in general had acquired veto rights they would effectively use to avoid shifting the costs of adjustment to them. Hence, outside of the scope of business organizations, other sectors of the Brazilian society had thus the power to block reforms. Brazil faced a structural impasse. (Levine, 1997)

On the institutional front, the Constitution of 1988 limited the ability of the Brazilian polity at undertaking structural reforms. The transition to democracy displayed several features of the past centralized policy-making system with a strong executive allowing for extensive use of government decrees to overcome party fragmentation (Diniz, 1995a). However, the Constitution enshrined protection of strategic sectors of the economy by making a distinction between national and foreign capital, it also protected the items that necessitated reform such as civil service, expenditure levels or social security plans (Font, 2003). The struggle over social insurance reform in the 1990s illustrates the need for a broad consensus of interests between diverse socio-political forces and the difficulty to enact change when veto points abound. (Weyland, 1996).

The advent of democracy also gave birth to a proliferation of political parties with which political bargaining was costly but necessary. (Ames, 2001) Departing from the concept of the state as a mere arena for societal forces, members of the bureaucracy further impeded the reform process. As a direct consequence, the cost of political change remained prohibitively high and favored instead a state of institutional sclerosis. The electoral system in Brazil produced a proliferation of weak political parties and promoted individualistic behaviors from politicians with little accountability towards the electorate. (Ames, 2001). The weakness of Brazil’s party system contributed to hampering liberalization as reformers faced high transaction costs in dealing with the multiple and undisciplined parties of the Brazilian polity.
<table>
<thead>
<tr>
<th>Name</th>
<th>Acronym</th>
<th>$[S]$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partido do Movimento Democrático Brasileiro</td>
<td>PMDB</td>
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<td>Partido da Social Democracia Brasileira</td>
<td>PSDB</td>
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</tr>
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<td>PT</td>
<td>2,163</td>
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<td>Partido Popular Socialista</td>
<td>PPS</td>
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<td>PCDOB</td>
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<td>Partido de Reediificação da Ordem Nacional</td>
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<td>Solidariedade</td>
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<td>Partido Ecológico Nacional</td>
<td>PEN</td>
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<td>Partido Trabalhista Nacional</td>
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<tr>
<td>Partido dos Aposentados da Nação</td>
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<td>Partido Socialista dos Trabalhadores Unificados</td>
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doi:10.1371/journal.pone.0140217.g001

Figure 7: List of current political parties in Brazil

Source: How many political parties should Brazil have, Pedro O.S. Vaz de Melo

On the institutional front alone, the 1988 Constitution and the rise of a new civil society
furthered constricted the reformist agenda. The new rights and privileges awarded to labour and public workers more specifically, the nationalistic stance towards strategic sectors of the economy and the lack of discipline of Brazilian political parties are amongst the key reasons that impeded full trade liberalization. Likewise, conjectural factors also restricted the scope of reforms.

4.3.3 Conjectural factors

In this part, I want to demonstrate that conjectural factors also impeded trade liberalization. The transition to democracy from 1985 onwards was plagued by chronically high inflation rates, with massive deficits in government budgets and deficits of public enterprises more specifically designated as the main culprits. (Bartell, 1993). Pressures towards liberalization of the economy were thus constrained by chronic inflation rates and on-going fiscal and budgetary crisis.

Brazil effectively transitioned from an inward development model to a more open economy from the 1990s onwards. It is under the Collor presidency that the country experienced a critical shift, with the introduction of the Collor plan that echoed the Washington Consensus. (Williamson, 1990). Put it simply, the plan induced partial state withdrawal from the economy. The implementation of the PICE (Industrial and Foreign Trade Policy) deviated from previous state policies and subsequent involvement and participation in the economy. Through three government programs; PADCT (Program for the support to the technological improvement of industry), PBQP (Quality and productivity Brazilian program and PCI (Industrial Competitiveness Program), reforms initiated by the presidency of Collor relied on trade liberalization, deregulation and privatization to implement gradual state withdrawal in the economy. (Pinheiro, 1994).

The structural adjustment and economic liberalization that ensued involved sale of previously state-owned enterprises as well as policies dedicated to stimulate greater efficiency in state sectors of production. (Bartell, 1993). These initiatives towards privatization first concentrated sales in sectors such as steel, petrochemicals and fertilizers. (Font, 2003). The auction of two of the nation’s largest steel mills (Usiminas and Companhia Siderurgica de Tubarao), of a producer of synthetic rubber (Petroflex) and a petrochemical company (Copesul) mark a watershed in Brazil’s evolving strategy
for economic development. The country’s major telecommunications company (Telebras) followed the same trend as it started accepting bids for private participation from both domestic and foreign investors (Kingstone, 2003). Through creation of the National Council for Destatization, the Cardoso presidency furthered the privatization and subsequent policy shift that had been initiated by the Collor government in 1990.

This wave of privatization underlines the radical shift the Brazilian economy witnessed away from a state-development and towards a market-oriented economy. On top of trade reform, it included opening up to financial capital, regulation of the financial sector, an administrative reform and reform of social programs in Education and Health (Baumann, 2001).

However, and partly because of unfavorable conjectural factors, the scope of reforms remained limited. On the front of privatization only, the outstanding performance of the telecommunications sector following the privatization was counterbalanced by the mediocre performance of the energy sector and the relatively little investment in the transport sector. (Baumann, 2001).

Apart from successful economic deregulation and stimulus towards privatization, the Collor Plan itself was met with various degrees of success. It involved amongst others the adoption of the floating exchange rate, the confiscation of savings account and a temporary freeze on wages and prices. (Mello, 2012). Overall, it failed to control hyperinflation as recession hit the Brazilian economy. Its successor, the Plano Real introduced by finance minister and next President Fernando Henrique Cardoso managed to discipline Brazil’s outstanding inflation and put the country back on the path of growth. (Flynn, 1996). However, the timing of regional and national elections further constrained the reformist agenda as the “deliberate delaying tactics over fiscal and administrative reforms reflected the gravest weakness of Brazil’s political system” (Flynn, 1996, p 422).

The reform decade in Brazil took place under three presidents and involved several adjustment plans and waves of privatization. In this last part, I laid out limiting factors to the scope of reforms both within the sphere of influence of business organizations as well as outside. The business community as a whole was not adamant towards trade
reforms but factors such as the institutional framework of the Brazilian state and the fiscal crisis also played a part in plaguing the reformist agenda.

Overall, I have laid out three phases in my analysis. The first part helped me identify the dynamics at play behind the corporatist structure and state-centered developmental economy. In the second part, I characterized the evolving nature of Brazilian business organizations with regards to the executive power and how they contested their overall loss of influence within the corporatist framework. Finally, I scrutinized the actions of a few and emerging business organizations that sought independence from the wider corporatist framework and effectively contested the leadership of historical groups such as FIESP or CNI.

Since 1990, Brazil has improved its international integration by opening up via three main routes: unilateral liberalization with a reduction in tariffs from an average of 51 percent to 12 percent, multilateral agreements such as the Uruguay round through a commitment to reduce import barriers and regional opening with intra and extra regional trade agreements such as MERCOSUL. (Cardoso, 2009). Throughout this process, Presidents Fernando Collor de Mello and Fernando Henrique Cardoso took distinctive measures to enable trade liberalization.

**Tariffs**

Starting in 1988 but most notably under Presidents Collor de Mello and Cardoso, several measures were taken to open Brazil to international competition. These included “(i) gradual tariff reductions with an overall tariff reduction in the average rate and in the differences in the tariffs applied to the various products, (ii) elimination of remaining non-tariff barriers from previous periods; (iii) elimination of some special customs regimes; and (iv) introduction of a floating exchange rate regime.” (Vos, Taylor, Paes de Barros, 2002). Table 2 (below) shows a shift in terms of average tariffs from 57.5% in 1987 to 15.5% in 1998. Similarly, the average weighted by value added changes from 54.9% in 1987 to 13.4% in 1998.

These measures highlight a drastic change in terms of trade policy orientation with the introduction of both internal and foreign competition.
Prior to the trade liberalization wave of the 1990s, “the five sectors most favored by the tariff structure in force at the time were automobile, trucks and buses (with an effective tariff of 308 percent), textiles (123 percent), rubber (122 percent), vegetable product use (122 percent), and clothing (117 percent). The least protected activities were oil and coal extraction (8 percent), diverse chemical products (12 percent), mining (17 percent) and steel (31 percent)”. (Cardoso, 2009). Easing of tariffs overall benefited most low productivity firms advancing the link between trade openness and productivity gains. (Schor, 2004). Other evidence points at the boost in productivity from increased competition of foreign players.

Perhaps the first step taken towards trade liberalization, President Fernando Collor de Mello launched the Plano Collor on March 16th 1990. The plan attempted at combining
fiscal and trade liberalization alongside radical stabilization inflation measures. (Welch, Birch & Smith, 2004). It introduced the Industrial and Foreign Trade Policy (PICE) as well as the National Privatization Program (PND). Its main measures included the introduction of a new currency, the Cruzeiro at a parity exchange rate, the freezing of 80% of private assets for 18 months, a high tax on financial transactions, an increase in the price of public utilities and the indexation of taxes. (Villela, 1997). Most importantly towards trade liberalization, the plan included a gradual economic opening to outside competition, the extinction of government agencies and the beginning of economic deregulation in echo of the Washington Consensus.

- The PICE attempted at raising real wages and promoting economic openness through a gradual reduction of tariffs, an export financing mechanism and a reduction in customs duties. (Villela, 1997).

- The PND initiated a decade of large-scale privatization of previously state-owned companies. Under President Collor (1990-1992), 15 companies that were formerly considered strategic were privatized and yielded around 3.5 Billion in revenue. These included the sale of the Minas Gerais Iron and Steel Mills. The process was then followed by his successor Itamar Franco (1992-1994) whose government accounts for the sale of 18 state-owned enterprises, most notably the Brazilian Aeronautics Company Embraer that had previously been established and controlled by the Ministry of Aeronautics.

First as Finance minister and then as President, Fernando Henrique Cardoso introduced the Plano Real in 1994, a “comprehensive package of austerity measures that cut back government spending, tightened tax collection and collected taxes on debts state government owed to the federal government” (Vos, Taylor and Paes de Barros, 2002). In order to prevent rampant inflation, the plan involved two stabilizing measures for the economy:

- Introduction of an indexing system; the Unidade Real de Valor which was tied to the US Dollar and became the indicator of value in taxes, official prices and contracts
- Less than a year after the plan’s launch, Cardoso introduced a new currency, the Real, that was equal to the URV and thus to the dollar.
President Fernando Henrique Cardoso shifted the privatization trend towards those companies responsible for Brazil’s economic infrastructure in the energy, transportation and communications sectors. Most notably, he included the sale of Espirito Santo Power Plants, the federally owned power company serving the namesake state as well as the sale of CVRD, one of Brazil’s biggest iron mining and exploring complex. Last but not least, Cardoso encouraged policies that promoted intra-regional integration and eliminated barriers to trade, most notably with the creation of the MERCOSUL in 1994.

Conclusion
In accounting for rent seeking behaviors, the purpose of this thesis was to use the theoretical implications of rent seeking and apply them to the case of Brazilian business lobbies. According to the rent seeking literature, the actions of distributional coalitions, primarily business lobbies, helps understand the main obstacles to trade liberalization. Brazilian business groups and primarily corporatist organizations have engaged in rent-seeking behaviors as was shown by their opposition to trade reforms. However, I have shown in this thesis that the Brazilian business community as a whole lacked unity and consensus to effectively engage in rent-seeking activities and thus cannot account as the prime obstacle to trade reforms. Besides, factors outside the scope of business organizations such as institutional features and conjectural circumstances were more fundamental to explaining Brazil’s lack of openness.

With its emphasis on the role of predatory distributional coalitions, the rent-seeking literature accounts for impediments to trade liberalization in Brazil. The politics of economic adjustment insist on the resolve and insulation of policymakers and their authoritarian approach to implementing reforms. (King, 2003). I have contended that rent seeking on behalf of business organizations historically rose and pervaded in Brazil because of state fragmentation of interests. Industrialists in Brazil were individually powerful yet collectively weak. The fragmentation of interests and overall weakness favored rent seeking behaviors as the multiplicity of small associations “usually only react to policies and attempt to modify their implementation in defense of narrow interests.” (Schneider, 2008). Whilst they backed reforms leading to privatization, business organizations reacted differently to trade reforms. It is within those sectors nurtured by decades of state protection that we find the highest potential for rent seeking. (Kingstone, 1999).

One account of successful reforms in Latin America generally and Brazil more specifically place the emphasis on “a handful of heroes” whose actions were uncompromising towards interest groups. (Harberger, 1993). Contextualizing this in Olsonian terms, the trade reforms presented costs on the main recipients of a closed economy, typically domestic players, and incentivized them to actively oppose liberalization on the assumption that they would lose from the emerging framework. The action of key policymakers is thus essential to explaining the country’s path to reform.
A completely different account of the reformist agenda in Brazil argues that interests groups might have organized to induce government withdrawal from the economy. Under the assumption that a new incentive structure would promote different winners and losers, it investigates interest groups’ ability at securing market reserves under liberalizing contexts and labels the reformist agenda “the politics of empowering the winners” (Schamis, 2002). The liberalization policies benefited distributional coalitions endowed with high asset mobility and made them more tolerant to rampant inflation than groups equipped with fixed assets. Echoing the idea of a premature liberalization of capital inflows (Bacchetta and van Wincoop, 2000) the author argues that the trend towards liberalization obeyed a similar logic of collective action and might have in fact generated new schemes of rent appropriation.

On one hand the focus of the neoclassical political economy systematically links interest groups’ attempt at capturing state resources and preventing entry to competitors to rent seeking. On the other hand, some argue that the state withdrawal from the economy might have obeyed a similar logic of lobbying on behalf of specific interest groups. The central implication I wanted to illustrate through the case of business lobbies in Brazil is that income redistribution is the direct result of a contest of diverging interests. However, the struggle over redistribution of state resources goes beyond the action of a select set of interest groups. In that sense, the logic of limited access (North, Wallis and Weingast, 2011) order helps fill the gap and understand the dynamics behind coalition building. Whether supporting or opposing the coalition, business lobbies primarily reacted to the advantages they derived from such support. (Schneider, 2003).
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