DEMOCRATIZING BRAZIL'S STATE ENTERPRISES

by William Case

INTRODUCTION

Despite a seemingly global trend toward privatization, public ownership in Brazil is not a variable, but an indisputable constant. Thus, we may anticipate that the nation's public enterprises and development banks will continue to represent that state's ongoing commitment to growth and its readiness to intervene in the marketplace. Privatization, a comprehensive selling off of public corporations to domestic or foreign business interests, is simply not to be expected in Brazil during either authoritarian or politically democratic periods.¹

Some development theorists have advanced that a late-industrializing country, in order to develop further, must acquire an active and presumably authoritarian state.² This is because less-developed countries (LDCs), while perhaps preferring economic growth, face special constraints in a world economy largely controlled by more developed nations: LDCs find their comparative advantage in precisely the sorts of commodities and traditional exports that hamper their economic sophistication and from which they now wish to graduate. On this point, both Brazilian advocates of radical developmental strategies and Brazilian champions of bureaucratic-authoritarianism in the 1960s were agreed: firm state action was required to ease Brazil's dependent relationship with other states of the First World. But, while the radical planners of both the left and right would probably have used the state apparatus to seal off their national economy from the world (and then proceed to disagree forthwith over distributive questions within their detached home market), the actions taken in Brazil in the 1960s were at once less dramatic and more bold. Brazil's generals recruited ranks of technocrats to reinsert Brazil into the world economy on more favorable terms: to "deepen" its industrial capacity, establish reverse linkages, manufacture its own capital goods, and ultimately acquire comparative advantage in production areas of greater added value than mere primary goods.³

The exclusionary politics that necessarily attend this developmental model are, of course, unattractive. But it may nonetheless be the case that such austerity is a
precondition for the infrastructural projects and programs that are essential to growth and whose value only later becomes intelligible to mass publics. While the polemic is ongoing, it remains that Brazil alone among Latin American nations has industrialized with such effectiveness that it is able now to compete in the global economy in a wide range of product areas, a capacity that has elevated it to the semiperipheral status of the newly industrializing economies (NIEs). And in the current democratic period, perhaps, the evident gains can be somewhat more fairly shared.

This paper is divided into four parts. A first part is brief, presenting a series of background issues relevant to Brazil's state enterprises. I then propose in a second part a short policy model describing democracy's challenge to Brazilian decisionmakers and the ways in which some among them, as politicians, might redirect state enterprises to meet that challenge. I suggest also here a number of measurable policy areas with which to operationalize "democracy" in terms of state enterprises, these together with a set of hypotheses both to guide empirical research and to be tested by the terms of the findings. The paper's third part reports those research findings, the prompt "democratization" of state enterprises in the period just prior to the constituent assembly election of 1986; a fourth part presents data collected just after the election, a check, perhaps, upon state enterprise backsliding.

BACKGROUND

Brazil's State Enterprises, Their History and Rationale

There are, of course, numerous instruments and mechanisms available to the Brazilian state for purposively altering the course of economic events. This paper is concerned specifically with its state enterprises and, in passing, development banks. The governmental organ most recognizably a predecessor of the state enterprise was the Federal Council of Commerce (Conselho Federal de Comércio Exterior) founded in 1934 and intended "not only to stimulate the country's foreign trade, but also to provide incentives for the development of certain industries." Independent growth as protection against international depression was the explicit objective, then, in the 1930s. In the 1940s, national security was the rationale for taking over certain industries, particularly shipping—a line of reasoning that soon lent itself to actual government-owned production enterprises such as the National Motors
Factory (Fábrica Nacional de Motores, or FNM). The Rio Vale Doce Company (Companhia de Rio Vale Doce, or CRVD), in contrast, was created in 1942 out of more expressly nationalist reaction against transnational capital active in iron ore mining in Minas Gerais.6

In the following decade, notwithstanding the emergence of populist and sometimes deliquescent politics in Brazil, economic growth remained the government's underlying preference. Hence, to accumulate the investment capital that the domestic private sector could not, the National Development Bank (Banco Nacional de Desenvolvimento Econômico, or BNDE) was founded in 1952 and was dedicated specifically to modernizing economic infrastructure. In addition, Petrobrás, one of the most familiar of Brazil's public corporations, was founded in 1953 and was made responsible for all petroleum exploration. And finally, to better insure continued economic expansion in this period, state enterprises were gradually empowered to control most facets of electricity generation, telecommunications, and public transport so as to guarantee constancy of supply and often to maintain rates beneath what private producers might charge.

We see, then, a variety of frontline reasons for Brazil's fostering state enterprises: (a) to moderate the effects in Brazil of international economic crises; (b) to promote national security; (c) to bolster state planning capacity and the state's bargaining position with multinational firms, especially those involved with natural resources; and (d) in perhaps a combination of "b" and "c" above, to express nationalist sentiment, a consideration responsible in part for having acquired state enterprises involved in armaments and aeronautics industries, the extraction of petroleum and minerals, and the production of computers and nuclear energy.7 Finally, and most important, state enterprises were introduced simply (e) to induce rapid industrialization in a late-industrializing context.

If these are some of the goals assigned to state enterprises, into what specific economic policy areas do they tend to go? Brazil's approximately six hundred public corporations (up from a mere thirty in 1949) are involved in: (a) large infrastructural projects such as hydroelectric and highway building programs that feature formidable startup costs and delayed returns and are thus unattractive to local private capital; (b) resources, mining, and basic manufacturing industries such as oil refining and steel milling, which are often vulnerable to control by foreign interests or domestic groups more committed to immediate profit than lasting national development; (c) commercial
and development banking and finance in an economy that is frequently afflicted with capital shortages; and (d) transport, utilities, and services such as data processing, telecommunications, and insurance in which artificially low prices serve to subsidize economic expansion in other targeted areas.8

In a sense, provision of such projects and services at favorable rates might be considered a public good, meant cumulatively to project Brazil's industrial sectors to a more outlying and impressive growth curve. Refereeing and perpetuating an arrangement that so consistently fosters such benefits may never arise in a market in which private producers are left to themselves; only an autonomous, well-financed state possessing extractive and coercive capacity can compel the sort of resource accumulation that is needed. The market failure, then, that might normally confine an LDC to comparative advantage in common and undesirable areas may perhaps be overcome by concerted state action.

State Enterprises in the 1960s and 1970s

In the 1960s, after the military government was able to articulate choices beyond that of merely stanching the economic damage ascribed to Joao Goulart and populist politics, the development of public enterprises became a clearly expressed preference. Accordingly, the military sought to revitalize and order the "parallel bureaucracy" of its state companies, reforming their administration in 1967 by the terms of Decree Law 200. Categories of administração direta, autarquia, empresa pública, and sociedades de economia mista were formed and codified in legal documents and ultimately formalized by Article 170 of the Constitution.9

In these peak years of authoritarian politics in Brazil, then, a curious combination of policy tendencies arose, reflecting the state's simultaneous preference for market forces as well as for heavy state intervention in the economy. Recognizing that private domestic capital had not the financial wherewithal to foster and coordinate the activities essential for growth and, by the logic of the era, national security, the military government itself acted to mobilize state enterprises for the purpose. By adopting organizational forms and strategies comparable to firms in the private sector, Brazil's central planners forcibly assembled a somewhat artificial market economy that mimicked the First World and ultimately favored private capital and initiative.10 Carneiro Vieira writes that state enterprises at the time used standard corporate
procedures, promotion practices, marketplace integration strategies, holding companies, and the like. In addition, Brazilian state enterprises, once charged with resources and set in motion, were in effect made autonomous and left to implement their respective growth strategies in an economic configuration that has often, if incorrectly, been termed "state capitalism." And given the autonomy accorded the parallel bureaucracy and the opportunities for profit-making, state enterprises often attracted a high caliber of managerial expertise. Thus, there is some agreement among observers that Brazil's state enterprises during this period—in marked contrast perhaps to those of other nations—were often competently run, particularly if one uses strict efficiency and financial criteria for assessment.

There is much discussion in the literature of the degree of centralized control that characterized the administration of Brazilian state enterprises during this period. Some authors focus on the highly concentrated nature of investment decisionmaking and upon executive capacity alternatively to create or terminate enterprises in strict accordance with centrally devised development plans. Others suggest a more diffuse process of oversight—vigilância, verificação, and fiscalização—exercised through controle parlamentar and controle por entidades fiscalizadoras. And perhaps a third and very different interpretation suggests actually a lack of centralized authority encouraging less local administrative efficiency than an "indiscriminate explosion of enterprises, foundations, and autarquias at all formal levels of power in the country: federal, state, and municipal." Indeed, the more one looks into the Brazilian case in the 1960s and 1970s, the more one is made aware that despite often indisputable economic growth inspired by technocratic skill, there existed also much tension and organizational incoherence within the state apparatus. Thus, while we are routinely treated to the image of an orderly tri-pe formula in authoritarian Brazil implemented by a purposive state actor, this at times belies the politicized nature of bureaucratic decisionmaking.

Peter Evans has documented the difficulties, noting first that while the automobile industry was the driving force behind Brazil's industrialization in the 1960s, such status clearly belonged to the petrochemical industry from the middle to late 1970s. The Camacari project in Bahia was a key element in the new "linkage-generating strategy of unbalanced growth," an effort to create developmental "poles" in outlying areas around which further locally based growth was expected to rally. But it is Evans' conclusion that a highly capital-intensive petrochemical complex was
inappropriate to Bahia's developmental needs; that is to say, resources were merely brought in from elsewhere, processed, and removed from Bahia without much discernible local impact either in terms of creating new employment or downstream industries. The complex should have been more profitably located in the state of São Paulo; projects assigned to Bahia should have been of a very different and perhaps labor-intensive nature more attuned to the causes of the state's underdevelopment.

But the interesting question that arises here addresses less the ultimate disutility of the Camacari project than how the actual decision to locate the facility in Bahia was reached. While we might once have attributed the policy—whether finally a success or not—to rational and expert technocratic planning, Evans portrays a process more akin to the random outcomes of proverbial "pulling and hauling":

The entrepreneurial initiatives that led to Camacari did not emerge from policy decisions made by the state apparatus as a whole, or even primarily from the efforts of individual presidents and ministers. The entrepreneurial thrust came from a confluence of less powerful influences. . . . The shaping was done less by overall policy decision than by informal, personal contacts among the individuals involved. Most of these were more technocratic than entrepreneurial in terms of their roles and training, but the end result of their activities was entrepreneurial on a grand scale.19

As the 1970s unfolded and the Brazilian "economic miracle" unraveled, contradictions within the bureaucratic-authoritarian regime revealed a marked absence of political institutionalization.20 Evans has pointed out the lack of consistency within the state component of the tri-pe arrangement; it remains now to show briefly the disenchantment experienced by other members of that coalition, principally private industrialists. Cardoso has specified three chief objections raised by the private sector to the second National Development Plan (PND II) and its emphasis upon the capital goods sector: (a) that it perpetuated an undue state enterprise and nearly "leviathan" presence; (b) that business activity was saddled with onerous investment and saving requirements; (c) that multinational corporations (MNCs) were given a seemingly excessive share of Brazilian economic opportunity (e.g., allowing Fiat to locate in Minas Gerais, thereby jeopardizing locally owned automobile production in São Paulo); and (d) that sustained borrowing was creating alarming levels of national
indebtedness. Cardoso writes: "It was against this background that the private sector discovered 'democracy' and some industrialists even discovered the constitution."21 The government thus fostered a softer front to broaden its appeal, offering in succession the decompressao, the distensao, and finally, the abertura meant to substitute politically liberalizing measures for flagging economic hopes.

At the same time, the government chose not to let the "miracle" stall completely in global recession, and so made up for declining exports and loss of investment capital with foreign loans. But as the decade progressed, the government was unable to borrow further and so pressed its state enterprises to borrow in its stead.22 Brazil's public corporations had a sufficiently well-regarded reputation for good management, and foreign bankers were obliging in making loans; as a result, state enterprises were burdened with an unaccustomed indebtedness that came to erode managerial effectiveness and morale. While Brazil's public corporations were always controversial in many respects and vexed orthodox capitalists and the more egalitarian-minded alike, their levels of financial efficiency and productivity were unusually good compared to those of most other nations. And it was precisely these qualities that finally led the government to exploit—and, indeed, undermine—its own state enterprises.

**STATE ENTERPRISES IN THE MID-1980S**

Regarding Brazil's previously authoritarian development policies, Kenneth Paul Erickson writes:

> Domestic social and political tradeoffs... do not force themselves upon the consciousness of the policy makers. ... Thus they continue to be ignored. These costs are not imposed personally upon the technocrats, but rather upon Brazil's poor majority. They do not even occur in the domain for which the technocrats accept responsibility, specifically the most modern sectors of the economy. By narrowly circumscribing their area of competence, Brazilian technocratic policy makers can avoid confronting the evidence that, on social and political grounds, the model they have created is basically flawed.23
A central thesis guiding this paper is that a government committed to liberalizing its political regime must necessarily assign its public enterprises additional duties apart from purely economic ones. The precedent for using state enterprises for something other than efficiency has been set in Brazil by their having been offered as virtual collateral for foreign loans. Authorities of a more competitive regime may thus find it reasonable to assign to state enterprises still other, explicitly social and electorally relevant, goals as well.

We see evidence of this in Mexico, for example, where many state enterprises are used as much for mobilizing support for authorities and political structures as for performing functions essential to economic growth. Brazil in the 1960s was able to avoid such tradeoffs, substituting outright repression for redistributive compromises effected in part through public corporations. But the situation in the mid-1980s is very different, and elected officials, to be reelected, may have to enhance the electorate's possibilities of immediate consumption. A very brief public policy model may be useful in making this clearer.

Problem Definition

In the mid-1980s, the primary goal of elected officials is to advance policies that: (a) win them reelection; (b) sustain economic growth; and (c) reduce public sector deficits. An authoritarian government with unquestioned coercive capacity can focus on the second and third concerns; a democratically elected set of incumbents must more often concentrate scarce resources upon the first.

The Brazilian government, while perhaps more democratic at present than it has ever been before, is still, in a twist upon Juan Linz's conceptualization, an inchoate "democratic situation" in which the military continues to exercise a fundamental veto power over civilian officials' policy choices. Thus, Brazil's elected decisionmakers will have mixed feelings regarding populist expenditures; the conviction held in the current Sarney government is surely that economic stabilization and continued growth are the more significant goals. It is unlikely, then, that we will find entirely unambiguous transitions in the operation of Brazil's state enterprises; instead, the present government may communicate egalitarian, redistributive intention to voters prior to key elections, then resume pursuit of the second and third objectives after having safely retained office. We have recently witnessed, for example, popular
Cruzado Plan price freezes being revoked and Sarney's "price inspectors" being left disappointed in the immediate wake of his government's November 1986 electoral success and subsequent breathing space.26

Policy Alternatives and Choice

In seeking to democratize state enterprises, Brazil's elected decisionmakers enjoy a number of options. We shall discuss here some of them, associating each with a hypothesis suggesting likely policy outcomes in the present period of competitive politics.

Public Ownership v. Privatization-Rationalization. A "public-private" ownership dimension of policy choice occurs: regime incumbents might opt either to retain state enterprises, perhaps merging those that duplicate functions, or sell specified components of parallel bureaucracy to private investors.

Hypothesis. As stated at the outset, comprehensive privatization is not seriously considered in Brazil: state capacity is as desired by elected authorities interested in the prompt if limited redistribution of societal shares as it is by those committed to an authoritarian growth model of capital accumulation.

Centralization v. Decentralization. We have seen that during the authoritarian era, state planners, after endowing public enterprises with financial and managerial resources, dispersed them to operate essentially as private firms with independent decisionmaking authority. To remake those enterprises with more egalitarian purpose—a social objective that may be resisted by efficiency-oriented directors—democratizing regime officials may be forced to concentrate authority.

Hypothesis. The reintroduction of electoral politics in Brazil will cause elected regime incumbents to initially—surprisingly, perhaps—centralize state enterprise operation, redirect technocratic managers from "pure" development models to social goals. Centralization, firmer control will be needed at least in early stages because technocrats will resist such reorientation and the new, politicized criteria of success.

State Enterprise Pricing Policy.27 During Brazil's authoritarian period, the autonomy of public enterprises increased under the terms of the 1967 administrative
reform law so that populist price structures of previous years might be rolled back in selected areas. And so, on the one hand, the government instructed Siderbras, the state-owned metals-producing firm, to decrease the price of steel so that automobiles and major appliances might be manufactured to benefit privileged segments of consumers. At the same time, rates for private electricity consumption and public transportation might be increased, in effect a regressive subsidy adversely affecting the poor.

_Hypothesis._ Subordinating Brazil's state enterprises to the needs of elected officials should yield price freezes or reduction on prices of popularly consumed, state enterprise-furnished goods; expensive consumer durables available to Brazil's more privileged consumers should become more expensive still.

**State Enterprise Financing.** Public corporations during the authoritarian period were autonomous and encouraged to be as self-financing and profit-oriented as possible. Inasmuch, then, as state enterprise-generated surpluses were either generally fed back into the enterprises responsible for them, their insularity cannot be said to have had socially redistributive effect.

_Hypothesis._ In the democratic period, we should see distribution of surplus from high-income to less-profitable enterprises available for patronage and the production of popularly consumed goods. Further, this would require increased administrative centralization at the start, a concerted effort to shift managerial favor from profitability of individual state enterprises to concern for mass electorates.

**Public Sector Lending Policies.** In the 1960s and 1970s, the BNDE derived half of its resources from the forced savings of workers channeled into social security funds, and lent them in turn to major firms. Similarly, the Bank of Brazil made loans in the agrarian sector to only the largest landholders and agribusiness firms.

_Hypothesis._ In the mid-1980s, forced savings are more likely extracted from wealthier segments of Brazil's economy, centering levies, perhaps, on expensive consumer items rather than upon labor union pension funds. Credit should become increasingly available to small businesses and to those seeking to take advantage of current land reform proposals and to establish themselves as settlers.
**State Enterprise Employment and Wage Practices.** State enterprises pursuing economic rationality during the authoritarian period hired no more workers than were necessary and paid them no more than was essential. Technocratic managers, on the other hand, were paid attractive salaries so that expert management could be retained.

*Hypothesis.* In the present period, state enterprises will be exploited as a source of party patronage. Hiring should increase markedly in preparation for elections; future wage settlements should be more beneficial to labor. Conversely, a combination of less attractive salaries and reduced autonomy and emphasis upon profits will serve to draw less able management.

**State Enterprise Choice of Technology.** The preference for capital intensive technology is characteristic of authoritarian governments determined to industrialize rapidly. The result, however, is often a dual, skewed economy displaying full development in some production areas and a traditional deprivation in others. Indeed, poorer segments of the population may be made worse off than they might otherwise have been by the austerity imposed to make capital-intensive industrialization possible.

*Hypothesis.* An elected government will instruct state enterprises to adopt more labor intensive production methods to simultaneously reduce short-term operation costs and increase opportunities for hiring. Technological capacity and ultimately cheaper production methods will be sacrificed, but immediate quality of life indicators and vote-getting prospects will be improved.

**State Enterprise Purchasing Practices.** Autonomous, profit-oriented state enterprises will purchase from the least expensive suppliers, often foreign firms. Again, while promoting efficiency, this will contribute little in the immediate period to local employment and overall popularity of the government.

*Hypothesis.* To provide the electorate with greater employment opportunities and to retain government expenditures within the local economy, state enterprises should purchase from domestic suppliers whenever this is viable. Further, and closely related to this, state enterprises can be expected to call for the development and protection of domestic technological capability.
Location of State Enterprise Production Facilities. When location of state enterprise facilities is a matter of government discretion, authoritarian decisionmakers committed to unqualified growth have typically built upon existing capacity (Camacari being a very visible exception). By concentrating plant capacity, gains occur exponentially; by distributing it evenly about the country, gains are more dispersed and delayed. Nonetheless, the well-being of the population in many areas of the country is thus neglected by concentrating resources in only a few areas, a fact that only an authoritarian government can long overlook.

Hypothesis. To the extent that new state enterprise facilities are constructed and projects undertaken in democratic Brazil, they will increasingly be located according to criteria reflecting voter population rather than economic rationality. Local politicians throughout Brazil will want to enhance their patronage resources and local prosperity; insofar as they are able, politicians of the same party at the center will oblige them.

State Enterprise Corruption. While, of course, a controversial choice dimension, corruption remains still an option available to state decisionmakers: public funds may be distributed for private, unofficial consumption, and to a variety of contrasting ends. Accordingly, state personnel at high or low levels may be selected for administrative largesse.

Hypothesis. New patterns of private consumption of public resources will divert benefits from key, highly placed bureaucratic actors to newly recruited officials at lower levels. Distribution of such reward, in order to maximize electoral returns favorable to incumbents, may revert to a generalized patronage system of empreguismo (overhiring). Further, in connection with political parties, it might be expected that with the instauration of a veritable spoils system, the party that first wins national elections and packs the state apparatus with its supporters may consolidate its preeminent electoral advantage. Assuming, then, that President Sarney can maintain his Democratic Alliance coalition, the Liberal Front Party (Partido de Frente Liberal, or PFL) and the Brazilian Democratic Movement Party (Partido do Movimento Democratico Brasileiro, or PMDB) may remain entrenched in both electoral office and the parallel bureaucracy.

The Nature of State Enterprise-Produced Goods. This last and perhaps most fundamental dimension is at least partially related to the matter of pricing. What areas
of production are state enterprises currently emphasizing: the grand infrastructural projects of authoritarian years, the production of durables and technical services that necessarily postpone popular sector consumption, or the sorts of services and small-scale finished items that might be made more immediately available to ordinary Brazilian consumers?

**Hypothesis.** While recognizing that deficit pressures are also at work, it may be hypothesized still that new infrastructural project spending will be reduced; to the degree that new infrastructural project spending is undertaken at all, it will target the immediate requirements of mass publics (e.g., expansion of mass transit systems and perhaps even hydroelectric projects intended primarily to supply energy to private homes).

The tradeoffs involved in opting for particular developmental strategies should be clear. An authoritarian state with sufficient commitment will likely be better able to create the conditions for rapid economic growth than a democratic government. Of course, an authoritarian state need not necessarily dedicate its capacity and resources to growth—it might instead occupy itself with enriching key insiders and imposing a veil of unaccountability. But this does not accurately characterize technocratic decisionmaking in Brazil in the late 1960s and early 1970s, when corruption was moderated and 10 percent growth rates were recorded annually. Even in the late 1970s and early 1980s, when massive loans were acquired to perpetuate the "miracle," the funds are seen to have been put generally to good use, not frittered away or embezzled outright as was so often the case elsewhere in Latin America.28

Incumbents of a democratically elected regime, however, will not thrust the unpleasantness of extreme austerity and violence upon the polity; indeed, they cannot. Power relationships in a democratic context are ratified by winning constituencies, and this is not done by force or by assurances of national security and greatness by the end of the century.29 Votes are won by making life more immediately bearable for as much of the voting public as possible. Thus, there is much pressure upon politicians in less-developed countries to behave in populist fashion, to present for immediate mass consumption such surplus as may be available.30

State enterprises, serving to provide government with efficacious policymaking tools and heightened capacity, will naturally be assigned a variety of roles. The argument here is that Brazil's state enterprises will be called upon during the current
period to engage less in the creation of national wealth, and to operate more as outlets for its popular allocation.

The remainder of this paper will consist of an effort to chart the course of that changed state enterprise behavior, and to document empirical evidence related to the hypotheses and dimensions presented above. The methodology for obtaining and ordering that evidence involved systematically reading Brazilian publications and financial reports, and interpreting data on state enterprises by the terms of the hypotheses. This may create two sources of complaint. First, it might be thought that by interpreting information by the terms of hypotheses meant actually to be tested, the hypotheses can themselves never be falsified: the study might thus appear to be more a deductive exercise based upon a model inadequately tested beforehand than any ingenuous induction. In defense, I can only suggest that the data never "speak for themselves," and that while the researcher, of course, remains vigilant, he/she cannot help but be persuaded by preconceived notions. Next, objections might be raised regarding the secondary nature of the data. Here, I would remind the reader that primary data are obtained only at great expense if at all: when they have chosen, state enterprise personnel have been very successful in keeping information from even the Brazilian government.31

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Political-Economic Setting

Early in 1985, then Finance Minister Dornelles reacted to deficit pressures by freezing all new state expenditures and, indeed, cutting existing public investment levels. Additionally, to promote administrative reform so that budget-cutting might be institutionalized, he proposed that all federal government spending be consolidated and that estimates be sent to the new Congress for review. Such congressional oversight, together with the "social accord" tenor of the Fourth National Development Plan intended to combat poverty and inflation simultaneously, would indicate a policy of democratizing within a context of fiscal austerity. Further, insofar as the state enterprises were concerned, it was anticipated that cutting the enterprises' budgets would provide funding for the plan, an evident redistribution of resources further
communicated by the new emphasis upon foodstuffs and agrarian reform in the National Plan of Agrarian Reform.\textsuperscript{33}

In early 1986, public faith in the Sarney government's willingness to act upon its state social goals began to waver. The government responded with the Cruzado Plan, designed to alter inflationary expectations and saving patterns conditioned by long-entrenched indexation. Retail prices were frozen on many goods and wages were curbed, though at a level favoring popular sector consumers and earning the plan's sponsors widespread populist appeal. What were the Cruzado Plan's effects on the publicly owned enterprises? They too found themselves unable to raise prices, of course, and thus quickly exhausted their ability to generate funds for supplementary investment. State enterprise sales volume, like that of most all producers, was suddenly much increased, but the artificially low prices ultimately worsened their deficits and in turn contributed to the undermining of the Cruzado Plan's success.\textsuperscript{34}

This paper argues that, despite the finally negative economic impact, state enterprises will be subordinated to measures of this sort in the months prior to important elections. Accordingly, Sarney cultivated the sobriquet "father of the poor" and was charged by \textit{O Estado de São Paulo} with \textit{neogetulismo} (i.e., reviving Getulio Vargas' populist spending approach).\textsuperscript{35} Among the policy outputs quickly implemented by Sarney were: (a) granting social security to rural workers; (b) the creation of 100 new labor tribunals for addressing labor questions; and (c) renewed expression of support for Brazilian market reserve in the informatics industries—the nationalism and populist message here becoming more apparent when we recall that Petrobras, Siderbras, and their promotion of domestic economic autonomy were begun by Vargas.

\textbf{Continuing Official Commitment to State Enterprises}

The combination, then, of state deficits, public spending cuts, Cruzado Plan price freezes, and populist redistribution would appear to bode ill for Brazil's state enterprises in the months prior to elections. Yet it is argued here that state enterprises are a permanent fixture in Brazil: they can, after all, be used as much for purposes of electoral politics as for insuring long-term economic growth. What evidence is there that the state is attempting to provide its public corporations with at least some minimal
level of solvency that will allow them to resurface and make developmental initiatives in presumably more prosperous years ahead?

First, in the matter of financing the enterprises in an era of price freezes, we see that funds have been redistributed from the consistently profitable Petrobras to other state companies unable to sustain themselves, a move that prompted the resignation of Petrobras' director.\(^{36}\) The dynamism of which state enterprises are sometimes capable is exemplified by Braspetro, the foreign exploration subsidiary of Petrobras, which has aggressively sought contracts abroad "consolidating its international position despite the period of low investment in the oil industry."\(^{37}\) That the proceeds from this should in turn be made available to other state enterprises might be seen as evidence that democratic authorities will in fact be redistribute funding among enterprises to keep them all operable even at the risk of losing existing managerial expertise.

Second, we might consider the *emprestimos compulsorios*, the forced loans featured in the Targets Plan and Cruzado II, or Cruzadinho, introduced in July 1986 and meant primarily to discourage consumer spending on durables unleashed by the original Cruzado Plan. The revenue derived from the loans (ostensibly repayable to consumers in three to four years) was to be used in part to reduce the debts of the public corporations.\(^{38}\) Too, pressure was further removed from the enterprises by reducing their contribution to the National Development Fund (FND). Deposits in the fund, earmarked both for labor intensive social programs to help "Brazil's poorest" and a variety of state company-supervised infrastructural projects in areas of energy, steel, transportation, and communications were to come from 30-percent levies placed upon gasoline, automobiles, and other less publicized and less progressively taxable items.\(^{39}\) While this record is obviously incomplete, two apparent mechanisms have been used by elected authorities to maintain state enterprises undergoing a period of reduced activity: the government will circulate capital among them, and additionally secure such new and endogeneous funding as may be required to keep them in business.

**Privatization**

Students of U.S. political democracy will generally associate democratization with privatization, the transfer of state-owned property to the private sector. Liberty, after
all, is thought to be manifested in the right to acquire and hold private property. And in the present Brazilian setting, we sometimes find officials duly expressing similar sentiments, though privatization is likely found desirable in this instance less because it promotes some conceptualization of liberty (and, perhaps, further concentration of actual ownership and commensurately diminished popularity for regime incumbents) than because it would ease state operating costs and budgetary deficits.

Early on, President Sarney specified as one of his primary goals the "debureaucratization" of the economy, in part to make the private sector more responsible for economic growth. The Brazilian Coffee Institute (Instituto Braileiro de Cafe, or IBC), setting Brazil's coffee-marketing policy for the past thirty years, was targeted first for privatization; Brazil's coffee producers would then presumably have the authority and organizational means to determine their own marketing policies. While the government studied the implications of such a sale, the first actual instance of privatization occurred: the sale of a state-owned luxury hotel in Blumenau, Santa Catarina. While a minor transaction and of no threat to the proponents of statism, the sale signaled a clear shift in policy emphasis in that the hotel had initially been confiscated by the military government from a deputado cassado in 1970. Thus, we witness the transfer of property from a politician, to the state, and finally to the private sector.

Brazil's businessmen generally applaud the apparent trend and have aggregated their interests in the National Free Enterprise Movement. In existence since 1979 and representing some three hundred firms, the movement had advertised its privatizing objectives through the nation's media, especially in the months before the November elections. Sarney, of course, has expressed sympathy with their demands, and it is known that São Paulo business interests were permitted considerable influence in his cabinet in 1985.

But how much actual privatization was Sarney able to implement in 1986? A first case involves control of the nation's telephone system exercised by the Ministry of Communication. Private commercial interests have recently protested the continuance of this policy, citing the shortages of lines and phones, the general inefficiency of operation, and even the bothersome policy provision wherein private parties are barred by law from selling their telephones to one another. But thus far, the government has responded only by expressing its determination to retain ownership of
communications systems, a posture that casts immediate doubt upon its true privatizing intent.

This particular example may not in fact be a fair test of that intent, as communication networks are regarded as national infrastructure and clearly within the national security sphere. But what of those instances in which the government has itself selected the privatization agenda? Returning to the example of the IBC, we find that Castelo Branco, Minister of Industry and Commerce, while able to sell off the institute's airplanes, was otherwise forced to content himself with transforming the organization into the new National Coffee Policy Council. And though employee levels were cut from 4,500 to 500, the figure is misleading in that those made redundant by the terms of the new council were simply transferred to the Ministry of Information. Bureaucratic employment, then, can apparently be shifted about, but not appreciably reduced.

Targets for privatization are still ambitiously touted, however: the Sugar and Alcohol Institute, with 5,300 employees, has been slated for sale, and thirteen other agencies and most all offices representing the parallel bureaucracy abroad are scheduled to be closed outright. But while an official schedule can be developed, actual decisions are difficult to make in the months before elections: disturbing vested interests or reducing capacity for empreguismo would adversely affect the political fortunes of incumbents. While token and politically cost-free privatization might be advanced, then, serious dismantlement of state ownership patterns might be conceivable only after electoral mandates have been renewed.

Reforming State Enterprise Administration

The evident reluctance of the Brazilian state to divest itself conclusively of any of its enterprises does not necessarily imply that it will fail to rationalize their administration. In fact, given the urgency of the existing budget constraints, the government seemingly must take some measures to that end, though in a manner that does not alienate significant portions of the electorate.

In view of these twin imperatives, then, let us consider the administrative proposals that have been made thus far. Sarney has explicitly warned that the "state should not be considered a 'hat rack of patronage'" and that an end must be put to clientelismo. Accordingly, the following reform measures have been undertaken or
prescribed: (a) a Ministry of Public Administration has been created (eventually itself constituting a bureaucratic bottleneck, as we shall see later); (b) an "executive group of public administration" composed of five ministers has been formed for the purpose of modernizing state apparatus; (c) state enterprises have been given ninety days to present plans of "deactivation" of specified state-owned goods and property; (d) the Treasury has initiated a crackdown on the apparently widespread practice of bureaucrats claiming two or more salaries; and (e) a national school of public administration has been proposed. Other rationalizing structures already installed and distinctly addressing the state enterprises include the Public Coordinating Committee and the Tribunal of Accounts Union. Further, the reform imperative has been extended to the banking sector. First, the Central Bank, which may be treated here as an autonomous if very specialized state organization, has invoked more realistic interest rates and tighter credit policies in the wake of consumer spending stimulated by the Cruzado Plan; and second, the impact of deindexation, or "monetary correction," upon inflation has been such that "most of Brazil's 120 banks will now have to close some branches, reduce staffs, improve efficiency, and accept lower profits." 

The point here is that some degree of rationalization does seem to be occurring presently in Brazil, a trend hypothesized as likely to be moderated by electoral consideration. But to assess more completely the scope of administrative reform effected in the period before the Constituent Assembly elections, we might consider the matter of bureaucratic corruption.

**State Enterprise Corruption**

Given this officially expressed preference for rationalization, a related, though difficult to assess, matter is the impact upon corruption in state enterprises. Though probably impossible to test, it could be hypothesized that in a bureaucratic setting simultaneously experiencing the need for rationalization and reduced costs on the one hand, and for the enhancement of electoral resources on the other, the nature of corruption would be different from that of a closed and authoritarian setting sustained by foreign borrowing. In the current period, then, there may well be a shift from high-level theft of state resources to a more dispersed distribution at lesser bureaucratic levels.
A discussion of corruption offers us a place for transition from economic to democratic imperatives confronting Brazil's state enterprises. First, while the data are incomplete and the actual events perhaps staged, it is interesting that in this period of democratization, reports of misdeeds in high places are in fact surfacing and given prominence in the popular press. For example, a governmental commission has been appointed to investigate illegal dealings between the Central Bank and a holding company, Auxiliar: after selling stock and depositing the funds in the Central Bank, Auxiliar took possession of them once again for export abroad or illegal lending.\(^48\) This might seem precisely the sort of wrongdoing that a democratizing government might wish to publicly expose, decrying in nationalist terms the occurrence of capital flight.

Another example of state enterprise illegality that has been permitted to come to light involves the director of the Petrochemical Company of the Northeast, a holding of Camacari Petrochemical Pole of Bahia. The investigative Comissao de Valores Mobiliarios (CVM) has accused the director of insider trading, that is, buying and selling stock in an associated enterprise, Acrinor, on the basis of "insider" information.\(^49\) The significance of such events does not lie, of course, in their simply occurring, but rather, in the fact that the government has allowed investigations and press coverage. Certainly we may not expect in Brazil anything akin to Mexico's campaign of "moral renovation," but it could be hypothesized still that Brazil's elected officials are seeking some of the same ends to better the electorate's evaluation of them and the political system generally.

The Electoral Imperative

*Empreguismo.* Though the government has proven willing to acquiesce in the public exposure of corruption among directors of state enterprises, it has conversely shown itself more tolerant of what may be broadly defined as corruption at a lesser bureaucratic level. Overhiring, patronage, the spoils system—*empreguismo*, in the Brazilian lexicon—all involve the admission of individuals onto the state payroll in return for their having provided regime incumbents with some form of significant political support. This has long been a pattern in Brazil, of course, though it was practiced somewhat less during the recent authoritarian period.\(^50\) In 1984, on the eve of the era of competitive politics, the Brazilian state employed 4.2 million persons at

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\(^48\) http://lanic.utexas.edu/project/etext/lilias/tpla/8907.pdf

\(^49\) http://lanic.utexas.edu/project/etext/lilias/tpla/8907.pdf

\(^50\) William Case

Democratizing Brazil's State Enterprises
the federal, state, and local levels, 1.8 million of whom worked for federal- and state-owned enterprises.\(^5\) The problem was already acute prior to the current rounds of "happiness trains" that have saddled government rosters with perhaps half a million thoroughly idle workers.\(^5\) President Sarney has himself seemingly contradicted his rationalizing objectives by finding a position for his daughter in an auxiliary organization of the Senate.

More seriously, and with specific reference to state enterprises, it has been alleged that control of patronage potential arising from those enterprises has been ceded exclusively to the Liberal Front Party.\(^5\) On the face of it, this is entirely plausible: the PFL emerged from the Social Democratic Party (PDS), which in turn represented perhaps the purest strain of the old Alliance of National Renovation (ARENA) linked to military interests. And the military, for its part, retaining in the democratic period a very pronounced leadership presence in the state enterprises, might well require that public corporation patronage be exercised at least indirectly on its behalf as part of its price for assenting to the democratization process. Beyond this, state enterprise funds were reputedly used to finance all manner of PFL campaigning activity before the November elections. A particular example involved using Electrobras money to print PFL literature and stage rallies in Santa Catarina.

Further evidence revealing Sarney's willingness to allow the PFL an especially beneficial measure of state values appears early in 1986: in formulating a new cabinet, Sarney distributed the most important ministries to the PFL, a move greatly angering the more electorally popular PMDB.\(^5\) Again, this may well have been the price extracted by conservative interests in exchange for their remaining within the AD at the national level. At the state level, further characterized by extreme cleavages, Sarney is said specifically to have steadied the coalition with extensive use of empreguismo.\(^5\)

**Failed Administrative Reform.** Within the general discussion of electoral imperatives, I would like to return to the issue of rationalizing the state apparatus. If such costly electoral expedience as cited above is in fact necessary at the federal as well as state levels, it is hardly surprising that Sarney's proposed reform objectives were so sidetracked during the election campaigning that only the rhetoric endured. Various cabinet members responded by complaining publicly that bureaucratic decisionmaking remained slow and ineffectual and that reforms were not taking hold. Minister of Public Administration Aluizo Alves, for example, decried the ongoing practice of
empreguismo and the fact that proposed reforms had still not as yet been codified. Indeed, the entire process had as of August 1986 been bogged down in the new Ministry of Public Administration itself for more than a year. Jeova Magalhaes Sobreira, executive secretary of the Interministerial Privatization Council, clearly cited the difficulty as rooted in Brazil's political machine: "Public sector organs were always molded in a way to serve personal and regional politics." And in fact, it is precisely through personal and regional political linkages that even the banks, only briefly chastened by the Cruzado Plan, have been able to circumvent Central Bank reforms and regenerate their previous patterns of accumulation that deny Brazil "an efficient intermediary between savings and investment."

The ultimate lack of reform success in the pre-election period is nowhere made more clear than in the Tribunal of Accounts Union having openly censured President Sarney himself for his evident abetting of public sector overhiring. The irreconcilability of economic and political realities is readily apparent during this period: the particular challenge posed to political incumbents would seem to lie in their refraining from overloading the golden goose of the parallel bureaucracy with excessive and ruinous empreguismo. But such restraint is all for nothing from the point of view of politicians, if in leaving the public corporations intact, they themselves go down to political defeat.

Credit Policies. Among the hypotheses in this paper is one proposing that democratization serves to make more credit available for popular sector consumption despite state efforts to remedy deficits. But just as empreguismo has clearly survived administrative reform, we may similarly expect that electoral imperatives will be observed in the area of credit, at least in a much publicized, symbolic sense. The original hypotheses have been qualified, suggesting now that the democratic quality of state enterprise activity will be pronounced only prior to major elections. And after such elections, a more "predemocratic" distributive pattern regarding credit will likely be resumed. But given this assumption, what evidence exists to support the contention that credit will at least appear to be more available to the popular sector before it is called upon to vote?

While the Agrarian Reform Plan has largely stalled before determined and even violent landholder resistance, the government has still recently initiated a Rural Development Fund that possesses a decidedly populist flavor (if populism can be said...
to exist in rural Latin America). Sarney's stated aim is to "eliminate hunger and misery from the social map" while reducing the need for agricultural imports. This is ostensibly to be achieved by the Bank of Brazil making credit available to smallholders through the fund to cultivate rice, beans, manioc, and other basic staples that the government might then buy back. Such a policy is especially striking when it is recalled that the Bank of Brazil was previously most interested in providing credit to large landowners and agribusinesses engaged in export farming.

In the urban sector the Small Business Law—passed, as it happens, by the Figueiredo administration in 1984 as something of a parting gesture of political and economic liberalization—has resulted in the BNDE at last loosening credit policies toward small- and medium-sized firms. Technical assistance is provided through a mechanism known as CEBRAE and, while it is implemented through local organizations, overarching authority resides in the Planning Ministry. Plainly, Brazil's current authorities appreciate the electoral rewards likely arising from the state-supported creation of many thousands of businesses, favorable votes from new proprietors as well as those employed by them (although small and medium firms tend to be labor intensive and thus require more workers, small-scale business organizations preclude mass-level unionization and the loss of those votes to working class parties). Notwithstanding Brazil's current decisionmakers' still harboring a preference for capital intensive industrialization by large firms and elite business groups, then, they have yielded to an alternative production mode with greater vote-generating capacity in the period prior to the Constituent Assembly election.

In contrast to this, perhaps, the Supremo Tribunal Federal ruled in September against those borrowing from the National Housing Bank (BNH), determining that home loans would henceforth no longer be readjusted on the basis of the minimum wage, but rather, on the basis of variations in the ORTN. This formula is apparently far less advantageous to borrowers, a fact that in terms of the hypotheses is open to a number of interpretations. On the one hand, it might seem that BNH credit had previously been specified for comparatively poor groups preparing for small home ownership; rates, after all, were pegged to the minimum wage. Revoking such favorable rates might thus seem either a regressive policy measure on the part of the government meant to correct the BNH's 200-billion-cruzado deficit—which plainly disconfirms the hypotheses—or perhaps merely an idiosyncratic ruling by a newly independent judiciary whose overriding state preferences constitute yet further
evidence of democratization. On the other hand, we recall that the BNH was initially the creature of the military government, and that people able even to contemplate the purchase of homes, however modest, represent a privileged sector. As such, terminating the easy acquisition of home loans so that funds might be made available in other forms to a broader constituency would in fact be in keeping with the hypotheses. It is hard to know precisely the implications of the tribunal's ruling: the matter is introduced here not so much to shed light upon democratization of Brazil's state enterprises as perhaps to show how difficult the shedding of light on the issue can sometimes be. In any event, we shall see shortly that the entire affair of the BNH has nearly become academic.

EVIDENCE FROM THE POSTCONSTITUENT ASSEMBLY ELECTION PERIOD, 1986

The Constituent Assembly elections of November 1986 included ten thousand candidates from over forty parties, making Brazil the Third World's largest political democracy after India. But the meaningfulness of that democracy was perhaps diminished by Brazil's uniquely vigorous regionalism and competition at the state level, phenomena that diverted public attention from national issues to local ones. The personality of candidates was often more important than their national party identification; respective parties themselves, frequently more interested in local rather than national power, sometimes found themselves allied in one state or at one level of government and quite opposed in another. These features, together with the extreme expense of campaigning and the prevalence of wealthy candidates, raise doubts about the institutionalization and coherence of Brazilian democratic procedure.

Restoring the Tri-Pe

If Brazil finds itself in a postelectoral "democratic situation," egalitarian gestures should be promptly scaled back and commitment of elites to "accumulating" development strategies should again become apparent. Little enough time has elapsed in which to research that expectation, but already we have some indications of this occurring in the state-owned companies.
One might argue that Brazilian authorities are contemplating a partial resurrection of the old *tri-pe* formula to again attract international capital. The Cruzado Plan, by freezing wages and prices at a level comparatively beneficial to popular sector consumption, served to win votes in November, but ultimately depleted Brazil's foreign currency reserves and its capacity to export. Additionally, foreign investors have been unnerved by the populist tampering with the national economy, inconsistent decisionmaking, and uncertainty over the sentiment of the Constituent Assembly, and their reticence has greatly aggravated Brazil's capital shortages. A detected Brazilian policy return, then, to collaboration with international capital, and secondarily, with the local bourgeoisie, may be interpreted as "undemocratic" in that it implies a restored *tri-pe* emphasis upon exports and neglect of the internal market.

An early—and perhaps politically acceptable—overture made in the postelection months involves Embraer, the state-owned aeronautics company, having entered into an agreement with an Argentine firm. While we may expect the level of interaction to be low—Argentina itself is starved for capital presently—and while the move should not have offended nationalist sensibilities in that Brazil and Argentina increasingly appreciate the value of cooperating and presenting to the developed world a united front, we see here still the Brazilian state's demonstrated readiness to look outside the nation for production partners.

So urgent, it would seem, has the imperative become that the state has in fact been willing to move further and risk nationalist resentment—indeed, the military's displeasure—by permitting greater foreign involvement in even the area of national resources. Thus, the CRVD, the state mining company, has made known its intention of entering into manganese production with the Soviet Union. Further, in clear contrast to the global trend, and as if to make up for declining business relations with Black Africa, the CRVD has been collaborating in the production of nickel at Morro Velho with Anglo-American, a local subsidiary of a South African firm. Indeed, 42 percent of Brazil's mining sector is now foreign-owned, a figure that, while including many minority positions for foreign investors within joint ventures, has so alarmed Brazil's lower congressional house that it has responded with a bill insuring national control of strategic mineral deposits. Still, the Brazilian state appears for the most part determined to press its enterprises to cooperate with foreign capital on behalf of its transnationalist-minded bourgeois constituency.
Even in the area of informatics—assured, it was thought, by a very visible market reserve law—regime incumbents appear to be contemplating ways of allowing for an expanded foreign role. The requirement that foreign firms share their technology as the price of admission into the Brazilian national market is being steadily relaxed: a consortium is planned involving a Brazilian capital firm and a foreign company similar to those formed for undertaking federal projects in the past. Providing easier access for foreign participation in this once steadfastly protected area around which Sarney had seemed to draw the line would clearly suggest the intended restoration of "predemocratic" accumulation patterns.

To secure the involvement of the local bourgeoisie and to complete the financial triangle will be more difficult: local investment capital is apparently as limited at the moment as is that of the state enterprises. Nonetheless, the state is actively looking for new ways to recruit bourgeois interest and retain such investment capital as it possesses within the country. Consider the following very pragmatic approach: the Central Bank has begun numbered accounts in which individuals may deposit funds that they are holding illegally, that is, that have not been declared for tax purposes. The incentive for the bourgeoisie to do so lies in the fact that the deposits will be invested and the gains returned to those from whom the capital has been gotten, an arrangement meant to induce more proper entrepreneurial spirit and Brazil's economic growth. The fact of the policy's restraint and essential regard for the bourgeoisie is made plain when we consider that a state more firmly committed to egalitarianism might simply expropriate such funds. And while a systematic confiscation of privately held property is, of course, unlikely in the Brazilian case, the state is nonetheless willing to make such populist gestures in isolated instances in preparation for elections as, for example, when it seized cattle withheld from market in the wake of Cruzado Plan price freezes.

State Enterprise Projects

We might briefly consider a few other state enterprise-related and regressive political-economic indices, though data at this time are sparse. Regarding the large infrastructural projects once squarely in the domain of the state companies, data are rare indeed, owing both to the short length of time that has elapsed since the Constituent Assembly elections and because the public deficit makes such spending
very unlikely. Still, some hint of the state enterprises' continuing preference for "center-right" development projects can be gotten from a small number of reported items.

For example, the state was long involved in constructing a railroad extending from Belo Horizonte to Volta Redonda known as the Ferrovia de Aco, an undertaking that consumed $2 billion and came to represent an especial exemplo gritante of state enterprise indisciplina. Finance Minister Dilson Funaro accordingly ordered the project stopped prior to the elections. But as the railroad is, even in its evidently incomplete form, the conduit for most of Brazil's exported steel, it has been recognized as national infrastructure and thus of interest to Brazil's relevant state enterprises. Thus, the road has reemerged after the elections "like a kind of state zombie"; despite severe capital shortages, the state has restarted the project in collaboration with Reunited Brazilian Minerals (MBR), the principal private enterprise using the route. The government has defended its participation by showing its assessed contribution to be far less than in most such undertakings, but it could be argued that to the extent that it has participated at all, it can be said to be allocating publicly owned resources to an export-led, distributively regressive developmental model affordable in a democratic period only after elections have been successfully contested by incumbents.

State Enterprise-Produced Goods

Recall that the Cruzado Plan had frozen the prices of all state enterprises, so the already favorable steel rates become artificially more favorable still, a fact that persisted despite the Cruzadinho's impact upon downstream, finished product prices. Thus, there is presently much debate at the cabinet level over what to do about Siderbras' losing an estimated $10 million per day, Finance Minister Funaro and Planning Minister Sayad wishing to reduce the enterprise's spending levels or even sell the company entirely. This, as we have seen, is improbable. Minister of Industry and Commerce Castelo Branco has articulated the more likely outcome in the postelectoral period: he has recommended that Siderbras' autonomy and control of its projects be left undisturbed and that its entire deficit of 128 billion cruzados be absorbed by the Treasury and that, further, the Treasury inject into Siderbras still more investment. In this instance, then, a state effort to maintain a state enterprise would be less for
immediate patronage possibilities than to insure guiding economic growth by the terms of a preferred economic strategy.

There is little such debate, however, about the projects expressly preferred by the military. Even early in 1986, with tight budgetary constraints and electoral preparations beginning, the military embarked upon its costly reequipment program known as FT-90 requiring $250 million per year. We learn additionally that sufficient funding has been found to relocate the Armed Forces Technology Center (CENTEX), hub of the military's arm-producing companies, to the agreeable setting of Rio de Janeiro. The military has further embellished its position with the purchase of Helibras, the helicopter-manufacturing division, and a satellite communication system with money apparently transferred from the Ministries of Communication, Health, and the Interior as well as from continued borrowing from abroad. And finally, the military has been expanding its nuclear program, hiring technicians from Nuclebras even as civilian officials conclude that the enterprise, and indeed, its nuclear power objective, are no longer worth the investment.

Privatization and Rationalization

But while military-run enterprises and undertakings may be expected to continue unabated, the state, for its part, may in the wake of elections have renewed opportunity to act upon its rationalization and privatization goals where explicitly state-owned—as opposed to military-controlled—enterprises are involved. Thus, we should not be surprised to find that in late November 1986, the Interministerial Council of Privatization grew more assertive, drawing press attention to its researching the complex legal procedures for selling off state companies. The Minister of Urban Development has supplied an actual short-term list of enterprises and facilities to be sold that includes Coalbra, a wood alcohol plant, the Aluminum Company of the Northeast (ALUNE), and a variety of other evidently unneeded manufacturing plants. Dilson Funaro has further proposed the immediate merger or outright closing of fifteen state enterprises and agencies with another thirty-two to follow. The observer might be inclined, of course, to dismiss all this as the best of intentions and even obligatory rhetoric, at least until confronting the recent case of the National Housing Bank. That institution has been sacrificed to the economizing design: that is to say, it has been closed outright, its accounts and assets transferred to the Federal Economic Exchange,
and 6,000 of its 8,260 funcionarios slated for dismissal. Further, the erstwhile BNH's tower headquarters in Rio de Janeiro—"the definitive example of ostentation that marked the style of other construction erected by the government in the past to 'headquarter' state enterprises"—has been put up for sale. Veja magazine concluded its piece on the closing of the National Housing Bank by characterizing it as for "22 years constituting one of the economic sores of the country."74

State Enterprise Pricing Policy

A final state enterprise-related area to be considered is pricing policy. It was suggested in the hypotheses that increasing the rates for public utilities and transportation adversely affect the poor and was an "undemocratic" way of treating the public deficit and excessive consumer spending. Thus, while the Cruzado Plan's populist tone is reflected in its having frozen utility and transportation rates—and indeed, state enterprise prices are still frozen for the most part—consider some of the less-publicized price adjustments that have been introduced under the terms of Cruzado II: (a) increased tariffs for public goods and services, particularly water, electricity, telephone, and post rates; (b) a redefinition of the terms of cost-of-living adjustments in which workers that negotiated wage increases since February were made ineligible for the 20 percent wage adjustment scheduled for when inflation reached that same mark (the inflation rate has long since surpassed this figure); and (c) a new consumer price index incorporating only subsistence goods and applicable to those earning less than $300 per month—a mechanism designed, it would appear, to yield a disingenuous inflation reading.75 Thus, while the Cruzadinho is commonly cited as a progressive instrument for checking an overheated economy in that it levied prohibitive taxes upon cars, travel, investments, and the like, there is quite another, belated side to the package as well.

A clearer opportunity to measure Brazil's democratizing intent along the dimension of utility prices may become available shortly in the country's southern states. Electrobras officials have recently warned that because of low rainfall and reduced reservoir levels, Itaipu's hydroelectric capacity will be temporarily unable in future months to meet current consumption rates.76 It will be worth watching the way the government responds to this—either by permitting the market to allocate energy on the basis of ability to pay, or, as is more likely, invoking some rationing scheme resulting
in preferred rates either for industry or for private consumers. The government's decision, of course, by the logic of this paper, will be telling for democracy.

CONCLUSION

If we can separate out the deficit factor—and economic constraints more generally—we can then largely regard this paper's politically based hypotheses as still standing. Some have been less successfully formulated than others, and all must be qualified by the recognition that upon the completion of elections, state enterprises will begin to revert to the essentially predemocratic development tasks that they have been more usually charged with in Brazil. Thus, it would be incorrect to cite a steadfast correlation between authoritarian regimes and capital-accumulating state enterprises on the one hand, and competitive regimes and redistributive state enterprises on the other.

To some extent, then, recent changes in Brazil's regime form and attendant modes of public sector operation are more apparent than real: bourgeois property rights, corporate military privilege, and a rapid, if skewed, growth model that guarantees these sectors' continued favor are all probably inviolable. Moreover, only if these features can be preserved in a context of competitive politics at but small additional economic cost to the bourgeoisie and the military will politically democratic procedure persist in Brazil: should fundamental tampering with the distribution of values occur, or should even a bothersome inefficiency come to enervate the economy, these same actors will once again exchange democracy, such as it is, for the unpleasanness of authoritarian repression. Both variants incur costs. It is simply a matter of bourgeois and military elites' selecting the regime type that appears to them the more affordable—though they may enter into their calculus the greater normative, contemporary respectability of democracy.

Substantial ambiguity, then, pervades almost every effort to link regime types and the objectives assigned Brazil's state enterprises. The pattern recorded in this paper wherein reelection officials deemphasize state enterprise-generated redistribution in "secure" months after their reelection certainly negates the validity of a concise and clearly delimited cyclical model of authoritarian-democratic public sector operation. But at the same time, sufficient supporting data have been presented here to lend this paper's argument plausibility: that is, Brazil's regime incumbents will mobilize parallel bureaucracy in demonstrated ways to defray democracy's electoral challenge. And the
hope, further, is that the growth objectives that Brazilian state enterprises are often capable of meeting will not be so thoroughly sacrificed that authoritarian political actors soon invite themselves back once again.
NOTES


2. The argument is perhaps most effectively presented by Guillermo O'Donnell in Modernization and Bureaucratic-Authoritarianism: Studies in South American Politics (University of California at Berkeley, Institute of International Studies, 1973). See also Laurence Whitehead in Transitions from Authoritarian Rule: Prospects for Democracy (Baltimore: Johns Hopkins University Press, 1986), pp. 9–10: "The peripheral society aspires to 'catch up' with or 'fully belong to' the more prosperous and stable communities at the center of the system. To catch up in material terms would require national unity, social discipline, and the sacrifice of present welfare for the sake of future growth. These requirements favor the introduction of authoritarian forms of government, and create deep dissatisfaction with weak democratic regimes that seem characterized by undiscipline, disunity, and shortsightedness. [In contrast], to catch up in political and social terms requires the establishment of political democracy, even if the associated reforms impede the process of political growth. Within the terms of this highly simplified schema the countries of this capitalist core transmit two somewhat contradictory impulses to the societies on their periphery... This sketchy interpretation may help to account for one crucial characteristic that many of the peripheral countries seem to share, namely, the tendency to alternate between authoritarian and democratic forms of government without becoming irreversibly committed to one or another."

3. Although these developmental concepts are used in many texts, perhaps the best summary statement can be gotten from David Collier's "Overview of the Bureaucratic-Authoritarian Model" in The New Authoritarianism in Latin America (Princeton: Princeton University Press, 1979).


6. Ibid., p. 204.


8. A comprehensive if not entirely up-to-date listing of Brazil's federally controlled public corporations and their many subsidiaries is made available in an appendix to Santo, "Setor Estatal e Desenvolvimento."


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Recomendações e Alternativas de Institutionalização dessas Relações, A Empresa Pública no Brasil.

10. Affonso, in "Relações entre as Empresas Públicas," writes of the state's commitment to "stimulating," "supporting," and "supplementing" an otherwise immature private initiative in Brazil. See also Sergio Henrique Abranches, "A Empresa Public Como Agente de Politicas do Estado: Fundamentos Teóricos do Seu Papel, Inclusive em Face de Nossas Relações com o Exterio,", As Empresas Públicas no Brasil, p. 8: "Ante crises ou etapas de transicao particularmente marcantes, as empresas estatais surgem como elementos novos, estrutural e politicamente determinados, para garantir a continuidade e ampliação do processo de acumulacao privada de capital."


13. Baer and Figueroa write of "the inefficiency of Peruvian state firms" and that "although studies are not available to show the magnitude of the inefficiency involved, it is a common assumption that state firms are poorly run bureaucratic extension of the government, and lack a committed, qualified cadre of technocrats." Werner Baer and Adolfo Figuero, "State Enterprise and the Distribution of Income: Brazil and Peru in Authoritarian Capitalism." Regarding assessment, Thomas Trebat writes in "Public Enterprises in Brazil and Mexico: A Comparison of Origins and Performance," Authoritarian Capitalism, p. 48: "A study of Brazilian public enterprises in six major industries during 1966–1975 revealed that for the most part, the firms studied yielded a consistent current surplus. The railroads are the only major exception to this general pattern of profitability." Further, p. 54: "With the exception of the railroads, Brazilian public enterprises were able to make substantial contributions toward the financing of new investment."

14. Ibid., pp. 65–66. Rezende observes, in "A Empresa Pública e a Intervenção do Estado na Economia," that while new enterprises were created in the 1970s and decentralization implemented, investment decisions remained very much centralized: "O sistema de financiamento de investimentos industriais e altamente concentrado: o BNDE e responsavel direto por cerca de 50% do crédito para investimento na indústria. Outras fontes de crédito para esta finalidade sao os bancos estaduais de desenvolvimento, os bancos de investimento, os bancos comerciais oficiais e o Banco do Brasil... Assim, cerca de 80% dos recursos para financiamento de investimentos na indústria sao realizados direta ou indiretamente pelo BNDE, sendo o Banco do Brasil responsável pelos 20% restantes." See also Dallari, "O Controle Politico," pp. 182–84.


17. Peter Evans, "Collectivized Capitalism," Collectivized Capitalism.

18. Ibid., p. 92.

19. Ibid., pp. 95–96.


24. See Thomas J. Trebat, "Public Enterprises in Brazil and Mexico."


27. Indicators of a "democratic" economy are offered by Baer and Figueroa in "State Enterprise and the Distribution of Income."

28. The following assessment was recently made in the New York Times: "Like other developing economies, Brazil borrowed heavily in the 1970s. Unlike others, Brazil invested the money in highly productive projects like hydropower dams and aircraft factories. After two decades of stunning five percent per capita income growth, the country invites comparison to the miracle economies of the Asian Rim." Presented in an editorial entitled "How to Revive Brazil's Miracle," February 24, 1987.

29. This must be qualified somewhat in the Brazilian case by noting that its authoritarian government never completely lost sight of the importance of garnering legitimacy through elections, however manipulated those elections might in fact have been.

30. It should be noted that democratic governments in First World societies are nearly as susceptible to this. U.S. congressmen, for example, to be reelected, must engage in the "pork barrel" projects firm ed up by "log-rolling" and "iron triangle" logic that leave the government much in debt.

31. Baer writes in The Brazilian Economy, that "a presidential decree was necessary to force state enterprises to surrender basic company information to the Ministry of Planning. A number of firms have in the past refused to provide financial data to the government despite statutory legislation. Central government regulatory agencies have in the past been unable to probe into the operations of public firms."


33. Ibid.

34. Ibid.


39. Reference to "Brazil's poorest" is made in the Latin American Monitor, August 1986. Items to be taxed are listed in Veja, July 30, 1986.
41. Ibid., July 2, 1986.
42. Ibid., August 6, 1986.
43. Ibid., August 13, 1986.
44. Ibid., August 20, 1986.
45. Ibid., September 10, 1986.
49. Ibid., November 19, 1986.
50. Philippe Schmitter observes in Interest Conflict and Political Change in Brazil (Stanford: Stanford University Press, 1971), p. 380, that "despite the emergence of isolated, performance-oriented technocratic elites in the 1950s, employment in public administration continues to be based on considerations of cooptive patronage and familistic opportunism (empreguismo, cartorialismo, filhotismo). Only after the coup of 1964 did something like a pure authoritarian bureaucracy appear with its accent on political neutrality, expertise, social and political engineering, and paramilitary command systems based on an alliance of officers and technocrats."
52. Ibid.
53. Interview with a U.S. economist with long experience in Brazil's south. Spring 1987, Austin, Texas.
58. Veja, August 27, 1986: "The public [sector] organs were always formed in such a way as to serve personal and regional political interests."
60. Ibid., July 1986.
63. Veja, October 8, 1986.
64. Latin American Monitor, November 1986.
68. Fernando Antonio Roquette Reis writes in "A Administração Federal Direta e as Empresas Públicas: Análise de suas Relações, Recomendações e Alternativas para seu Aprimoramento," A Empresa Pública no Brasil, p. 158, of "state enterprise attitudes conflicting with the higher orientation. . . .The severest example, the
'Ferrovia de Aço' reveals not so much indiscipline but misunderstanding between ENGEFER/RFF and the peak government ministries (Planning and Treasury) which indicates presumed errors of engineering, building, and administration of the project."

70. Ibid.