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STRENGTHENING BUSINESS GROUPS AND STATE INTERVENTION: THE NEW DEVELOPMENTALISM IN BRAZIL

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STRENGTHENING BUSINESS GROUPS AND STATE INTERVENTION: THE NEW DEVELOPMENTALISM IN BRAZIL

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SUMÁRIO

ABSTRACT

The paper addresses the interaction between business groups and state intervention in Brazil under the New Developmentalism, inquiring to what extent the new role played by the state in the hallmark of the “new developmentalism agenda” is complementary to the strategy and practices adopted by Brazilian business groups. The paper suggests that the concentration of governance control in the hands of a tiny elite pushes for champion-promoting strategies, generating a complementarity between the institutional domain of corporate governance and the industrial policies promoted by the state. The unforeseen consequence of these “on-the-ground” strategies is that, in Brazil, hierarchical capitalism and state developmentalism are mutually reinforcing each other.

Key-Words:New Developmentalism, Business Groups, Hierarchical Capitalism

RESUMO: O artigo discute a interação entre grupos econômicos e intervenção estatal no Brasil, questionando em que medida o novo papel adotado pelo estado, no marco do Neodesenvolvimentismo, é complementar às estratégias e práticas adotadas pelos grupos econômicos brasileiros. O artigo sugere que a concentraçãodo controle da governança corporativa nas mãos de uma restrita elite econômica favorece estratégias de promoção de campeões nacionais, gerando uma complementariedade institucional entre o domínio corporativo e as políticas industriais promovidas pelo estado. A consequência dessas estratégias é que, no Brasil, o desenvolvimentismo estatal e capitalismo hierárquico se reforçam mutuamente.

Palavras-chave: Neodesenvolvimentismo, grupos econômicos, capitalismo hierárquico

JEL Classification: O1, P1, P48

INTRODUCTION

The existing scholarship interested in understanding economic transformation in late industrialized countries has significantly emphasized the role played by the state in driving industrialization. Little but still significant work has highlighted the importance of business groups in promoting economic transformation by means of diversification and incubation of large national leaders(WOLFENZON, YEUNG, AND MORCK 2005, AMSDEN 2007, SCHNEIDER 2008, COLPAN ET AL 2010). The patterns of interaction between state and business groups, however, are fuzzy. On the one hand, the emergence of business groups can be directly promoted by states through different sets of incentives and policies to foster the economy. On the other hand, once business groups are established as "developmental agents", their growth becomes a threat to state autonomy, given their privileged access to policy-making process and their tremendous capacity to influence individual national economies.

In this sense, the paper intends to address the complementarities between the role of the state and the presence of big businessin Brazil. Along with the *Varieties of Capitalism* (hereafter VoC) approach from Hall and Soskice (2001),my focus problematizesthe role of business corporationsin the configuration of market institutions.Thus, my question is: to what extent are the strategy and practices adopted by Brazilian big business complementary to the new role played by the state in the hallmark of the "new developmentalism agenda"?

My claim is that the "New Developmentalist"agenda(DINIZ AND BOSCHI 2010; MORAIS AND SAAD-FILHO 2011; BRESSER-PEREIRA 2012; MATTEI 2013; DE LOURDES ET AL. 2013; MULTIPLE AUTHORS 2012)failed to promote more horizontal market relations in Brazil. The reasoning for this argument lies in the way that large companies are organized in the country, which seems to compromise free market competition, close off opportunities for new entrepreneurs and weaken capital markets. This configuration resembles what Ben Schneider (2013) has called Hierarchical Market Economy (HME) to refer to the type of capitalist coordination observed in Latin American countries.

Yet, my analysis shows that the resilience of a hierarchical pattern in Brazil after the new developmentalism agenda is not only a matter of choice by the Brazilian state, but also a matter of strategy pursued by big businesses to ensure their incumbent position against new competitors. In other words, my argument is that the concentration of governance control in the hands of a tiny elite pushes for champion-promoting strategies, generating a complementarity between the institutional domain of corporate governance and the industrial policies promoted by the state. The unforeseen consequence of these "on-the-ground" strategies is that, in Brazil, hierarchical capitalism and state developmentalism are mutually reinforcing each other.

In order to develop my argument, the plan of the paper is as follows. My first task is to bring the business organizations back in, exploring some features of how businesses are organized in Brazil. The second step is to examine the institutional complementarities between business groups and economic institutions, highlighting some particularities of the Brazilian case that might have contributed to reinforce the hierarchical pattern of capitalism.Last, but not least, I investigate the

Brazilian attempt to reinstall the developmental state during the 2000s taking into account the opportunities and constraints set by the business environment.

BRINGING BUSINESS STRUCTURES BACK IN: THE BRAZILIAN BUSINESS GROUPS

How businesses organize themselves in a given territory says much about the institutional dynamics underpinning public and private interactions as well as the development paths followed by a country. So far, much attention has been paid to the role of institutions in economic development,[1] but little has been said about the impact of organizational forms of business in economic outcomes. One possible explanation for the neglect of organizational features of business is the explicit differentiation made by institutionalists between institutions and organizations, the former being understood as the rules of the game and latter as the players. The theory of institutions proposed by Douglas North (1990), followed by many scholars in political economy, although not ignoring the role played by organizations, clearly emphasizes institutions and their underlying rules as the main independent variable to explain economic performance.

More recently, a group of scholars has attempted to bring the organizational form of business back into the field, highlighting the impact of different features of business groups on the overall economy (LA PORTA, LOPEZ-DE-SILANES, AND SHLEIFER 1999; WOLFENZON, YEUNG, AND MORCK 2005; ALDRIGHI AND POSTALI 2010; SCHNEIDER, 2013). To a certain extent, this project resembles the movement pushed during the 1980s by Theda Skocpol and others to bring the state back in. At that moment, the idea was to assign causal weight to variations in the state structures across nations, since it became fashionable to speak of states as drivers of development (SKOCPOL, 1985). By the same token, just as it became fashionable to speak of business as drivers of economic coordination, more scholars are interested in assigning causal weight to variations in firm structures across nations, exploring the relations between business organization forms and the dynamics of capitalism.

La Porta et al (1999) and Morck et al (2005) have called attention to how different countries are in terms of whom is in charge of corporate governance. According to this literature, whether a company has no controlling shareholder or is controlled by governments, wealthy families, financial institutions or others is crucial to understand the strategies behind capital allocation both across and between firms. Considering that a considerable share of the GDP is controlled by big corporations, entrusting the governance of a country’s corporate sector to an specific sector can not only bias capital allocation, but also change the incentives for capital market development and the opportunities opened up for outsider entrepreneurs.[2]

Colpan et al. (2010) called attention to a specific type of business arrangement – the business group – through which different companies are connected to each other neither by competitive-rival

[1] Of necessity, the discussion on the institutionalist approach is very synthetic and does not do justice to the richness of the debate. See: (CONCEIÇÃO 2002; LOPES 2013).

[2] Morck et all (2005) argue that high concentration of corporate control in the hands of a tiny elite (oligarchies) can distort public policy regarding property rights protection, capital markets, and other institutions – to which they refers as economic entrenchment.

relations nor by headquarters-subsidiary relations; instead, they are bounded together by persistent formal and informal ties that can be characterized as pyramidal organized, diversified and, in the most cases, family owned. In fact, it became commonplace to attach all these three characteristics of a business group to a negative connotation, especially when compared with other forms of business organization found in mature economies, where both small and medium-sized enterprises as well as large enterprises with technologically related activities are the main drivers of economy.

Scholars interested in the political economy of non-advanced countries have been asking whether the prevalent forms of business organizations found in developing countries, mostly controlled by a mixture of state entities, multinationals and wealthy families through control pyramids, could explain their economic backwardness. One might reasonably argue that pyramidal family-owned business groups concurs with economic entrenchment,[3] since oligarchic families are likely to be highly effective political lobbyers.

Not to mention the possibility that corporate insiders and political insiders may be the "same people" by means of social ties that facilitate the connections among business and politics. In fact, there is a vast literature connecting oligarch capitalism, political rent-seeking and economic entrenchment that shows that wealthy business oligarchies have strong political influence over economic policies and, consequently, enjoy not only private benefits but also easier access to finance, lower taxation and property rights protection. In Latin American countries where the pyramidal family-owned business model prevails,[4] economic entrenchment would be the rule.

But if one goes even further, delving into individual countries, there arises a kaleidoscopic image in which large conglomerates are dynamically being restructured: in some companies family remains as owners and managers whereas in others traditional families are giving up their management power to professional CEOs; some companies are engaged with diversification whereas others with specialization;[5] some companies are opened to foreigner investors whereas others remain domestically controlled. Besides, despite the many advantages held by business groups over potential rivals, a high level of turnover is still observed among them – economic empires have collapsed and new ones have emerged to replace them.

The picture brought by studies carried out in Brazil (LAZZARINI AND MUSACHIO, 2014, ALMEIDA AND SCHNEIDER 2012; LAZZARINI 2011; ALDRIGHI AND POSTALI 2010) reveals that wealthy families control most of the largest private Brazilian companies, yet with increasingly significant stakes hold by state-controlled entities, in particular, BNDESpar and pension funds. Foreign investors from OCDE countries also have enlarged their investments in corporate assets since

[3] Economic entrenchment refers to the political outcomes of entrusting the corporate governance of the greater part of a country's corporate sector to a tiny elite, especially via control pyramids. The reasoning behind it is that oligarchs lobby for private benefits, at the same time political insiders also get private benefits of cooperating with oligarchs.

[4] In the pyramidal model, control rights disproportionately exceed cash flow rights in the way that controlling shareholders can exercise undisputed control over operating companies. The consequence of this design is the tunneling of profits from minority shareholders to the controlling one so that a few groups of controllers make money at the expense of many (Morck et al. 2005).

[5] One important aspect that differentiates business groups is their tendency to diversify their product portfolio. When assuming the diversified form, legally independent companies within the group operate in multiple industries that are commonly unrelated to each other. This arrangement constrains the transference of capabilities from one company to another inside the group, making it difficult to generate technological upgrades. At the end of the day, the market value of the entire group is lower than that the sum of its individual parts.

the 1990s, in a way that the corporate structure of the present day resembles the pattern of multiple investors observed in Brazil since the 1960s (the famous "triple alliance" among MNC, state-owned and private capital that has pushed industrialization in the country). Moreover, Brazilian large companies are characterized by a considerable longevity since they are part of groups dating back to the 1960s (ALDRIGHI AND POSTALI 2010).

Looking at this broad picture, there are good reasons to believe that nothing or little has changed considering the structure of control and ownership of large companies after almost 20 years of liberalization and integration into the global markets: to a certain extent the champions of today are very similar to those of half-century ago. However, Brazilian big business has passed through moments of critical junctures that, if they did not suffice to create new institutional patterns, have at least shaken the existing ones.

As Goldstein and Schneider (2004) observed, an important corporate reorganization took place in Brazil after the 1990s against the background of market reforms that involved macroeconomic stabilization, trade liberalization, privatization and a wave of mergers and acquisitions. According to the authors, the main feature of this reorganization was that "*in terms of ownership of the largest firms in Brazil, the state and traditionally family-held firms have been displaced by multinational (MNCs) and some new domestic corporations, where control is (at least partly) separate from ownership"* (GOLDSTEIN AND SCHNEIDER 2004:48).

The main drivers for the changes observed in Brazilian big business during the 1990s were threefold: privatization of state companies, mergers and acquisitions and new rules in corporate governance, including the launch of the São Paulo Stock Exchange.

Starting with privatization, it is considered as one of the most significant watersheds in the Brazilian corporate environment: during a period of 10 years (1991-2001) 119 public companies were sold, most of them from utilities sectors, especially, electricity and telecommunication (AGUILERA ET AL. 2011). Besides, companies in strategic sectors with relatively outstanding performances were sold off: Usiminas (1991) and Companhia Siderúrgica Nacional (1993) from siderurgy and metallurgy; Embraer (1994) from aircraft; Copesul (1994) from chemical and petrochemical, Companhia Vale do Rio Doce (1997) from mining, and Telebras (1998) from telecommunication. Later, all of them became leading business groups (ALDRIGHI AND POSTALI 2010).

Considering the changes that came from mergers and acquisitions, the figures are also salient: "*there were around 2,300 such deals over the period 1994–2000, 61 percent of which involved foreign capital. Most were concentrated in food and beverage industries, followed by financial institutions, and telecommunications*" (idem, p. 362). In 1994, the government enacted a new regulatory framework to control the process of merger and acquisitions and reconfigured the Administrative Council for Economic Defense (CADE) into an independent agency. One important motivation for mergers and acquisitions at that time was the succession troubles faced by traditional wealth families, when billionaire inheritors started to see great incentives to giving up part of their ownership. Besides, giving the high percentage of foreign capital that entered the corporate market, it was hard for domestic groups to resist takeover.

The launch of the São Paulo Stock Exchange, which is remarkable for introducing high governance standards for new listing segments, as well as the approval of a new legislation regulating corporate governance, also contributed to alter the big business environment. The New Corporate Law intended to strengthen minority shareholders' rights along with changes related to:

> (1) separation between ownership and control, especially non-voting shares were capped at 50 percent of the capital stock for new companies and IPOs of non-listed companies, (2) dispute resolutions, (3) calling of shareholders' meetings, (4) composition of the board of directors, (5) regulation on independent auditors, and (6) regulation on insider's information and trading. (AGUILERA et al. 2011:p.8)

All these initiatives were designed to increase investor protection and confidence, enhance competitiveness, decrease the role of state control, diversify the sources of long-term financing, encourage minority acquisition of equities and weaken longstanding monopoly controls. However, they were not enough to alter the distribution of corporate control across publicly listed firms: the high levels of corporate ownership concentration still live on, as attested by the literature on corporate governance in Brazil (Aguilera et al. 2011; Lazzarini 2011;Aldrighi and Postali 2010). It is interesting to point out that the Brazilian big businesses have assured an important artifice under the Securities Law that allows them to issue non-voting shares, also known as preferred shares, through which they get financing without losing corporate control.

> In fact, about 90 percent of trading volume at the Sao Paulo's Stock Exchange involves non-voting shares (Leal and Carvalhal- da-Silva 2007). Thus, not surprisingly, the direct shareholdings control is high and controlled by industrial groups who use preferred shares (e.g., nonvoting shares) to finance their projects.(AGUILERA et al. 2011:10)

Lazzarini (2011) analyzed how the structures of ownership of the largest Brazilian companies have evolved since the pro-market reforms and his conclusion is straightforward: "everything's changed, yet nothing's changed". His study aimed to identify the final owners of pyramidal big companies, in which a complex chain of institutional investors, families and state entities own and control different levels of the pyramid. The idea was to find the nodes that bind together different owners and to examine to what extent their interests are connected. His findings show that between 1996 and 2009 the network of Brazilian owners has strengthened about 40 times during the period, that is, it became more connected, more interlinked and more concentrated. Another interesting finding is that state entities and families compose the central nodes of these networks, exerting great influence over the whole network. According to Lazzarini, it is possible to observe different levels of influence held by owners in Brazil, providing that those who own more seats on different boards of directors are in a more privileged position, in that case, the government and the tiny elite of wealthy families.

Turning now to the industrial profile of the largest Brazilian companies, the changes have also been marginal in the last two decades: except for Embraer (aircraft industry), most of them remain concentrated in commodities and consumer goods. According to Aldrighi and Postali (2010):

> Those undertaking businesses in knowledge or skilled-labor intensive industries were the following: Embraer (aircraft manufacturer), Petrobras (oil exploration and production in deepwater environments), Odebrecht (engineering and heavy construction), and Oi and Brasil Telecom (telecommunications). Most were engaged in at least one of the following core businesses: banking, chemical and petrochemical, mining, steel, electric energy, pulp and paper, retail trade, food, and agribusiness. (ALDRIGHI AND POSTALI 2010:369)

One interesting feature among the Brazilian big businesses is the variety of strategies gravitating toward diversification or specialization:

> Some are focused on a **single business**, such as Oi and Brasil Telecom (telecommunications), Unibanco (banking and finance), Embraer (aircraft manufacturing), Neoenergia, CPFL Energia and Light (electrical energy), Sadia and Perdigão (chilled and frozen foods), TAM (airline), and Pão de Açúcar (retail trade). Others have their own core business but also subsidiaries and affiliates operating in **ancillary and vertically related industries**, as are the cases of Vale (specialized in mining but controlling firms engaged in logistics, railways, steel, and energy), Ultra (fuel distribution, chemicals, petrochemicals, and logistics), Gerdau (steel, iron mining, energy, and banking), and Usiminas (steel, metal goods, mechanics, and logistics). Finally, there are reasonably **diversified economic groups** conducting business in **unrelated industries**, such as Odebrecht, Votorantim, Vicunha/CSN, Camargo Corrêa, and the bank- centered Bradesco and Itaúsa. (ALDRIGHI AND POSTALI 2010:378).

Different from what one would expect of hierarchical organization forms, diversification in unrelated industries is not a predominant strategy among Brazilian big business groups. On the contrary, these studies show that Brazilian big companies tend to prefer synergy and scale gains to the expansion of their portfolio. Aside from the variety in strategies of product portfolio diversification, another important feature of the Brazilian large companies is their attempt to internationalize by means of exporting and foreign direct investment. Some groups are assuming international leadership positions in their industries (Vale, Gerdau, Camargo Correa, Votorantim, Odebrecht) and most of them have already established themselves in regional market exports.

Delios and Ma (2010) call attention to the relationship between product portfolio diversification and internationalization and inquire whether global competition can shape different strategies of business groups in their domestic market and in their international markets. In their cross-country comparative study, they couldn´t find a strong correlation between internationalization and specialization, since unrelated diversification remained resilient in most developing countries even after integration into global markets. In the case of Brazil, Vale and Gerdau are the ones that advanced the most upon going abroad and these firms share similar strategies of vertically related industries. However, companies diversified in unrelated industries are also emerging as new foreign investors: Odebrecht, Votorantim and Camargo Corrêa.

Thus, although the champions of today are not exactly the same as those of a half-century ago, their structure of ownership and control has not significantly changed, since the pyramidal structures remained protected, whereas their strategies concerning diversification have varied over time. In the next section, I address some of the explanations provided in the literature for the resilience of hierarchical organization forms among businesses in Brazil and advance our understanding of institutional complementarities as an alternative account.

BRINGING INSTITUTIONAL COMPLEMENTARITIES BACK IN: THE HIERARCHICAL CAPITALISM

The VoC approach brought major innovations for the study of political economy, especially of advanced economies, by focusing on the firm-level institutional domains (HALL AND THELEN 2008). Following the premise that the nature of coordination between firms is the central factor in determining the characterizing features of a political economy, the VoC contends that the most important institutions distinguishing one political economy from another will be those conditioning the logic of such coordination (HALL AND SOSKICE, 2001).[6]

By introducing the idea of "complementarity," the VoC emphasized the functional interdependence between different institutions within a political economy in the sense that the variation in utility in one specific institutional domain affects the outcomes or utility of institutions across different domains. For instance, the way in which the market of corporate governance operates in one political economy can tell us about the firm´s capacity for structuring systems of innovations, since these two domains complement each other.

The assumption of "complementarity" provides analysts with good reasons to believe that the organization forms adopted by businesses are connected to the logic of coordination held by a political economy. A key argument derived from this literature is that global competition has not pushed companies toward similar organizational structures; instead, there seems to be a current trend towards greater variety of business forms, which brings different implications for each political economy.

The seminal work that attempts to shift the focus of VoC approach from the developed world to the developing one was elaborated by Ben Schneider (2013), who proposed the hierarchical-market model.[7] Adopting the idea of hierarchy to portray the variety of capitalism observed in Latin America comes in contrast with the two original modes of market economies (liberal and coordinated), because in this model, economic coordination is exercised by hierarchical-based relations, that is, the coordination is unilaterally decided by a restricted group of firms or by the state, rather than by price-based relations (LME) or negotiated-based relations (CME). In the HME ideal type, such hierarchical

[6] VoC stands out for its very parsimonious distinction between two ideal types of political economies, in which, hypothetically, institutions and productive strategies mutually reinforce each other leading to efficient outcomes. These models are: liberal market economies (LME) and coordinated market economies (CME). The first model is characterized by the coordination of firms' behavior by a logic of market competition and the second by the coordination strategically made by public institutions. The cases of Germany and the United States illustrate, respectively, a centrally coordinated market economy (CME) and a liberal market economy (LME).

[7] By designing this model, Schneider (2013) intended to shed light on some crucial aspects of capitalism in Latin America that were neglected by previous political economic accounts. The first aspect, directly related to the purpose of this paper, is the institutional domain of corporate governance that addresses the question of how capitalists organize and manage their companies. The second aspect has to do with labor relations in the level of inter-firm intermediation. The third and last aspect covered by the HME model is related to worker skills, education and training.

relations permeate all spheres of strategic interactions within production regimes, affecting even the way that capitalists organize and manage their companies.

> In an HME, hierarchy regulates and orders much more than just internal relations of vertical integration. Hierarchy also informs relations between owners and managers (concentrated ownership) as well as employee relations (unmediated by labor unions) and decisions on investments in skills and training. Hierarchy is also evident in relations among firms both within sectors where large firms dominate economically (oligopoly) and in associations as well as across sectors and borders in that business groups and MNCs buy and control firms that would be independent in other varieties. As such, hierarchies replace relations that in other varieties would be mediated by markets, networks, or coordination. (SCHNEIDER 2008:8).

This suggests, therefore, that where hierarchical institutional foundation prevails, one should expect the predominance of hierarchical types of business organizations. There are at least three analytical thrusts to sustain this complementarity. First, hierarchical settings are by definition pyramidal, which means that the few companies at the top of the hierarchy concentrate market power and exert it over the majority of medium and small firms of the supply chain that do not have the necessary resources to change this condition. Thus, the few who own financial assets are the same who control a significant part of businesses in such a way that different owners are interconnected to each other in overlapping activities. Hierarchical settings increase the possibilities of great interdependence relationships within the top, reinforcing the idea of "small worlds", in which central actors can indirectly connect interest groups that are legally independent. The small world of large businesses, in this sense, reinforces the hierarchical pattern because it allows for the emergence of ties of solidarity among competitors, legitimizing their organizational form in the first place as well as creating barriers for alternative forms.

As a consequence, even when there are external incentives for new economic activities – and theoretically for new competitors – large businesses introduce more hierarchies. The few at the top are in a more advantageous position to mobilize financial resources outside their own structures to engage in these activities. This mobilization can happen by means of partnerships, in which competitors set up new arrangements to become partners in undertakings that neither of them could get the resources to carry out on their own, closing off opportunities for medium and small companies that are not part of their group.

Moreover, Schneider (2013) observers that although the high levels of concentration among big businesses with market power can facilitate oligopoly formation and conspiracies on price, large firms do not tend to engage in inter-firm coordinating mechanisms, resembling liberal market economies in the absence or weakness of business associations. The argument for HMEs is that where hierarchy prevails, owners prefer to cultivate connections with others at the top to further individual interests, rather than to "waste" time in organizations with broad sectorial agendas.

Second, in hierarchical settings, stock markets tend to remain relatively underdeveloped and public financing turns out to be the primary source of long-term financing, since the incentives for large companies to engage in IPOs and entrepreneurial ventures are lower when compared with other forms of financing, such as contracting loans or issuing debt securities (debentures). Here, state-owned development banks play an important role in providing long-term loans to the big business groups. The reasons are twofold: the industrial sectors in which large companies operate are commonly targeted by development banks since these sectors are directly related to national development goals; and large companies tend to offer a better risk profile, making it easier for them to fulfill all the pre-conditions necessary to access long-term loans.

Stock markets come, then, as a second option for getting funds in hierarchical markets. In fact, where pyramidal structures prevail there is an enduring risk of tunneling of profits from minority investors to the controlling block-holders. Although there is no clear disincentive for big businesses to engage in this arrangement – majority controllers indeed benefit more from stock markets than others, when rules permit– the costs of capital in stock markets tend to be higher because minority investors expect that they will be "expropriated" somehow and therefore require an extra premium for their investments. Here again, the hierarchy plays against entrepreneurship because minority incentives have fewer investors to buy in and newcomers cannot afford the prices expected by the market, since the risks are high and private property rights´ structures are constantly at stake (WOLFENZON, YEUNG, AND MORCK 2005).

Third, large companies in hierarchical market economies tend to be more competitive in commodities with relatively low technology. The reasoning for this complementarity lies not only in the fact that developing countries, where hierarchy prevails, are rich in extractive and natural endowments (petroleum, agro-industry, minerals and metals, etc.), but also in the way that commodity production is organized and managed. In fact, recent literature on resource curse, trying to understand why resource-rich countries cannot escape low economic growth, has argued that ownership and management structures are key variables to understand whether or not the rents coming from natural resources can impact the overall economy.[8]

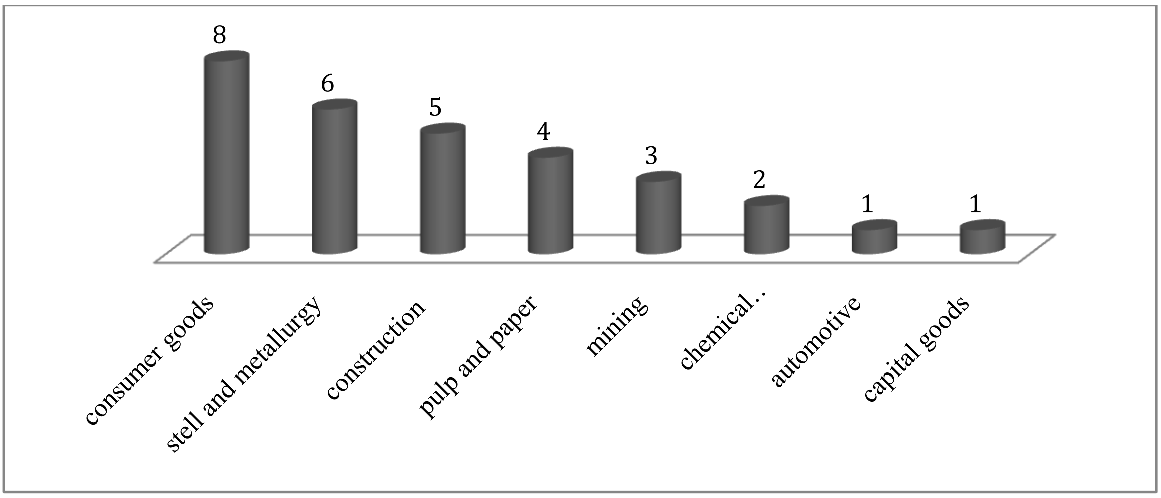
Extractive sectors require huge investment to start up business that cannot be carried out by middle and small companies. Natural-resource exploitation is essentially an undertaking for those that have the necessary resources to wait for long-term returns and to resist revenue instabilities over time, since prices may decline overnight. Thus, hierarchical forms of business present better conditions to engage in these sectors, especially when faced by commodity booms, when investors need to mobilize capital in a very short time period to take advantage of the high prices brought by the boom.

When examining who the Brazilian champions are at a broad picture, it seems clear that most of the complementarities expected to happen between hierarchical institutional foundations and hierarchical organizational forms can be found in the Brazilian case. First, the pyramid structure can be observed not only within business groups, in their complex hierarchical interactions of multiple owners in different levels, but also within the overall economy, in the high concentration of ownership and corporate control in the hands of a tiny elite, as demonstrated by Lazzarini (2011). Second, stock markets have been strategically used by large companies as an instrument to get financing without

[8] Luong and Weithal (2010) argues that the structure of ownership that countries choose to manage their mineral wealth may determine the extent to which rents accruing from commodity sectors can contribute to positive economic outcomes. Hertog (2010), in contrast, goes a step further arguing that is not ownership structure that matters, but how management structures are organized and connected to the political system.

giving up control, through the extensive trade of non-voting shares (up to 90% of the issued shares in the Sao Paulo Stock Exchange), as observed by Aguilera et al. (2011). Third, the product portfolio of the Brazilian champions, with few exceptions, remains concentrated in sectors with comparative advantage based on natural resources and low cost, unskilled labor (ALMEIDA AND SCHNEIDER 2012).

CHART 1
The Thirty Largest Industrial Companies in Brazil by sector (2001-2010)



Source: Portal Exame (available at: < exame.abril.com.br>). Prepared by the author.

This complementarity between hierarchical institutional foundation and hierarchical types of business organizations found in Brazil brings severe implications for development outcomes. One that has concerned academics and public managers alike has to do with the obstacles to create sound institutions that promote an entrepreneurial economy, in which innovative new businesses arise and old ones die out. In hierarchical settings, incumbent businesses alone do not have the incentives to change this complementarity, since they are the main beneficiaries of existing institutions. Therefore, the state has as important role to play by promoting anti-complementarity policies.

What is intriguing in the Brazilian case is that the state has not been absent from market dynamics – the idea of "letting businesses coordinate themselves" doesn't hold in Brazil. Even during the so-called "market reforms" of the 1990s, the state has intentionally forged the restructuration of business organizations by giving up historical monopolies at the same time that it has opened up the economy for fostering competition. However, those reforms were not enough to change the hierarchical pattern of coordination that underpinned the Brazilian capitalism.[9]

The resilience of hierarchical organization forms among businesses in Brazil raises the question of whether business groups were reactive to the institutional changes undergone by the country –

[9] One can argue that the reforms did not suffice because its design was not satisfactory or because they lacked some crucial elements – following this line of thinking, the explanations revolve around the laundry list of what should or should not have been done during the reforms.

privatization, liberalization, new regulation frameworks in corporate governance, and so on – or whether the institution reforms were actively being shaped by the business groups themselves.

If one considers economic entrenchment as a feedback loop "whereby weak institutions place sweeping corporate governance powers in the hands of a tiny elite group, who then lobby for weak institutions to preserve their concentrated control over the countries large corporation" (Wolfenzon, Yeung, and Morck 2005, p.711), there is not much room for escaping. Yet, there are good reasons to suppose that the rules and constraints created by political institutions may change this scenario, since they can influence economic institutions both directly and indirectly (Acemoglu, Johnson, and Robinson 2005).

Directly because although the type of state intervention does not determine solely the institutional foundations of capitalism, state policies do play a significant role in defining the boundaries for firm's expansion and diversification by setting the terms of interaction among business groups, MNCs and SOEs. Political institutions also affect the business world indirectly by allocating the political power to those who make decisions regarding economic institutions.

As a consequence, economic entrenchment cannot be determined solely by the distribution of corporate assets across the economy: political institutions, such as government regulations, can cause either the empowerment or the discrediting of certain types of businesses. This is the reason why state also matters. In fact, many would argue that states are major institutions in capitalist societies and they can definitely change the gears of economic institutions (Bresser-Pereira 2012).

In making a case for the role of state structures in the development process, the "developmentalist school"[10] also promoted the so-called "developmental state", in clear opposition to "the predatory state", as an effective mean to overcome economic entrenchment by reassuring the public interest over private benefits (Evans 1995). Since then, the developmental state has become not only a theoretical reference but also a feasible model to be pursued by developing countries where the concentration of economic power has always been a threat to state autonomy.

In Brazil, the failure of market reforms to place Brazil in a new stage of development gave rise to strong support for a new developmental model of state, which was reinstalled during the 2000s, under Lula's Government. The next section sheds light on the Brazilian attempt to reinstall the developmental state taking into account the business environment discussed above.

BRINGING THE STATE BACK IN: THE BRAZILIAN *NEW* DEVELOPMENTALISM

The "new developmentalism" comprises a development strategy based on a Keynesian and structuralist approach that pushes for economic growth with stability and social equity in clear opposition to the Washington Consensus.[11] In Brazil, the *new* developmentalism agenda has been

[10] This is school can exemplified by the contributions of Amsden (1989), Evans (1995), Chang (2002), Bresser-Pereira (2004) and others.

[11] See: Ten theses on new developmentalism. Brazilian Journal of Political Economy 32(2) 2012.

promoted by different academic groups[12] and has influenced many interventionist policies pursued during the 2000s under Lula's Government.

In a nutshell, the new developmentalism seeks to reconcile the interests of the state and those of the market, arguing that there is no possibility of growth and development without a strong state, at the same time that a development model is not possible without a strong business community. In order to foster the developmentalist agenda, there are direct mechanisms of intervention, which control and manage key economic variables such as supply, demand and price. For this type of intervention, the Brazilian state has acted through its executive apparatus or has taken advantage of state firms and state-owned banks, such as the Brazilian Central Bank, Petrobras, Correios (the postal service company), pension funds, Caixa Econômica Federal, and Banco Nacional de Desenvolvimento Econômico e Social (BNDES). There are also indirect mechanisms of intervention through which the state rules the activities carried out by private agents, as in the case of regulatory agencies such as Agência Nacional de Telecomunicações (ANATEL), Agência Nacional do Petróleo (ANP) and Agência Nacional de Energia Elétrica (ANEEL), created after the privatizations.

Following an institutionalist approach, many scholars have highlighted the continuity (and creation) of those direct and indirect mechanisms as important indicators of state capacities that endorse the Brazilian Government with comparative advantage vis-à-vis other Latin American experiences (BOSCHI, 2008; SANTANA, 2011) Thus, Brazil not only had the political conditions to pursue the developmentalist agenda – favored by the election of a center-left party openly sympathetic to the idea of a national development project combining economic growth and social equity – but also, and mostly important, it had the institutional mechanisms to implement interventionist policies. It was in this setting that a new development strategy took shape and started to be called "new developmentalism" (BRESSER-PEREIRA; THEUER, 2012; DINIZ; BOSCHI, 2010; DINIZ, 2011; MATTEI, 2013; PAULO; BASTOS, 2012; SAAD-FILHO, 2011; DELGADO, 2010; TAPIA e GIESTEIRA, 2010).

It is important to point out that the "new" that comes along with "developmentalism" is not only an adjective of novelty but also of contrast to what is now called "old" developmentalism, which prevailed throughout the 20th Century. The table below summarizes the main divergences between both versions.

[12] See: Mattei, Lauro. Gênese e agenda do novo desenvolvimentismo brasileiro. Revista de Economia Política 33 (130), 2013.

TABLE 1
Old and New Developmentalism

Old developmentalism	New developmentalism
1. State-oriented industrialization, based on import substitution.	1. Export-oriented industrialization, combined with mass consumption on the domestic market.
2. State's key role in obtaining forced savings and making investments.	2. It is the state's duty to create investment opportunities and reduce economic inequalities.
3. The industrial policy is a key issue.	3. The industrial policy is subsidiary but strategic.
4. Ambiguity about public and current account deficits.	4. Rejection of both public and current account deficits. If the country has the Dutch disease, it should achieve a fiscal surplus and a current-account surplus.
5. A certain complacency regarding inflation.	5. No complacency regarding inflation.

Source: Bresser-pereira 2012

The critical juncture that distinguishes both models came with the market reforms of the 1990s. Before the reforms, it was the state responsibility to complete the primitive accumulation of capital and to promote the industrial modernization. Moreover, tariff protection was advocated based on the infant industry thesis. After the reforms, protectionism gave place for much more dynamic strategy of foreign trade, based on comparative exchange rates. Besides, an important legacy of the pro-market reforms was the acknowledgement that it is possible (and in some cases desirable) to share certain investments with the private sector.

In this sense, the reforms of the 1990's paved the way for a greater market presence in the national development strategy that came afterwards. Yet, there is a significant difference between what a “strong market” meant in the context of the reforms and what it came to mean in the new developmentalist agenda. While the neoliberal agenda of the 1990s made room for financial capitalists, foreign investors and multinational companies, the new developmentalism is clearly oriented towards the national private sector:

> For the new developmentalism, the state still can and should promote forced savings and invest in certain strategic sectors, but now the **domestic private sector** has the resources and the entrepreneurial capacity to implement a good part of the necessary investments. (Bresser-pereira 2012)

It is not by chance that the industrial sector has gained attention in the realm of public policies under Lula’s Government. The general approach of Lula’s industrial policy can be summarized in two comprehensive packages, launched in 2004 and 2008 respectively: the Policy for Industry, Technology and Foreign Trade (PITCE)[13] and the Production Development Plan (PDP)[14]. While PITCE was more oriented to support innovative sectors, PDP aimed at supporting economic output and exports across many sectors, including those in which Brazil already had competitive advantage. Different from PITCE, PDP had BNDES as one of its most important arms.

By addressing the industrial sector, BNDES has played a fundamental role in supporting a select group of businesses through (i) providing long-term credit; (ii) bolstering internationalization; and (iii) being a shareholder through both BNDES Participações S.A (BNDESpar) and state enterprise pension funds, such as PREVI, PETROS, FUNCEF, etc.

Almeida and Schneider (2012) analyzed the (30) thirty largest Brazilian multinationals, as identified by Portal Exame ranking, and observed that, without exception, all of them have received BNDES loans. Moreover, only (5) five out of these (30) thirty firms do not have shares owned by the government, which means that 80% of the major Brazilian companies are partially owned by, or in partnerships with, government entities. Many scholars have been trying to understand the effects of such governmental-driven credit on the economic performance of national enterprises (ALDRIGHI; POSTALI, 2010; BONOMO; BRITO; MARTINS, 2014; LAZZARINI, 2011; LAZZARINI et al., 2011; MUSACCHIO; LAZZARINI, 2014; SCHNEIDER, 2013). The motivation behind this debate is to investigate the efficiency in using public resources to promote “national leaders”.

This debate is not new and goes back to a well-known dilemma in the field of industrial policies: the use of selective policies. On the one hand, there are those who endorse selective policies based on the argument that governments in developing countries should “pick winners”, focusing on those firms most likely to grow, to compete globally and catch up with multinational companies (ASMDEM, 2001).[15]On the other hand, critics to this strategy argue that selective policies are easily captured by rent-seeking interests, specially in countries where institutions are not strong, increasing the chances of economic entrenchment.

The dilemma encompassing selective policies has to do with the dilemma pointed by Peter Evans (1985) between embeddedness and autonomy:if the state has not developed a robust internal structure, the connections with the big enterprises mightweaken the state capacity of transcending the individual interests of its private counterparts, sacrificing long-term development strategies. This is the reason why the “developmentalist school” has extensively endorsed the building of state capacities in order to allow for an “embedded autonomy”.

Yet, even if the state succeeds in building effective and autonomous bureaucracies and overcome the risks of being captured by the private interest – as in the developmental state ideal –

[13] PITCE worked on three axes: (i) horizontal lines of action (such as innovation and technological development, external insertion/exports, industrial modernization, and institutional environment); (ii) promotion of strategic sectors (software, semiconductor, capital goods, pharmaceuticals); and (iii) future-leading sectors (biotechnology, nanotechnology, and renewable energy).

[14] The major goals of the PDP were to increase: (i) the investment rate from 17.6 percent of GDP in 2007 to 21 percent in 2010; (ii) private spending on R&D from 0.51 percent of GDP in 2005 to 0.65 percent in 2010; (iii) Brazil’s share in world exports from1.18 percent in 2007 to1.25 percent in 2010, (iv) the number of micro and small enterprises (MSEs) that export by 10 percent.

[15] “A national leader may be understood as a nationally owned and controlled firm that is ‘‘targeted’’ by government (it receives a disproportionate share of subsidies, which allows it to become a dominant player in its ‘‘competitive base’’ (domestic market), in exchange for which it is obliged to invest heavily in proprietary knowledge- based assets. These assets, in turn, allow it to globalize through exporting or outward foreign direct investment. (AMSDEN, 2001, p.190)

there are some aspects of the functioning of capitalist societies that are inherent to market institutions. It is true that states can create the "right" incentives by getting the control mechanism 'right' rather than getting the prices 'right', as Amsden (2001) says – and choosing the right institutions can be determinant to "rise of the rest". However, states cannot coordinate everything in the realm of the production regimes: private companies – and not governments – are the ones responsible for making decisions regarding their own investment plans, strategies of portfolio diversification, creation of new job positions, R&D investments and so on.

In this sense, changing the development route in a market economy depends not only on the state capacity to intervene, but also on how companies will respond to state incentives and how willing they are to adjust their productive and managerial processes accordingly. For this reason, looking at the state structures alone it is not enough to understand the dynamics that underpin market economies. States are not intervening in an institutional vacuum. The way businesses coordinate themselves changes the opportunities and constraints to state intervention.

I argued earlier in this work that there prevails in Brazil a hierarchical pattern of coordination between firms and that this hierarchy can be observed not only in market institutions but also in the way businesses organize themselves. The implication of such a claim to understand the new developmentalism in Brazil is that by trying to implement a developmentalist agenda, the Brazilian statehas encountered an institutional setting that wasalready shapedby historical and resilient hierarchical dynamics. As a consequence, the developmentalist agenda could take two avenues: breaking with this pattern by adopting anti-complementarity policies or endorsing it by enhancing the mechanisms that benefit big businesses.

Considering the three elements previously identified as indications of a hierarchical market economy in Brazil – (i) high concentration of ownership and corporate control in the hands of a tiny socially connected elite; (ii) undeveloped capital markets; (iii) and comparative advantage based on natural resources and low cost, unskilled labor – the policies implemented under the developmentalist agenda would be "anti-complementarity" if they were able to diminish corporate concentration, promote a dynamic credit market and foster economic sophistication by pushing the economy towards high-value sectors.

However, as long as the Brazilian government acts as an important financing agent to pyramidal business groups, either through BNDES loans or through significant shares held by pension funds, there are few incentives to decentralize control in exchange for long-term financing (MUSACCHIO AND LAZZARINI 2014). Moreover, industrial policies implemented by the Brazilian Government have failed to create a "competitive behavior" to their beneficiaries, since performance standards in exchange for subsidies were not tied to upgrading requirements (CORONEL, AZEVEDO, AND CAMPOS 2014).

Moreover, industrial policies havenot succeedin offsetting the concentration and internationalization of commodity and lower tech firms who were highly benefited by the increasing demand from China (Almeida and Schneider 2012). Thus, by not counter-balancing the *commodity boom* of the 2000s, industrial policies were not able to create new sources of wealth in Brazilian economy – rather, the state was also profiting from rents coming from the primary activities.

As a consequence, those same type of business organizations who impedes Brazilian capitalism to move towards more horizontal patterns of coordination were those who most profited from the economic dynamics of the 2000s. The Brazilian state, by its turn, motivated by a developmentalist agenda, has started to foster domestic private companies at the very moment that they were already being stimulated by the world economy. Thus, instead of breaking with hierarchical complementarities, state policies ended up endorsing it.

CONCLUSION

The exercise of bringing the business back in by highlighting its characteristic organizational forms and its complementarities with the institutional environment in which they are embedded, is a promising way totry to understand political economy dynamics.By shedding light on the Brazilian case, I call attention to the need to know more about business´ organization and networking in order to expand our understanding of what may impede Brazil to enter a development trajectory with more opportunities for outsider entrepreneurs. At the same time, I stress the relevance of political institutions, specially, the role of state intervention under the so-called developmentalism agenda. My conclusion is that one cannot understand what happened in Brazil without considering both businesses and state simultaneously: by trying to foster the domestic private sector, the Brazilian state has contributed to endorse a historical and resilient pattern of hierarchical market coordination.

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