

Critical junctures, institutional legacies and epistemic communities: a development agenda in Brazil ¹

Carlos Henrique Vieira Santana²

Introduction

By observing the distinct diffusion trajectories of neoliberal reforms during the 1990s and recently emerging neo-developmental agenda in several semi-peripheral countries, it is possible to lay aside the conventional perspective according to which globalisation, especially in its financial version, would lead to institutional convergence. Instead it is important to start to explore the specific aspects of local path-dependency that contribute to wider or narrower margins of freedom and adaptation to these agendas. Considering the centrality of monetary policy in Brazil, the role of the State in creating a structure of incentives is limited by a model of double front economic policy. This economic policy seeks to broaden within straight margins arrangements of public policies dedicated to guarantee bigger state capacity in providing development policies. Would such a duplicity be capable of attending the conditions for a more coordinated trajectory such as those suggested by the notion of selective industrial policy (Chang 2003; Huber 2002)?

In order to evaluate this process, it is possible to combine a set of theoretic perspectives that aim at comprehending the importance of forming a discursive base provided by epistemic communities. This discursive base is legitimated, on the one hand, by critical experience of indebtedness trajectory and inflationary escalation that contaminated all Latin America and, on the other hand, by normative coercion unfolded by policies of structural adjustments defended by multilateral financial institutions. In this context, the proposal is to enrich the literature of comparative economic policy by introducing studies that

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² Visiting scholar at the UC Berkeley, PhD candidate in Political Science at IUPERJ and researcher at the NEIC/IUPERJ (<http://neic.iuperj.br>), email: carloz@hotmail.com and/or carloz@berkeley.edu

emphasize Varieties of Capitalism (VoC), from a perspective of discursive institutionalism. Particularly, this proposal aims at emphasising the Brazilian trajectory by relating it with a neo-developmental agenda that reintroduces state capacities. It also seeks to identify institutional complementarities within the scope of Pension Funds and Brazilian Development Bank (BNDES) and evaluate the emergence of new professional networks based on the incentive structure provided by new institutional articulations. It stresses the role of these networks in consolidating a new cognitive regime capable of defining normative bases that would sustain the changes of development trajectory.

Varieties of Capitalism and institutional changes

The literature of Varieties of Capitalism (VoC) has gained international relevance within the field of comparative capitalism studies since the pioneering works edited by Hall and Soskice (2001). The analytical yield of the proposal has aggregated a series of comparative empirical researches that have consolidated the importance of historical trajectory of national institutions as an endogenous explanatory variable for the development within the context of globalisation.

The axis of the VoC literature is based on the idea of institutional complementarity, that is, in the discovery of the notion of increasing returns around certain modalities of institutional arrangements that tend to promote endogenous adjustments without resulting in institutional convergence (Krasner 1988; Hall and Gingerich 2004; Höpner 2005). Ensuing the expansion of this literature, within the rest of the institutional streams a criticism to this variant of historical institutionalism has emerged, evaluating that the proposed solution by it about how institutional changes occur is dissatisfactory (Djelic and Quack 2007; Campbell 2004; Schmidt 2006), in so far as there will be a static bias in the literature of VoC. In general, historical institutionalism tried to get around these criticisms through the concept of critical junctures (Gourevith 1986; Collier and Collier 1991; Pierson 2000; Mahoney 2000), as contingent events of genesis of path dependence. The critical junctures disorganizes the complementarities of national trajectory, obligating the actors and institutions to rearticulate their arrangements and search for new mechanisms that would reduce the incentives of exit and promote retaking the patterns of coordination with increasing returns.

Within the context of the reordering of development agenda, where the consensus with regard the previous trajectory of market oriented reforms has lost its legitimacy, the theme of change has returned to the stage of analysis with huge vigour. The original formulators of VoC look for responding to the criticisms made about the model, pointing out that the analysis does not disregard the topic of change, but it is incorporated to the reflection through the endogenous evolutionary schemes (Streeck and Thelen 2005; Hall and Thelen 2006; Hall 2007; Deeg 2007; Aoki 2007; Culpepper 2005). On the other hand, there are criticisms (as, for example, those from the regulation school) that deal with the difficulties of the VoC literature by responding through the broadening of the repertoire of varieties (Amable 2000; Boyer 2005), and studies that stress the role of the State or hierarchical forms of coordination, as mechanisms for a third or fourth variety of capitalism. (Schmidt 2003; Schneider 2008a and 2008b).

At the same time, another type of more recent literature has claimed more a relevant role for ideas and their bearers as mechanisms to comprehend institutional changes, inserted particularly into the field of constructivism (Blyth 2002 and 2003; McNamara 1999; Berman 1998; Ruggie 1998; Hall 1993; Sikkink 1991) or of what has become known as discursive institutionalism (Schmidt 2008; Campbell 2004). However, it is necessary to distinguish within this new stream aspects of analysis that argue that ideas weren't simply *hooks* for used to justify rational action (Jacobsen 1995).

It is a fact that the literature of VoC, with its concept of institutional complementarity has opened a perspective which is very rich in analysis and research, capable of incorporating the diversity of existing development trajectories and state capacities (Kohli 2004; Evans 1995; Chibber 2003) as instruments of coordination, both for periods of stability or of institutional change.

Key-authors of the VoC literature have made efforts to lay out the dynamics of institutional change by stressing the incremental transformations and adaptive adjustments where the institutions have been considered as resources (Aoki 2007; Hall and Thelen 2006; Streeck and Thelen 2005). It has been done to analyse the scope of financial system regulation (Culpepper 2005; Vitols 2005; Johnson 2002), corporative governance (Gourevitch e Shinn 2005; Goyer 2006), labour markets (Campbell and Pedersen 2007) etc. However these adjustments tend to recompose the frame of equilibrium, by stressing the

mechanisms of complementarity. The problem of institutional change occurs in response to contingent impasses to what historical trajectories of every country and the political conjuncture game should offer a specific response.

By emphasising an incremental dimension of change, the literature of VoC tried to escape from the critical juncture or of contingent events, by stressing how the endogenous events in certain historical intervals produce much more institutional transformations and recomposition of complementarity than abrupt ruptures or converging isomorphic changes (Hall and Thelen 2006; Hall 2007; Streeck and Thelen 2005). The richness of this analytic enterprise is immense, but does not respond satisfactorily to the question of how coalitions organise consensus and actors in search of new development agendas.

Besides these difficulties, it is necessary to emphasise that almost all the empirical research of VoC literature is concentrated in OECD countries, therefore around the modality of organized capitalism. An exception to it are some recent works of Schneider (2008a and 2007b) about what would be the Latin American variety of capitalism, characterised by what he calls as hierarchic market economy – HME. The framework that this author elaborated for the region is not so encouraging, however. According to his diagnosis, Latin America suffers from institutional complementarities characterised by decreasing returns, that is to say, a pattern of coordination that creates more obstacles than incentives for a development agenda.

Despite of being one of the first systematic attempts to frame LA within the VoC literature, Schneider's approach can be accused of generalising societies and economic and political systems, which are in reality markedly different in terms of their historical trajectories as well as their institutional conjunctures, combined under the label "Latin America". This kind of bias loses from sight one of the valuable contributions of the VoC literature, which is an attention to the diversity of institutional trajectories, reinforcing at the same time some institutional stigmas – almost as historical atavisms – that, supposedly, only in Latin America have deleterious effects.

In a vein contrary to Schneiner, but consonant with the proposal of this article, Boschi (2007) and Boschi and Gaitán (2008) have developed an approach of VoC for South America that stresses aspects of productive regime, of innovation and social policies, giving

emphasis to specificities of national trajectories focusing on so-called state capacities. According to authors, based on this framework of analysis it is possible to observe comparative institutional advantages distinct in the region, highlighting specially the Brazilian case, marked by integration between the legacies, certain components of State's administrative efficiency and adopted policies.

In the face of this framework it is necessary, on the one hand, to evaluate, which analytical resources attend the needs of comprehending recent institutional changes and, on the other hand, how to adjust this analysis to a context of disorganized or less organized capitalism than in the OECD countries (Offe 1989). From this point of view, the proposal here is to incorporate aspects of what have been called social constructivism or discursive institutionalism into the VoC approach, promoting a cross fertilization (Schmidt 2006; Campbell 2001 and 2004).

The discussion over the role of ideas within institutional changes is not new, neither for the formulators of VoC, not for diverse streams of institutionalism. In general the topic of change of paradigms, intersubjective articulation, cognitive evolution are present in the debates about the composition of coalitions, formulation of consensus and inflections of political agenda.

These topics have appeared frequently since the mid 1970s, when constructivist formulations appointed to relations between knowledge and technology in the constitution of international regimes and the role of epistemic communities as conditioners of these articulations (Haas 1975; Ruggie 1975). Also in the mid 1980s, Gourevitch (1986) emphasized the role of ideological programmes in the formation of coalitions that could respond that critical junctures. Still in the end of 1980s and in the beginning of 1990, Hall (1989 and 1993) and Dobbin (1993) signalled the importance of ideas as instruments of change of political paradigms and social learning; North (1990) and Goldstein and Keohane (1993) pointed out the role of ideas as cognitive mechanisms, ass for example *road maps*, *shared mental models* or *focal points*, subjacent to institutional construction and changes, while Haas (1992) and Adler and Haas (1992) emphasized specially the epistemic communities in consolidating intersubjective relations capable of appointing programmatic directions. More recently, various studies have appropriated the constructivist approach within the sociology of science, particularly Bourdieu (1989) e Latour (1987), to discuss

forms of institutionalisation of professional fields as catalysts of development trajectories (Fourcade 2006; Babb 2005; Dezalay and Garth 2002; Fourcade-Gourinchas 2001; Yonay 1998; Bockman and Eyal 2002).

Within this context, a sequence of more systematic works (Campbell 2004; Campbell and Pedersen *forthcoming*; Schmidt 2008; Blyth 2002) aim at opening up an additional one institutionalist strand around the role of ideas and knowledge regimes, and are accompanied in this vein by systematic empirical researches (Fourcade 2009; Seabrooke 2006; Dezalay and Garth 2002). This literature tries to confront the dilemma previously set: institutional change. It is not about, however, pointing out a substitute for the rest of the variants of institutionalism, but to employ ideas as mechanisms to counterbalance the tendency towards *punctuated equilibrium* (Krasner 1984) of historical, rationalist and sociological variants, having the discourse as one of the causal axis of the institutional change process.

Brazilian trajectory and its critical juncture

Different from former heterodox plans of inflationary stabilization, made as a surprise packages, the last Brazilian stabilization plan, Plano Real, was by transparency and gradualism in its implementation, something that gave economic actors bigger political confidence and predictability (Mettenheim 2006). That is to say, that the Brazilian Central Bank has constructed a monetary authority, by guaranteeing bigger macroeconomic predictability to market agents by developing broader regulatory structure. This regulatory structure has enabled to concentrate huge decision-making capacity, and, at the same time, has constituted a link of credibility around a network of economists highly related to the agenda of market oriented reforms.

It is possible to affirm that the inflationary stabilization strategy of Plano Real owes its success to its capacity to reduce inflation, producing positive effect to the buying power of the salary. This conferred political legitimacy capable of guaranteeing to the policy-makers bigger freedom to remodel the governance structure of monetary policy and, thereby, celebrate an institutional legacy marked by decision-making insulation. However, it's necessary to emphasize that the literature which deals with successful aspects of this decision-making insulation about inflationary control in Brazil (Pio 2001; Sola and Marques

2006; Sola and Kugelmas 2006) does not consider the perverse aspects of this autonomy. This can be demonstrated by private oligopolistic appropriation of state assets through distributive coalitions that have strict ties with the same community of policy-makers (Schamis 2005) and by progressive naturalization of the criteria of “financial efficiency” that legitimates the same predatory practices (Grün 2007).

One clear example of this construction process and insulation of fiscal and monetary authority can be verified in the occupation pattern of principal decision-making structures of macroeconomic policy. The National Monetary Council (CMN), which is the body responsible for monetary policy in Brazil, was composed of all the ministers from the economic field, all the presidents of public banks, members of private sector and representatives of labour unions and the president of Febraban (Brazilian Federation of Banks). After June 1995, with the consolidation of Plano Real, the CMN’s composition was reduced, including only the minister of economic affairs, of planning and the president of Central Bank (Santos and Patrício 2002). At the same time studies have indicated that the occupation of posts involved with decision-making in Central Bank and in the Ministry of Economic affairs has not been based on the criteria of technical distinction (career officials), but instead on the relations created around epistemic communities, both in academy as well as on market (Loureiro and Abrucio 1999; Loureiro 1998; Pio 2001). This process has been, to a large extent, favoured by a sudden U-turn within the decision-making structure of currency management, whose spheres of negotiation and bargain were narrowed down and lost the relative capacity of interest coordination.

From the viewpoint of critical juncture it is possible to consider that progressive decision-making insulation of State macroeconomic policies is the outcome of combination of two factors. On the one hand, it results from the inheritance of debts and inflationary inertia of the 80s and from the frustration with regard the heterodox plans used to combat it. On the other hand, it is a consequence of the emerging ideological wave of market reforms, where the structures of diffusion and translation stimulated an alignment of the interest groups and epistemic communities through normative emulation, coercive pressures and competitive imitation (Simmons, Dobbin and Garrett 2006; Henisz, Zelner and Guillén 2005; Powell and DiMaggio 1991).

Such an apparatus of diffusion and coercion have made valid (that is, became hegemonically diffused among public opinion) the perspective that the problems of underdevelopment of the region were associated primarily to bad management of economic policy, resulting from a vicious circle of “populism” and electoral that would have a tendency to a fiscal unaccountability (Dornbusch and Edwards 1991). This has resulted in the adoption of policies of liberalization of capital flows, through the deregulation of CC5³; fiscal restriction through the Law of Fiscal Accountability, of Unlinking of State Revenues and the primary surplus; policy of valued currency; privatisation of state enterprises; and in exponential growth of public debt, constituting a highly restrictive legacy.

Institutionalization of Legacy

In order to comprehend how this legacy has taken root in Brazil it is necessary to avoid the views that naturalize the market, for example those, which suppose that the measures of institutional alignment depend on stronger or weaker macroeconomic fragilities (Maxfield 1997). By borrowing the concept of actor networks posited by Latour (1987), it is suggested that the reproduction of institutional forms does not have to be submitted to external forces. On the contrary, the emphasis can rest on an endogenous and historical dimension based on the work of network construction, establishing the ties between declarations, effects demonstrated in laboratories (for example, countries), financial resources, opinions and support of colleagues. Although it seems that, with this approach, the coercive process of international financial restrictions would be less relevant, what this paper intends to explore is that this type of coercion becomes shadowed by local path-dependency. That is to say, it is semantically appropriated and translated for specific political and cognitively delimited ends (Fourcade-Gourinchas and Babb 2002; Bockman and Eyal 2002). In that way, certain institutional patterns are reproduced and disseminated as a function of the quantity of resources mobilised through the networks ties. These ties strengthen certain positions and increment capacities of the actors interested in hiding the

³ Oriented to Brazilian residents outside of Brazil, exporting and financial enterprises with bonds abroad, the CC5 accounts were unregulated in 1992. According to Sicsu (2006), the net exit of resources by CC5 of financial institutions during the period of 1993-2004 was higher than US\$ 113 billion (according to the data of Brazilian Central Bank), which was responsible for the incident of six exchange crises during the President Fernando Henrique Cardoso's government. Between 1998 and 2002, Brazilian public promoters and attorneys discovered various enterprises that had used the CC5 accounts for money laundering. After various cases of embezzlement, the National Monetary Council changed the rules of CC5 accounts in 2005, restricting the access and enlarging the control of the embezzled money.

necessary work to maintain the network elements articulated – or what Latour also called closing the black boxes.

What makes this approach interesting is the fact that institutions are also actor networks, which is to say, that the institutional models are reproduced through actor networks. This implies conferring crucial role to certain professional networks, in so far as they control the key flow of resources towards the nuclei of other networks, besides mobilizing and appropriating the work of interpretation (Loureiro 1997 and 1998; Keck and Sikkink 1998; Foucarde 2006; Pio 2001; Dezalay and Garth 2002; Johnson 2002). Considering the role of economists in the consolidation of these actor networks, on account of their prominence in government key positions and in enterprise decision-making structures, they have become a central piece for the constitution of a normative base, through the production of value-laden consensus. This can elevate or reduce both the State's costs of exit as well as the voice with regard the rules of the international financial system where they are inserted (Santiso 2003).

In that way, combining the discursive and historical variations of neo-institutionalism, it is possible to think how the neoliberal programme has delimited its institutional legacy in Brazil, and based on that, identify the room for manoeuvre to reorganize a neo-developmental agenda. Within this framework ideas have a crucial relevance, in so far as they can constitute a cohesive link between diverse societal interest groups, adapting the policy to norms and values subjacent in society, or serving as focal points – guides to reduce inflation, budget and commercial imbalances, and to re-establish growth (Goldstein and Keohane 1993; Hall 1989 and 1993).

In this context, the power of ideas lies in the fact that they provide symbols and other discursive schemes that the actors in network can employ to render their programmes more convincing and sustain the agenda of political-makers. For that, it is important to stress the relevance of professional networks (economists) that mobilize necessary resources in order to maintain cohesive one set of links and mechanisms of mutual support (so-called black-box). The set of links and mechanisms should be capable of legitimating their political agenda and guarantee the predominance in key decision-making arenas, such as Central Bank, Ministry of Economic Affairs, public banks, press, financial system, consulting firms, rating agencies, etc.

This network is constituted as an epistemic community in so far as its members share besides one set of causal and normative beliefs, intersubjectively defined validity notions also political initiatives capable of articulating diverse actors and interest groups, promoting political innovation (Haas 1992; Adler and Haas, 1992). Once the repertoire of ideas constrains the actors, limiting the perception of options, at the same time the ideas can be the object of a bricolage and translation process. Thereby the actors recombine available and legitimate concepts, besides cognitive models and other cultural artefacts that they use in their institutional environment (Adler 2005; Campbell 2004; Bockman and Eyal 2002), capable of elevating costs of exit and rearticulate positive institutional complementarities.

Protagonist network and degrees of institutional freedom

The groups of actor networks that constitute the hegemonic epistemic community are formed by persons that have directly been involved in the implementation and administration of inflationary stabilisation policies since 1994. Majority of them assumed the positions of decision-makers and policy-makers, occupying posts in the Central Bank, BNDES and the Ministry of Economic Affairs. Other actor networks are composed of persons who, even without occupying decision-making positions, share the cognitive trajectory and common interests, being the partners of banks or consultancies, or professors and specialists with similar academic trajectories.

Based on a preliminary selection of professional networks it is possible to evaluate what are the main academic centres that have formed the bureaucratic cadres that occupied the strategic positions of macroeconomic decision-making and which professional trajectories have offered bigger incentives to guarantee those positions.

(Table 1)
Trajectory of Policy Makers of Brazilian macro economy between 1995 and 2008^a
%

| | Central Bank (24) | | Min Econ. (23) | | BNDES (11) | |
|--------------------------------------|-------------------|-----------|----------------|-----------|------------|-----------|
| | 1995-2002 | 2003-2008 | 1995-2002 | 2003-2008 | 1995-2002 | 2003-2008 |
| Prof. PUC-Rio | 46 | 27 | 42 | 18 | 29 | 0 |
| Prof. UFRJ, Unicamp | 0 | 0 | 12 | 9 | 0 | 50 |
| Prof. PUC-SP, FEA-USP and/or FGV-SP | 8 | 0 | 8 | 27 | 14 | 25 |
| PhD economics EUA | 85 | 64 | 33 | 25 | 43 | 25 |
| PhD economics Great Britain | 0 | 9 | 17 | 8 | 0 | 0 |
| Dr. economics UFRJ/Unicamp | 0 | 0 | 0 | 17 | 0 | 25 |
| Dr. FEA-USP/FGV | 8 | 0 | 25 | 8 | 14 | 25 |
| Post-grad. Economics and other areas | 8 | 27 | 25 | 42 | 43 | 25 |
| IMF/WB/IDB | 23 | 36 | 50 | 17 | 0 | 0 |
| Director of private bank | 69 | 46 | 25 | 8 | 71 | 0 |
| Investment found. or consultancy | 46 | 0 | 33 | 0 | 29 | 25 |
| Column in journals or magazines | 31 | 18 | 25 | 9 | 14 | 50 |
| IPEA/IBGE, career official MF/CB | 0 | 18 | 42 | 25 | 14 | 0 |

Source: Institutional sites of the Ministry of Economic Affairs, Central Bank, besides personal sites

a) The study included 55 cadres that occupy the Presidency and/or directors of Economic Policy, International Issues, Monetary Policy of Central Bank; Ministries and executive secretaries of Political Economy, Inland Revenue, National Treasury of Ministry of Economic Affairs, and presidents of BNDES between 1995 e 2008

An example of this could be provided by the survey in table 1 above. Among the fifty five selected economists, the key actors that have been responsible for taking key macroeconomic decisions since the implementation of Plano Real until today, it is possible to observe the predominance of four types of professional and academic origins: PhDs in the courses of economy from the prestigious USA universities, the majority are professors graduated from the main schools that shaped neoliberal thinking in Brazil - PUC-Rio - and were or are consultants and/or directors of private or foreign banks, financial multilateral institutions such as IMF, IDB and/or World Bank and investments funds.

It is also possible to verify how the participation of cadres with orthodox background in decision-making positions has reduced between 1995-2002 and 2003-2008. In the Central Bank the percentage of professors from PUC-Rio fell from 49 to 27%. In the Ministry of Economic Affairs occurred a more emphatic reduction from 42 to 18%. In BNDES, the historical cradle of developmentalist policies, the professors of PUC disappeared. Both, in the Ministry of Economic Affairs and in BNDES the change of epistemic community has been relevant, with a significant entrance of economists from UFRJ/Unicamp/PUC-SP/FGV-SP – schools with a more eclectic academic tradition, inclined to heterodox

theoretical streams with ECLAC and neo-Keynesian background. Although the academic training in the USA is still a fundamental requirement, it is possible to observe a bigger variety of backgrounds in the MEA and in BNDES than in Central Bank – where the cadres with training in the USA reached 85% between 1995-2002 that has guaranteed them an extraordinary normative and cognitive cohesion.

For the second survey, a group of thirty-seven economic columnists of two newspapers of the biggest circulation in Brazil (Valor Econômico and Folha de S. Paulo), between 2006 and 2008, that are not employed directly by the media groups for what they collaborate was selected. Based on these initial conditions, the survey examined their academic formation, private and the public professional trajectory of every selected member, variety of organs and number of times published per month. Taking this into consideration, it is possible to verify that, for example, 51% of these columnists publish at least once every fifteen days, 40% of them obtained their PhD in highly qualified economic schools in the USA, 50% have been directors of BNDES, Central Bank and/or of the MEA and 38% are or were consultants and/or directors of private national or foreign banks, of rating agencies and of multilateral financial institutions as IMF, IBD and /or World Bank.

Among the selected columnists, it is possible to say that there is greater heterogeneity of academic and professional trajectories, despite of this epistemic triangulation: PhD in the USA, decision-making positions of macroeconomic policies and ties with financial system continue to be a significant trait of institutionalisation of hegemonic discourse. Another aspect is that majority have passed through the institutional financial institutions, as IMF, WB, IBD, administrators of funds, besides national and foreign banks, occupying before or after positions in public institutions of macroeconomic regulation in Brazil.

In that sense, it is possible to say that the agenda of macroeconomic reforms in Brazil has counted on the professional networks that share the ties of confidence and programmatic identity that has permitted to consolidate one legacy. In this context, the internationalisation of the economics field has played the role of ground that has sustained new principle of access to power and of legitimation of the ruling cadres. Global social structures sustain these communities by means of a transnational socialization of economists, for what the North-American academic diploma constitutes the entrance

requirement to political and intellectual power (Fourcade 2006; Biglaiser 2002; Loureiro 1998).

Within the context of strong insulation, this protagonist network has mobilized resources capable of consolidating support and has been able to strengthen ties of trust and loyalty. Moreover it has constructed and legitimated new normative grammar, whereby values have come establish prerequisite for any kind of decisions: country risk, fiscal balance, inflationary control etc. These indicators compose a set of references with high normative power that were constructed discursively until today, and that influence as “natural” criteria any “stable” government. The predominant diagnosis about alternatives to financial vulnerability of Brazil is still deeply dependent on the perspective that it is impossible to escape from the confidence game of financial market (Santiso 2003), articulated by this actor network that still today entrusts these ties based on the strategic posts in Central Bank, for example.

This trajectory has been highlighted by the literature, in so far as the adoption of the valued exchange rate policy, as was the case in Brazil, ensued the combined logic of path-dependency of internal public indebtedness together with a constitution of a cognitive base produced by epistemic community (Batista Jr. 2005). This combined process is inserted rather into the context of integration of short-term exchange and financial markets than of integration of goods and long-term capital markets or productive processes. It can be verified by the residual relevance of Latin America (3%) and of Brazil (1%) in the world trade of goods and services. In that respect, the State and national governance maintain a relevant regulatory role in national productive regimes of the region within the framework of globalization (Chang 2003; Weiss 1999; Helleiner 1994).

At the same time, the strategies of inflation control have not been discussed neither compared with the rest of the world experiences, turning them into the semantic property legitimately mobilised only by the members of actor networks that administrate monetary policy. That is to say, different from other central banks, for example the FED (Federal Reserve) and the ECB (European Central Bank), that have the mandate to control inflation, but also to guarantee the growth rates and employment, the Brazilian Central Bank's mandate is still limited exclusively to control inflation. The network that administrates monetary policy claims not only the expertise of financial markets,

constructing a confidence game (Santiso 2003), but also access to instances of reproduction of institutional practices within national and international context. These instances can be prestigious academic nucleus, multilateral financial institutions, banks, consultancies, rating agencies, columns in prestigious magazines, bonds brokers and positions of decision in governmental organs.

In that sense, the reflection proposed here follows the direction contrary to optimistic perspectives (Pio 2001; Sola e Marques 2006; Sola e Kugelmas 2006) with regard to the trajectory of constituting the monetary authority, for questioning the idea that the success of Plano Real was related to the capacity of the cadres of hegemonic epistemic community guaranteeing bureaucratic enclosure adequate for the implementation of a “correct” economic programme. Therefore, Loureiro (1997) seems to be more coherent by inverting the argument and suggesting that lack of coordination with political actors resulting from stanching positions of this insulated bureaucracy is what would result in a failure of stabilization plans in Brazil and Latin America, and in perverse effects deriving from a low accountability or of *accountability of results* of the agents responsible for privatised sectors, as emphasized by Boschi and Lima (2002) and Melo (2001).

However, as the Table 1 demonstrates, since 2003 this trajectory has been reformulated, with a slow and gradual loss of space of this community in the spheres of Federal Executive Power. This transition can be noticed especially since 2005, when Guido Mantega assumed the ministry of Economic Affairs, creating together with Ministry of Civil Affairs and Ministry of Planning the Growth Acceleration Program (PAC)⁴. The cadres around academic centres of heterodox tradition have substituted economists of PUC-Rio in positions of decision-making and formulation of macroeconomic policies. This has been the case of Paulo N. Batista Jr. (FGV-SP) to represent Brazil and South-America in IMF; Rogério Studart (UFRJ) named as executive director of World Bank; Julio Gomes de Almeida (Unicamp/IEDI), Bernard Appy (Unicamp/PUC-SP) and Nelson Barbosa (UFRJ) in the MEA; Marcio Pochmann (Unicamp) and João Sicsú (UFRJ) in IPEA; and Luciano Coutinho (Unicamp) and João Carlos Ferraz (ECLAC/UFRJ) in BNDES. Besides that, recent changes in the board of directors of the Central Bank have privileged career

⁴ Launched at the beginning of 2007 Brazil's national Growth Acceleration Program (PAC) aims at furthering a concentrated investment strategy and consistent incentives until 2010. PAC addresses social and infrastructural development, regulation, financing, taxation and specific measurements to accelerate Brazil's sustainable growth. In this context, it foresees investments of more than USD 254.4 billion on infrastructure, including areas of sanitation, habitation, water resources, energy, and transportation.

officials who display more diversified academic backgrounds and not necessarily orthodox. At the same time new generations of economists have started to change the focus of their research agendas, substituting the topic of inflation for the preoccupation with long-term development and strategies to achieve it, the examples here are educational policies and investments in technology and qualification⁵.

By launching the Industrial, Technological Policy and Foreign Trade (PITCE) in 2003, led by BNDES, Ministry of Foreign Affairs (MRE) and the Ministry of Development, Industry and Trade (MDIC), besides redirecting the role of public banks and pension funds, occupied by now leaders originated from the labour union basis of Workers' Party (PT), these state agencies have created ties to formulate new policy. With the re-election of Lula's government and the consolidation of a broad political-party coalition, a setting of internal and external macroeconomic stability with signs of retaking economic growth, formalization of labour market and income rise was forged.

In order to evaluate the reach of this new trajectory that has been emerging, it is necessary to observe that path-dependency of Brazilian State's institutional capacities permits to take up again a more coordinated investment agenda with higher degree of freedom. Public banks, such as BNDES and Pension Funds can play a key-role in constituting a structure of incentives for a new discursive coalition capable of consolidating this neo-developmental policy (Boschi and Gaitán 2008; Diniz 2007; Sicsú, Paula and Michel 2005). It is possible to say that the structures of incentive for the decision-making delegation of these macroeconomic coordination agencies are crucial for the internationalised epistemic communities were able to consolidate their stabilization and liberalization programme. At the same time it is possible to imagine that path-dependency observed in state capacities as embedded autonomy (Evans 1995) could be now appropriated and translated by new actor network for forming neo-developmental coalitions.

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As it has been possible to observe by now, institutional changes can be identified based on their incremental transformation. That is to say that the dimension of institutional complementarities as reinforcement of preceding trajectories stress the static aspect of the

⁵ Sergio Lamucci, Outra agenda para a economia, *Valor Econômico*, 15/08/2008

VoC literature and amplifies the capacity of capture long-range changes that could be reached through the accumulation of changes and adjustments, or what Pierson (2004) also called *tipping points*. The criticism that have been done on the static dimensions of VoC literature, as it was stressed in the beginning of this article, has brought sequence of methodological contributions to increase the explanatory capacity of the theory with regard the institutional changes. Discursive institutionalism sustains the role of ideas as a normative map of collective action and of coalition formation. This approach enables to consider the institutional transformation from the incremental perspective that finds strong parallels in variations of historical institutionalism that also searches for capturing incremental changes. In that particular case, institutions are seen as open regimes or systems that suffer from gradual but cumulatively transformable changes (Becker 2007; Djelic and Quack 2007; Streeck and Thelen 2005; Campbell 2004). The next section, based on the analysis of the role of the BNDES and Pension Funds in the new agenda of productive restructuration and of internationalisation of enterprises, aims at calling attention to how the new coalition of interests has condensed around the new institutional regime, where not only the new epistemic community has come to constitute a new distinct structure of incentives, but also how these changes alone can be perceived as *tipping points*, which is to say, based on the transformable and continuous incremental rearrangements.

BNDES and Pension Funds: new translation of institutional legacies

During the 90s, the Brazilian Development Bank (BNDES) and Pension Funds played a crucial role in the privatisation process. The BNDES got rid of its functions as a development bank, turning to occupy the role of an investment bank and a principal source of credit for national and foreign consortiums involved with privatisations. Yet, the Pension Funds were submitted to a cognitive siege indicated by the idea of “collapse” of the pension system, having to convert the investment logic run by the principle of distribution – in accordance with development policies – to precepts of capitalisation within the composition of consortiums of privatisation during the period (Grun 2005). Despite of this trajectory, there are strong indications that the role of BNDES and of the Pension Funds of public banks and of state companies have been crucial for the stabilization of macroeconomic variables that affect the labour market and important

sectors of Brazilian industry, guaranteeing them the innovative capacity and competitive insertion into the world trade, and a space for interest intermediation that permits consolidating the agenda capable of opening the space for formation of new productive coalitions (BNDES 2006 and 2007).

It is worthwhile emphasizing, for the limits of this article, that these state institutions of credit and investments compose one of the institutional legacies that became the objects of a new translation of development policy and that contradict the hegemonic diagnosis (Wolf 2007) around the autochthonous role of market forces in this recent dynamics of economic expansion in Brazil. Which is to say, with the realignment of BNDES as a development bank since 2003, specially on account of the launch of a new industrial policy (PITCE), and a disposition of Pension Funds acting in a share restructuration of the strategic sectors of industry and infra-structure, it is possible to explore the limits of the diagnosis centred exclusively upon coordination by market and the role of these two organs as instruments of institutional complementarity capable of providing degrees of freedom of a development agenda.

Associating these favourable estimates with previous studies (Santana 2005) that reveal a relevant role of Brazilian public banking institutions in promoting an industrial policy (PITCE), it is important to explore how a specific credit policy has contributed for this new international insertion could respond, satisfactorily, to a new external favourable and in a way competitive setting. It is from this perspective that it will be possible to question the current bias that it is the dynamics of external trade and of the very capital market that explain exclusively the performance of this set of economic sectors and, therefore, stress the impact of institutional legacies and the role of epistemic communities in the change of the trajectory.

BNDES

A mapping made by BNDES about future investments indicated that a set of segments of transforming industry and infra-structure reserves investments for the period between 2007 and 2010 that present almost twice as much in comparison what was invested between 2002 and 2005 (BNDES 2007b). This new perspective in Brazil is different from the rest of

the Latin American countries, in so far as the institutional legacy of Brazilian public banks and their presence in the whole set of bank assets of the country have remained relevant even after the privatisation period, what has guaranteed comparative institutional advantages for the retaking of a development agenda (Stallings and Studart 2006; Santana and Kasahara 2007). In order to evaluate the role of a credit policy in this process and the relevance of public banks in this new dynamics, it is necessary to stress, that after the period of strong shrinking of credit due to the inflation stabilization policies, Brazil is living a new cycle of credit expansion since 2003, recovering recently the levels of 1995. By leaping to a volume of total credit by 23% in 2003 and reaching 40% of GDP in 2008, on account of directed credit policies– as those oriented to agriculture, housing, consignment and to industrial policy; of adopting a policy of valuing the minimum salary – that doubled its nominal value between 2002 and 2008 and produced a real increase of 58% between 1998 and 2008; and reducing the unemployment rate from 20,8% in 2003 to 15,5% in 2007 (see Table 3), the current governmental coalition has broadened the room of manoeuvre for a macroeconomic policy, in so far as the internal market has become the principal responsible for the economic dynamics. This is reflected in the data of investments of enterprises (FBCF), imports and family consumption (Table 2) – urged by an intense ascending mobility among social classes and widening of the middle class (Neri 2008). Adding to it the fact that international reserves have increased for five times between 2001 and 2007 (Table 4), guaranteeing a higher degree of domestic freedom with the scenario of external restrictions, motivated especially by the international banking financial crisis.

(Table 2)
Real annual variation of Brazilian Components of Aggregate Demand
% per year

| | Gross domestic investment rate FBCF | Family consumption | Public administration consumption | Export | Import |
|------|-------------------------------------|--------------------|-----------------------------------|--------|--------|
| 1998 | -0,34 | -0,61 | 3,22 | 4,91 | -0,06 |
| 1999 | -8,2 | 0,34 | 1,69 | 5,71 | -15,09 |
| 2000 | 5,03 | 3,93 | -0,15 | 12,86 | 10,8 |
| 2001 | 0,44 | 0,67 | 2,74 | 10,05 | 1,51 |
| 2002 | -5,23 | 1,82 | 4,75 | 7,42 | -11,82 |
| 2003 | -4,59 | -0,65 | 1,15 | 10,4 | -1,62 |
| 2004 | 9,12 | 3,81 | 4,09 | 15,29 | 13,3 |
| 2005 | 3,63 | 4,52 | 2,3 | 9,33 | 8,47 |
| 2006 | 9,96 | 4,64 | 2,84 | 4,66 | 18,34 |
| 2007 | 13,44 | 6,52 | 3,07 | 6,61 | 20,65 |

Source: IBGE

(Table 3)
 Total public sector's net debt (% GDP), Total credit volume (% GDP), Total unemployment rate in metropolitan areas (%) and Real Minimum Salary (R\$ in April of 2008)⁶ deflated by INPC*

| | Public debt | Credit | Unemployment | Real minimum Salary |
|------|-------------|--------|--------------|---------------------|
| 1998 | 35,4 | 27,4 | 18,7 | 246,2 |
| 1999 | 45,5 | 26,3 | 20,2 | 248,4 |
| 2000 | 45,5 | 25,6 | 18,7 | 256,9 |
| 2001 | 47,7 | 25,7 | 18,8 | 280,3 |
| 2002 | 51,3 | 24 | 19,5 | 287,4 |
| 2003 | 51,2 | 22,9 | 20,8 | 289,4 |
| 2004 | 48,8 | 23,6 | 19,6 | 300,2 |
| 2005 | 46,6 | 26,3 | 17,9 | 321,1 |
| 2006 | 45,5 | 29,3 | 16,8 | 366,3 |
| 2007 | 43,8 | 32,4 | 15,5 | 388,4 |

Source: Dicese, Central Bank and IPEA

* Índice Nacional de Preços ao Consumidor (National Index of Consumer Prices)

(Table 4)
 Balance of Trade, Foreign direct investment and Foreign exchange reserves - USD millions

| | Balance of trade | Foreign direct investment | Foreign exchange reserves |
|------|------------------|---------------------------|---------------------------|
| 1998 | -6.574,50 | 28.855,61 | 44.556,44 |
| 1999 | -1.198,87 | 28.578,43 | 36.342,00 |
| 2000 | -697,748 | 32.779,24 | 33.011,00 |
| 2001 | 2.650,47 | 22.457,35 | 35.866,00 |
| 2002 | 13.121,30 | 16.590,20 | 37.823,00 |
| 2003 | 24.793,92 | 10.143,52 | 49.296,00 |
| 2004 | 33.640,54 | 18.145,88 | 52.935,00 |
| 2005 | 44.702,88 | 15.066,29 | 53.799,00 |
| 2006 | 46.456,63 | 18.822,21 | 85.839,00 |
| 2007 | 40.028,20 | 34.584,90 | 180.334,00 |

Source: Brazilian Central Bank

Concerning this context, there is a set of hegemonic arguments tied by orthodox epistemic community suggesting that: 1) capital market is replacing the function of bank credit on top of the enterprise investments, in so far as the credit operations with debentures is growing exponentially; 2) growth of Brazilian exports owes to an increase of demand and of international prices of commodities; and 3) that its new international insertion is based on a

⁶ For a notion of values given in Brazilian Reais, the exchange rate in Sept 2008 was USD 1 = R\$1,70. Three months after this exchange rate changed to USD 1 = R\$ 2,50.

kind of a regressive specialization or deindustrialization, where the sales to an external market would be concentrated in sectors intensive for natural resources, while at the same time there would be a substitution of domestic production for imports, justified in large extent by exchange valuation.

Considering that the emissions of bonds represent 58% of the operations on the primary market of capitals within the period of 1998 and 2007, and how this segment was what also presented bigger growth rates of recent periods, it is constructive to evaluate what is the profile of this performance in relation to the prognosis of supposedly new centrality of capital markets in financing enterprises. The annual average of debenture⁷ emissions between 2005-2007 reached R\$ 52,5 bi, which is six times more than the average between 2002-2004, therefore still less than annual average of R\$ 54,4 bi spent by BNDES between 2005-2007 (Table 5)⁸. It is not, therefore, adequate to suggest that capital markets would overcome the bank credit in the intermediation of investment financing of national enterprises, in a converging manner to Anglo-Saxon financial system. Such a perspective is not adequate for there is a set of criteria of this credit modality that do not adjust to the long-term investment credit profile.

More recent data demonstrates that the recent boom of operations with bonds is concentrated by leasing companies that absorb approximately 70% of the market. At the same time, resources captured by debentures are oriented basically, during last four years, to reinforce the capital turnover and prolongation/extension/stretching of debt, under the conditions of interest rate guarantee and indexation unfavourable to long-term investments, both in industry as in infrastructure. Moreover, debenture emissions are highly concentrated in few important enterprises, having in mind that during last six years 40% of the debentures, in average, were made by the three largest issuing enterprises⁹.

⁷ According to Andima (National Association of Institutions of Financial Market), bonds are mobile assets representative of medium and long-term debts

⁸ <http://www.debentures.com.br/dadosconsolidados/comparativovaloresmobiliarios.asp>
<http://www.bndes.gov.br/empresa/download/RelatAdm1206.pdf>

⁹ Sant'Anna, André A. Crescimento de debêntures financia capital de giro, in *Visão do Desenvolvimento*, RJ: BNDES, 2006; _____. Debêntures batem recorde, mas emissões são concentradas, *Visão do Desenvolvimento*, 24 abril 2007

(Table 5)
 Primary emissions registered
 R\$ million (Feb. of 2008)

| | Shares | Debentures | Promissory Notes | FIDC* |
|------|--------|------------|------------------|--------|
| 1998 | 4.112 | 9.657 | 12.903 | - |
| 1999 | 2.749 | 6.676 | 8.044 | - |
| 2000 | 1.410 | 8.748 | 7.590 | - |
| 2001 | 1.353 | 15.162 | 5.266 | - |
| 2002 | 1.050 | 14.635 | 3.875 | 200 |
| 2003 | 230 | 5.282 | 2.127 | 1.807 |
| 2004 | 4.469 | 9.614 | 2.241 | 5.230 |
| 2005 | 4.364 | 41.538 | 2.631 | 8.579 |
| 2006 | 14.223 | 69.464 | 5.279 | 12.777 |
| 2007 | 33.135 | 46.533 | 9.726 | 9.961 |

Source: Commission of Mobile Capital (CVM)

* Investment Funds for Creditor Rights (Creditórios)

With regard to the second hegemonic bias, studies¹⁰ have shown that Brazilian export dynamics is exceeding by two times the world rhythms. In this way, the international dynamics explains only half of the Brazilian gain with regard to export volume, while the rest can be debited as gain of Brazilian industry's participation in world trade and, therefore, as a consequence of an internal dynamics resulting, possibly, from modalities of strategic coordination anchored by institutional incentives that permit productivity gains. On the other hand, as it is possible to observe in Table 6, the pattern of industrial sectors' insertion into the international trade according to technological intensity ensues the rhythm of quite balanced growth, being that all the segments have grown at similar rates, accumulated during the intervals of 1998-2002 and 2003-2007: (I) – 47%, (II) – 149%, (III) – 139%, (IV) – 96% e (V) – 154%. An exception in this dynamics was the segment of high intensity technology, while one may observe a bigger gain in volume in medium-high, medium-low technologies and non-industrialized products.

¹⁰ Fernando Puga, Por que crescem as exportações brasileiras, *Visão do Desenvolvimento*, Rio de Janeiro, BNDES, 2006

(Table 6)
Brazilian Export and Import in Industrial Sectors by Technological Intensity
US\$ millions FOB

| | High technology (I) | | Medium-high technology (II) | | Medium-low technology (III) | | Low technology (IV) | | (V) – Non-industrialized products | |
|------|---------------------|---------|-----------------------------|---------|-----------------------------|---------|---------------------|---------|-----------------------------------|---------|
| | Export. | Import. | Export. | Import. | Export. | Import. | Export. | Import. | Export. | Import. |
| 1998 | 3.240 | 12.078 | 12.977 | 25.347 | 8.846 | 7.496 | 16.154 | 6.717 | 9.923 | 6.126 |
| 1999 | 4.126 | 11.782 | 10.874 | 20.856 | 8.511 | 6.599 | 15.775 | 4.604 | 8.724 | 5.460 |
| 2000 | 6.838 | 14.180 | 12.751 | 21.446 | 10.227 | 8.793 | 16.152 | 4.716 | 9.118 | 6.714 |
| 2001 | 6.982 | 13.824 | 12.317 | 23.036 | 9.985 | 8.260 | 18.464 | 4.099 | 10.474 | 6.383 |
| 2002 | 5.935 | 10.460 | 5.935 | 19.870 | 10.650 | 6.671 | 19.132 | 3.651 | 11.709 | 6.590 |
| 2003 | 5.135 | 10.431 | 16.694 | 19.987 | 13.394 | 6.800 | 23.281 | 3.319 | 14.580 | 7.789 |
| 2004 | 6.610 | 14.158 | 22.295 | 24.743 | 18.847 | 8.665 | 29.384 | 4.060 | 19.339 | 11.210 |
| 2005 | 8.757 | 17.134 | 28.912 | 28.418 | 22.741 | 10.484 | 33.606 | 4.744 | 24.292 | 12.819 |
| 2006 | 9.364 | 21.203 | 32.403 | 33.311 | 27.252 | 14.339 | 38.300 | 6.216 | 30.150 | 16.281 |
| 2007 | 10.241 | 25.284 | 36.519 | 46.645 | 31.599 | 19.649 | 43.549 | 8.372 | 38.741 | 20.671 |

Source: SECEX/MDIC

Classification extracted from: OECD, Directorate for Science, Technology and Industry, STAN Indicators, 2003

Like this, the diagnostics that Brazilian industry is going through a deindustrialisation phase, is still very precipitated, since the import volume, despite of having intensified a lot last year, it is still small in absolute terms and has been more intense in sectors that also take advantage of a higher growth in export coefficient, particularly those of middle-high technology. This movement suggests then that industrial sectors have invested in improving productivity through capital goods import oriented to import substitution, being, therefore, qualifiable as a case of complementarity.

In that way, opposed to the ideas that has been normally disseminated: elevation of world trade flows is inferior to the Brazilian export rhythm; the price of commodities only influences a small section of the growth of the Brazilian flow; the growing role of capital market is restricted to capital turnover and does not attend the necessities of long-term investments, therefore does not substitute the bank credit; and is precipitate to speak about regressive specialization or deindustrialisation, in so far as the high level of export coefficients has hit all the sectors, specially those of bigger aggregated value. This implies that path-dependency of domestic institutions can play significant role in explaining this current dynamics of investment growth, contradicting the dominant point of view that market is a principal, if not an only relevant reason.

One of the principal institutional legacies of Brazil for understanding this phase of economic expansion, therefore, are the federal public banks, among what stands out

BNDES. Besides of being principal long-term financier, the BNDES plays a strategic role in stabilizing the offer of credit within the context of cyclic variations resulting from international financial crisis, providing that the economic adjustments to these crises would have a lower cost in relation to investment, growth rates and jobs.

The BNDES accounts for 20% of total credit of Brazilian banks to private sector, which represents a credit portfolio 63% higher than Banco do Brasil, and 106% higher than Bradesco, respectively the second and the third biggest depositors of credit portfolio in the country. The Bank has maintained its spending in a growing rhythm, being that between 1999-2002 the volume of spending basically doubled, repeating the same performance between 2003-2007 (Table 7). At the same time, the BNDES is the biggest Brazilian bank oriented to long-term loans, whose average time of amortization is 96 months, while the rest of the banks work with a term of nine months. The profile of its financing on domestic market is aimed basically at restructuring or broadening productive capacity – with an emphasis on a transforming industry and on infra-structure (trade and services) – at the same time where the growing participation in export financing has benefited specially the sectors of capital goods and services in line with an industrial policy PITCE.

(Table 7)

Annual Spending of BNDES System – R\$ millions

| | Agriculture | Extractive | Trade and Services | Transformation | Total |
|------|-------------|------------|--------------------|----------------|-----------|
| 1998 | 1.348,60 | 282,2 | 10.161,10 | 7.199,00 | 18.990,90 |
| 1999 | 1.286,60 | 258,5 | 8.370,20 | 8.136,20 | 18.051,50 |
| 2000 | 1.908,00 | 120,9 | 10.749,70 | 10.267,30 | 23.045,80 |
| 2001 | 2.762,00 | 396,3 | 9.321,40 | 12.736,90 | 25.216,50 |
| 2002 | 4.508,90 | 250,3 | 15.503,00 | 17.157,00 | 37.419,30 |
| 2003 | 4.595,00 | 157,3 | 12.861,40 | 15.919,80 | 33.533,60 |
| 2004 | 6.930,20 | 242,6 | 17.134,80 | 15.526,20 | 39.833,90 |
| 2005 | 4.058,80 | 337,7 | 19.551,10 | 23.032,60 | 46.980,20 |
| 2006 | 3.422,60 | 1.457,90 | 20.774,50 | 25.663,00 | 51.318,00 |
| 2007 | 4.997,80 | 1.050,50 | 33.448,00 | 25.395,40 | 64.891,80 |

Source: BNDES

Like that, the BNDES deserves a more detailed study about its role as an institutional lever of support to competitive internationalisation in financing the strategic economic sectors. Without BNDES these segments would not be able to compete with the rest of the foreign enterprises that traditionally have counted on the support of the credit of public agencies in

their own countries, when not with direct subsidies, then with much more favourable rates and terms.

Pension Funds

Besides the BNDES, the so-called Pension Funds related to Brazilian public banks and state enterprises have played a central role in the productive restructuring in Brazil since privatisation until the present moment. They differ on a financial market in so far as they have as a horizon the long-term, adjusted to virtuous policies of economic and social development, whose functioning has privileged fiscal treated by the State. It should be still stressed that these Pension Funds in Brazil have a relevant presence in administrative boards of the entire internationalised national industries, where they have a share-holding participation.

Distinct from other contexts, the role of Pension Funds in Brazil is inserted in a logic where the access to capital market is still very limited when it comes to long-term investments. At the same time, other studies have demonstrated that Brazilian financial system is still more close to the one present in continental Europe, that is to say, the model centred in a long-term imbrications among national public banks and enterprise, that enables to sustain the model of competitive insertion (Mettenheim 2005; Stallings and Studart 2006). In that sense, one more time, globalisation does not appoint to convergence of financing models, as it the enthusiasts have suggested. Even though recognising that financial resource volume centred on transactions has grown exponentially during the 25 years, such a process is still strongly concentrated in some regions of the world, which means that they continue being associated to limited assets by national regulation and innovation systems, where the State maintains a central role (Stiglitz 2003; Chang 2003; Vogel 1996; Zysman 1996).

Within the context of capital markets, the Pension Funds are central actors. Until 2007, the Brazilian Pension Funds owed assets worth R\$ 413 billions, which is approximately 17% of the GDP. If the values of assets are expressive, the investment growth has been even more extraordinary, reaching approximately 300% among the twenty biggest funds from 2001 to 2007. In in 2002, the entire system of complementary closed pension system accumulated a deficit of R\$ 20 billions, between 2003 and 2007 this situation converted into a surplus of

R\$ 43,5 billions. What is interesting to highlight for the purpose of this article is that, of this set, three funds related to federal public banks (Banco do Brasil and Caixa Econômica – saving bank) and a state oil enterprise (Petrobrás) control alone 42,2% total assets of Pension Funds, being that only Previ, the biggest institutional investor in Latin America, closed 2007 with a patrimony of R\$ 140 billions.

This dominant group of Federal Pension Funds linked the savings of important segments of middle class workers, whose labour union base is more organized and mobilized among workers and constitutes one of the sustenance of party leader of current government coalition. The same way as they played a strategic role in financing operations of privatisations in the 90s, especially in a mining and telecommunication sectors, now their principal administrative cadres are composed of former labour union directors with quite diverse orientations with regard to the role of Funds.

A fact that shows a change in policy orientation occurred in 2003, when BNDES acquired a block of shares of Investvale, avoiding that a Japanese company elevated its share-holding participation in Vale (second-largest mining company in the world), that would turn it into binational enterprise. Vale is controlled by holding Valepar that has 60% of voter capital under the control of Previ, Petros and BNDESPar. Recently, after assuming administrative control of Brasil Telecom, Previ coordinated with the government and the BNDES in order to make the merger between Brasil Telecom and Oi/Telemar and construct a third telecommunication conglomeration of national capital, guaranteeing – through its possession of a golden share – a strategic coordination capable to lever national private groups to a position that allows them to compete, internally and externally, with other foreign groups of the sector.

Briefly, it is necessary to explore in what extent these state or para-state arms of credit and investments have been instruments of institutional complementarity in relation to the corporate governance and productive regime model; how these instruments can be capable of providing increasing returns and positioning set of actors in society in better conditions of international competitive insertion, based on the modalities of coordination that emphasise the strategic interaction between diverse actors (Deeg 2007; Hall and Gingerich 2004). In that sense, recent declaration of key state policy coordinators have appointed to the necessity of recovering the capitalist role as strategic actor, in the schumpeterian

sense¹¹, that stresses the necessity of a more attentive interpretation of the role of institutions such as BNDES and Pension Funds in mediating this strategic interaction.

A preliminary survey with the data extracted from share-holding participation of three principal Pension Funds in diverse segments of the Brazilian industry permits to affirm that its investments are centred principally in sectors of energy infra-structure and of transport, telecommunications, mining, paper and cellulose, capital goods, steel industry, civil aviation and petrochemical industry, all the segments with high level of internationalisation and coincident with an resource aid from BNDES. Previ, Petros and Funcef have contributed decisively to long-term investments in principal enterprises in every one of these sectors, which also implies performance in administrative administrative directives of these enterprises where the funds participate. In this particular case, State Pension Funds and the very BNDES have looked for establishing criteria for investment and credit, for example the adoption of environmental practices, incentives to technological innovation, creation and preservation of jobs, and rules of corporative governance – an example of stimulus to adoption of international patters of proxy statements and the sustainability index of Bovespa¹².

It is worth to stress that this movement of Pension Funds in direction of a bigger capitalization is associated with a worldwide tendency of Funds' participation in the administration of enterprises. This implies a more coordinated enterprise performance related to an agenda of savings administration of a significant sector of the middle class, in other words, employees of public enterprises around whom the State has the possibility of constructing a directive.

It is important to stress that Pension Funds' administrators, still during the Fernando Henrique Cardoso government (1995-2002), searched for mitigating the effects of a risky use of the saving in consortiums of privatisations carried out during his period, including in the new law of anonymous society, approved in 2001, the clause that protects the rights of minority share-holders, whose formulation counted on the Workers' Party base, related to the union of bank employees, that played an important role. This trajectory seems to suggest the consolidation of coordination by the market based on a type of *transparency*

¹¹ Claudia Safatle e Cristiano Romero, "Governo quer companhias fortes e globais, diz Dilma"; "Governo é contra reestatizar setores da economia, diz Dilma", Valor Econômico, 24/09/2007

¹² The largest stock market in Latin America, Bovespa is São Paulo-based stock exchange

coalition (Gourevitch and Shinn 2005), where the workers (read: workers of state companies and banks) assumed an interesting position in a stock market through a predominant position of its Pension Funds.

In countries like the USA, France, Germany and Italy the Pension Funds associated to the unions based of left-of-centre parties have played a strategic role in encouraging dispersion of state assets, thereby broadening the coordination by market through the rules of protection of minority share-holders, that has contributed to bigger capitalization of funds (Cioffi and Höpner 2006). In the case of Brazil greater capitalization of predominant Pension Funds seems to not result from a policy of *blockholders* division – having in mind the change of directive in relation to privatisations - , but, rather, from strengthening the patterns of strategic coordination, where the assets of state companies and banks, and Pension Funds relation to them, have played a crucial role of veto. For Grun (2003), pension funds of state and public banks have reunited conditions for being thought of as an interface between segments of industry and workers with resources capable of constituting “central networks knots”. Within the context of Growth Acceleration Programme (PAC) a lot has been suggested with regard to the possibility of integrating such funds as sources for financing investments in infrastructure. On the other hand, there is little knowledge about this financing instrument, its important and capillarity within the financial system and its relation with industrial economic groups.

Conclusion

It was possible to observe that institutional restrictions around mutual fertilization between the insulation trajectories of decision-making arrangements with the arenas of macroeconomic coordination and of epistemic communities that has founded the legitimacy criteria of this stabilization agenda, have consolidated their legacy and delimited partially the margins of state manoeuvre. However, the change in government coalition since 2003 and the employment of the BNDES and pension funds as instruments for a new modality of investments and international insertion has suggested that there is a significant space for recovering the agenda of development.

The literature of comparative political economy, specially the one influenced by the models of variety of capitalism, has focused on the research in OECD countries. At the same time

comparative studies made in peripheral regions of the world still stress aspects that are related to the institutional deficiencies of these democracies that have often resulted in analyses that freeze the trajectories of these societies and condemn their immediate future atavistically to some kind of perverse historical past. These studies produce diagnoses that use the vocabulary of populism, patronage and other kind of political pathologies, in order to qualify and generalise anachronistically other emerging institutional contexts in the capitalist periphery. My aim here has been to avoid the common practice of sterile generalizations of area studies, and to emphasise how recent institutional trajectories marked by critical junctures vary also in the global South. Therefore it is important to adopt the approach of VoC in order to comprehend this variation also in periphery and semi-periphery of the capitalist system, while trying to understand how institutional changes have gained terrain as a result of endogenous transformations deriving from a correlation between path dependency and cognitive regimes.

BNDES, public banks and Pension Funds present an important example of institutional legacy that characterizes Brazilian variety of capitalism. It would not be productive to look for a new label for this modality, but certainly, Brazil has preserved significant state capacity that has ensured the important level of strategic coordination during the international credit crisis. At the same time, the role of ideas for understanding the formation of coalitions and macroeconomic agendas through the role of epistemic communities may give some clues to comprehend the process of incremental institutional change that can be verified during the last years. Unveiling the more relevant aspects with regard to the degree of freedom that these institutions have inherited us and the chances of fertilizing new epistemic communities constitute central issues in order to avoid a distressed reading with regard to the policy capacities of intervening in the routes of economic globalisation.

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