

# THE DEBATE ON THE STATE-OWNED ENTERPRISES PERFORMANCE IN THE COUNTRY: MAIN ARGUMENTS<sup>1,2</sup>

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## 1 INTRODUCTION

The presence of the State in the economy has always been one of the striking characteristics of capitalism's development in Brazil. It is worth highlighting the existence of the federal government's State-owned enterprises in strategic sectors. However, this type of governmental intervention in economic dynamics has reached a wide field of sectors and has been present in quite diverse moments in the country's history. This article aims to bring back the debate about this governmental option, considering that the arguments for and against State-owned enterprises are essential for understanding this phenomenon.

In addition to this introduction, this article comprises five more sections. Section 2 includes a brief history of the State-owned enterprises' constitution in Brazil and indicates that political issues were not decisive in hindering their emergence over the decades. Section 3 addresses the ideological arguments that started to be used as of the 1990s, when questioning the State's presence in the economy, especially regarding government-owned enterprises. Section 4 presents the arguments associated with private enterprises' higher efficiency compared to the performance of companies under State control. Section 5 sets out the arguments involving pragmatism, taken as the solution to the fiscal crisis. In this case, privatization appears as the only alternative to the lack of public resources. For last, section 6 includes the final considerations.

## 2 THE PRESENCE OF THE STATE IN THE ECONOMY: LONG HISTORY OF STATE-OWNED ENTERPRISES

The structure of the set of Brazilian State-owned enterprises has a close relationship with the genesis and consolidation of the type of capitalism developed in the country. The increased relevance of the State's presence in economic activity occurred mainly through the creation and operation of several State enterprise initiatives.

The financial sector was the first to move. Banco do Brasil was created at the beginning of the 19<sup>th</sup> century, although its primary rural credit operations only started almost a hundred years later, in 1905. Caixa Econômica Federal was also created in the mid-19<sup>th</sup> century, but only in 1931 it became a consolidated financial agent focused on credit. The Brazilian Reinsurance Institute (Instituto de Resseguros do Brasil – IRB) was established in 1939.

Over the first half of the 1940s, the Companhia Siderúrgica Nacional (CSN), Companhia Vale do Rio Doce (CVRD), Companhia Nacional de Álcalis (CNA), Fábrica Nacional de Motores (FNM),

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Acesita and Companhia Hidrelétrica do São Francisco (Chesf) emerged. Those were the first steps in building a hard core of State-owned enterprises in the different sectors related to energy, infrastructure, and the so-called basic industry.

Between the beginning of the 1950s and 1964, Petrobras; the steel companies Companhia Siderúrgica Paulista (Cosipa) and Usinas Siderúrgicas de Minas Gerais (Usiminas); Brazilian Economic Development Bank (Banco Nacional de Desenvolvimento Econômico – BNDE); Banco do Nordeste do Brasil (BNB); Brazilian Telephone Company (Companhia Telefônica Brasileira – CTB, acquired by the government); the holding of electricity companies Centrais Elétricas Brasileiras S/A (Eletrobras); the supply field group Companhia Brasileira de Alimentos (Cobal) and Companhia Brasileira de Armazenamento (Cibrazem); and the Rede Ferroviária Federal (unified from independent railways) were created.

Since 1964, despite the change in economic policy direction due to changes in the regime, the process of creating State-owned enterprises did not cease. This was the case of the following enterprises, which all emerged during the 1960s:

- National Housing Bank (Banco Nacional da Habitação – BNH);
- Banco da Amazônia (Basa);
- Brazilian Post and Telegraph Corporation (Empresa Brasileira de Correios e Telégrafos – ECT), merged from several federal public agencies;
- Brazilian Telecommunications Company (Empresa Brasileira de Telecomunicações – Embratel); and
- Brazilian Aeronautics Company (Empresa Brasileira de Aeronáutica – Embraer).

In the following decade were created: i) the Brazilian Agricultural Research Corporation (Empresa Brasileira de Pesquisa Agropecuária – Embrapa); ii) the steel industry holding (Siderurgia Brasileira S/A – Siderbras); iii) the telephone companies holding (Telecomunicações Brasileiras S/A – Telebras); iv) the Companhia de Desenvolvimento dos Vales do São Francisco e do Parnaíba (Codevasf); v) Empresas Nucleares Brasileiras S/A (Nuclebrás) and its six subsidiaries in the nuclear energy field; vi) the public computing company Cobra; and vii) the port system holding (Empresa de Portos do Brasil S/A – Portobras).

During the next ten years, the pace of the emergence of State-owned enterprises fell sharply. Therefore, at the federal level, only the Brazilian Company of Urban Trains (Companhia Brasileira de Trens Urbanos – CBTU) was created in 1984, and the National Supply Company (Companhia Nacional de Abastecimento – Conab)<sup>4</sup> in 1990.

We can see that the constitution of such a complex structure of State-owned enterprises at the federal level took place at quite different periods in the country's history. Governments and periods marked by very different political spectra used this strategic resource. This characteristic may demonstrate that opting for this public policy implementation instrument transcended historical and political-ideological barriers over this period. The different controversies can be verified both when the companies were created and when their privatization appeared as an alternative for the governments to adopt.

4. Conab was created from the merger of Production Financing Company (Companhia de Financiamento da Produção – CFP), in 1943, Cobal, in 1963, and Cibrazem, in 1963.

Therefore, political or philosophical issues do not seem to have been crucial in explaining the emergence of such a significant network of enterprises under Brazilian State regulation. From the first stages of capitalism – at the beginning of the twentieth century – until the end of the democratic transition in the 1980s, the country has gone through governmental experiences as different as those from Getúlio Vargas, Juscelino Kubitschek, the military regime, and Sarney.

### 3 IDEOLOGICAL ARGUMENT

As of the 1990s, Brazil also came under the most direct influence of the movement supporting liberal ideas, with international relevance by then. This way, incorporating the Washington Consensus guidelines to orient government policy towards economic issues gains relevance. The foundations of this platform rest on liberalization and deregulation at large. Among them stand out the recommendation to promote the reduction of the State's presence in economic activity and the resulting transfer of State-owned enterprises to private capital.

Therefore, we face here the first set of arguments against State-owned enterprises. Those main aspects of the debate lie in a more ideological sphere, referring to the legacy of the 1980s neoliberal approach. Its paradigmatic example was Margaret Thatcher's government in England, which, in its origin, pointed to the natural damages of a State alternative while underlining the intrinsically positive aspects of the private management of goods and services previously offered by companies belonging to the British government.

Collor's government is a clear expression of the political manifestation of this movement in Brazil by launching a National Privatization Plan (Programa Nacional de Desestatização – PND) in 1990 and being willing to promote the privatization of a wide range of State-owned enterprises early in his term. The period starting with the inauguration of the first president directly elected after the democratic transition in the country blends with the exercise of the ideological hegemony of liberalism. The narrative proposing a minimal State sought to associate the era of the military government with the increasing government presence in the economy. Based on this somewhat appealing correlation, the advocates of this liberal project argued that the democratic transition should incorporate a movement contrary to those from the previous period and, consequently, promote the sale of State-owned enterprises.

### 4 ARGUMENT FOR THE SUPREMACY OF THE PRIVATE SECTOR'S EFFICIENCY

Another line of argument, albeit slightly connected to the more ideological issue, refers to the alleged supremacy of the private sector's efficiency compared with the State, from an economic point of view. According to that approach, State action compromises gains in the entire system in terms of the economic and social aspects. Considering that public behavior is not subordinated to the market working logic, the results of the presence of State-owned enterprises in a given sector bring over references to artificially determined prices, illegitimately appropriated incomes, and offers outside the standards expected for a market operating with total freedom for its agents.

Consequently, the solution for promoting the improvement of allocative efficiency and the maximization of the results of all sectors involved in the stages of the economic process would be to transfer the ownership of State-owned enterprises to the private sector. According to this approach, consumers of goods and services offered by such companies would benefit since the private logic

would follow the market rules, and prices and fares would tend to reduce. On the other hand, improving the quality of goods and services would be ensured since the company would be exposed to the market competition rules and incorporate such effects into its structure, operating according to private standards.

The difficulties come up when discussing the case of companies operating under a monopoly or oligopoly. In such situations, privatization alone would not bring about the expected effects since the absence of free competition could directly lead to the private appropriation of the benefits previously incorporated by the State. Therefore, the modeling envisaged for the privatization of sectors supplying public goods and services assumed the creation of regulatory agencies. Consequently, sectors such as health, phone, or electricity would be subject to this new institutional arrangement, in order to impose the prevalence of rules consistent with the idealized hypothesis of free competition. Regulatory agencies would prevent exploitation by agents operating alone or through oligopolistic agreements on the supply side.

## 5 PRAGMATISM ARGUMENT AND THE FISCAL ISSUE

The historical evolution over the last three decades and the series of controversial privatization experiences in several countries have reinforced another line of argument in favor of selling State-owned enterprises to private capital. It is a line that benefits a more pragmatic approach to the debate. Consequently, its advocates seek to escape the political or ideological cleavage between critics and advocates of the privatization solution.

The starting point for the pragmatism line rests on identifying the bottleneck of the State's capacity for action due to the aggravation of the fiscal framework. One cannot deny that countries from almost all continents have faced increasing difficulties balancing their public accounts. The pressure for macroeconomic adjustments led to cutting budget expenditures and searching for new State revenue sources.

With the aggravated fiscal situation, there would no longer be room for the public sector to continue operating the enterprises correctly under its jurisdiction. Therefore, privatization would solve the problem on two sides: i) it would free up resources from the management of the companies and from their future investments; and ii) it would relieve the Treasury's cash through the inflows related to the sale of companies to private capital.

The pragmatic approach has the advantage of avoiding the most substantive controversy regarding the privatization issue. Bringing the debate to the field of the sense of reality in the search for solutions to the emergence of the fiscal crisis, there remains the plea made under the "there is no alternative"<sup>5</sup> motto. The need to find resources for the State is urgent, and privatization presents itself no longer as a panacea, but only as a real possibility to solve the crisis. A challenging measure to take, but one that neither the government nor society would have arguments to dodge.

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5. TINA, the acronym for "there is no alternative". Expression attributed to Margaret Thatcher when she fiercely defended the severe measures of her government as British prime minister in the 1980s.

## 6 FINAL CONSIDERATIONS

Monitoring the evolution of State-owned enterprises in the Brazilian economy provides an apparently contradictory framework. In quite different periods of the country's history, this State intervention tool was used on a recurring basis. This strategy was adopted not only in Brazil, and by governments from such different political and ideological spectra that could even be qualified as opposite from each other. Despite their different origins, almost all of them resorted to creating State-owned enterprises until the 1990s, to implement their governmental projects.

The picture changed significantly as the hegemony of ideology from the neoliberal wave was consolidated. The phenomenon that incorporated policies of broad liberalization and reduction of the State's role in the economy arrived in Brazil already under pressure exerted by the governments of Margaret Thatcher in Great Britain and Ronald Reagan in the United States over multilateral organizations. On the other hand, the recommendations provided in the Washington Consensus are explicit about the need for privatizing State-owned enterprises.

The arguments for transferring the assets of State enterprises to private capital also vary according to the context evolution and the evaluation of experiences with the initiative. The first series of points in favor of the measure lies in the ideological field, presenting the aspects considered intrinsically positive for transferring ownership from the State to the private sector.

Another set of arguments favoring privatization rests on the alleged superiority of the private sector's efficiency. According to that interpretation of the economic phenomenon, State intervention presents results always less efficient than that which could be obtained through the private management of an enterprise. Under those conditions, selling public assets to private capital would allow for a better allocation of resources and ensure an offer of goods and/or services of better quality and lower prices.

For last, the rationale embedded in the pragmatic approach keeps the debate about the State's business option restricted to the field of fiscal problems. In this case, the privatization alternative is not discussed due to its possible merits or advantages concerning the private management of State-owned enterprises. Pragmatism reveals how deep the crisis in public accounts is and suggests more structural measures should be adopted to solve it. Therefore, one of the aspects presented would be the sale of State-owned enterprises to private capital, aiming at promoting liquidity inflow into Treasury cash, and avoiding problems of poor allocation of resources in the current flow of enterprises and their future investments.

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