

# Thirty years of privatizations in Brazil: a critical appraisal.

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**Abstract:** Privatizations are part of the processuality of capital, which, in its eagerness to expand, eventually take control of spheres of accumulation that were hitherto under the control of the State. In Brazil the privatization process is dated from the 1980s, when capitalist forces, which were previously bolstered by the State, started to demand the privatization of State enterprises and utilities. In 1990, the assumption of a new hegemonic power bloc based upon the neoliberal development model allowed the privatization process to be accelerated, therefore ensuring renewed spaces for private capital accumulation. The ultimate outcome of privatization over the last three decades in Brazil is that the country entered into a path of regression in its productive structure, with the deepening of both external dependence and underdevelopment, and progressive deterioration of public services. Such deterioration is regarded as one of the causes for the outburst of popular protests since June 2013. The objective of this study is to investigate the privatization of State enterprises in Brazil between 1980 and 2013, taking into account the macroeconomic context in which they were inserted, and how this process resulted in a growing social discontent.

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## 1. INTRODUCTION

In the last thirty years most of Brazil's State has been dismantled through all kinds of privatizations. In 1990, the assumption of a new hegemonic power bloc based upon the neoliberal development model allowed the privatization process to be accelerated, therefore ensuring renewed spaces for private capital accumulation. This acceleration is part of a broad movement to increase the spheres of accumulation for private capital, since the State-led capitalism model, which started roughly with Getúlio Vargas in the 1930s, began to being destroyed in the 1980s. Privatizations are part of the processuality of capital, which, in his inexhaustible "yearning" to expand, eventually takes control of spheres of accumulation that were hitherto under the control of the State (MEDEIROS, 2006, p 14).

Like everything involving capital, the relationship between State and capital is quite contradictory. While the modern State, for its non-mercantile nature, is an obstacle for the expansion of capital, it is also "*an absolute requirement both for securing and safeguarding on a permanent basis the productive accomplishments of the system*" (MÉSZÁROS, 1995, p. 49). For example, it is the State which opens up new areas of accumulation in activities with high risk and low profitability; it is also the State which provides institutions and infrastructure for an appropriate reproduction and expansion of the system; it is the State too which repress the social forces that contest the established social order; and so on. Therefore, the corrective action of the State is imperative for maintaining a system oriented towards expansion and driven by capital accumulation. But, at the same time, the State is a barrier and a structural limit to this process of expansion and accumulation, because it presents itself as an attempt to control and discipline capital. Once detained, capital makes use of various devices, such as privatization of previously State-owned enterprises (SOEs), in order to overcome the obstacles and resistances and follow through with its dynamic of relentless expansion and accumulation (MÉSZÁROS, 1995, chapter 2).

In Brazil the situation is no different. In this country, the capitalist forces that were bolstered by the State for more than fifty years began to demand new spaces of

accumulation in the beginning of the 1980s. This demanding was part of a neoliberal strategy of development, which is characterized by an ever-increasing presence of mercantile relations in the social process. The ultimate result of this privatization movement is that, over the last three decades, the country entered into a path of regression in its production structure, with deepening external dependence and exacerbation of its underdevelopment characteristics, besides a progressive deterioration of public services. Such deterioration is regarded as one of the causes for the outburst of popular protests since June 2013.

The objective of this study is to briefly investigate the privatization of State-owned enterprises in Brazil between 1980 and 2014, taking into account the macroeconomic context in which they were inserted. For this, it is organized into sections according to the following chronological period: 1980-1990, 1990-2002 and 2003-2013. Following, there is a section of conclusions.

## **2. PRIVATIZATIONS IN THE LOST DECADE**

The privatization of Brazilian State-owned enterprises began in the early 1980s, still without a deliberate government strategy to do so, which only come in the next decade. In this section, we will study the process of degradation of both services offered to public and the financial position of the SOEs. This process, known as the “scrapping (*sucateamento*) of SOEs” was used as a means to persuade the public about an presumed need for privatization. We will also study the macroeconomic context and investigate which companies were privatized and how did such privatizations took place in the so-called "lost decade", name for which the 1980s is known.

To understand how the SOEs went through a process of progressive deterioration in their economic and financial conditions, one must go back to the second half of the 1970s. In these years, there was a process called "nationalization" of external debt: the share of external debt contracted by the SOEs grew strongly. This has occurred primarily because the II PND (“*Segundo Plano Nacional de Desenvolvimento*”; Second National Development Plan), a plan envisaged by the military dictatorship to complete the process of import substitution industrialization, was based on the same growth

model of the so-called “Brazilian economic miracle” of the early seventies, which was a model based on growth through external indebtedness (CASTRO, 1985). In this scenario, the external resources necessary to maintain growth were increasingly taken by the public sector, allegedly because of the unwillingness of the private sector in performing such a task and because of the fragility of the Brazilian financial system (CARNEIRO, 2002, p. 83-88). Another point about the deterioration of the SOEs is that the government has used, since the mid 1970s, the price policy of these companies as a mean to curb inflation (CRUZ, 1983, p. 92-93).

In the early 1980s, with the second oil shock and the hiking in the interest rates of the United States, Brazil entered a phase of acute lack of hard currencies. In order to overcome this restraint, an deal with International Monetary Fund (IMF) was signed. This deal was a traditional IMF deal: promote internal recession to curb imports and foster exports to raise hard currencies<sup>2</sup>.

In this context, the SOEs were used to raise hard currencies: they kept borrowing abroad even if their investments were not very meaningful. Besides, the government adopted an strategy of frequent currency devaluations in order to bolster exports. This strategy affected the SOEs because they were leveraged in hard currencies due to the late 1970s process of “nationalization” of external debt. These facts aggravate the financial position of the SOEs and, consequently, help to deteriorate the quality of services rendered to the public (CARNEIRO, 2002, p. 142-143, 153-162, ASSIS and TAVARES, 1986, p. 73, 94).

Privatizations of SOEs made its initial appearance in official discourse with the “National Program of Debureaucratization” and the creation of the Interministerial Council on Privatization and the Control Secretariat of State Enterprises (SEST). In 1981 was promulgated Decree Number 86215 which established a commission that would point out the companies to be privatized, setting selling prices and setting the overall framework (WERNECK, 1989, p 278). However, the main agent of privatization in Brazil, whether in the 1980's or later, is the BNDES (Banco Nacional de Desenvolvimento Econômico e Social - National Bank for Economic and Social Development) and not the SEST or any other entity. In the 1980s this institution worked

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<sup>2</sup> In order to understand Brazil's economic situation in the early 1980s see FURTADO (1983).

as a “companies hospital”, providing help to firms under financial strains in order to preserve branches of Brazilian industry which were heavily affected by the crisis. In some cases, the BNDES even took control of troublesome companies (TAVARES ET AL, 2010, p. 184; VELASCO JR., 2010, p. 316). Take heed of the submission of the Brazilian state to capital: firms in difficulty were cured in “hospital BNDES” and then were sold to the private sector. The spirit of this procedure remained in the decade of 1990, when this bank became one of the main financier of the privatization spree in Brazil.

Let us understand how BNDES built its “hospital”. In 1982, there was a merger of three subsidiaries of the bank (Fibase, Embramec and Ibrasa), which then became the *BNDES Participações* (BNDESPAR). This entity was the main instrument for the functioning of the “hospital” BNDES: it was BNDESPAR the responsible for improving the financial situation of companies in difficulties, for the continuity of investment projects that were in danger and even to take control of the firms (TAVARES ET AL, 2010, p. 189-90; VELASCO JR., 2010, p. 316-320). Among the firms which were sold to private capital in the 1980s there was important companies such as Aracruz Celulose, which would become one of the leading manufacturers of pulp and paper on the planet.

In summary, from the second half of the 1970s onwards, Brazilian SOEs were used as macroeconomic instruments, in order to curb inflation and raise hard currency. These facts degraded the services rendered to the public and the financial position of these firms. The argument in favor of privatization began then to gain strength. Although the main Brazilian SOEs were to be privatized as of 1990, when the neoliberal hegemonic bloc began its era of “open” neoliberalism, privatizations already took place in the 1980s. Most firms privatized back then were “cured” by “hospital” BNDES. Between 1981 and 1989 a total of 38 SOEs were privatized, generating in that time a revenue of US\$ 726 million (CARVALHO, 2001, p. 3).

### **3. COLLOR, ITAMAR FRANCO AND CARDOSO: THE AGE OF “OPEN” NEOLIBERALISM**

This section covers the period between 1990 and 2002. The final rupture in the post-

1930 Brazilian State-led capitalism model, based on industrialization with strong State presence, came about with the assumption of Fernando Collor de Mello to power in 1990. Although History tends to forget its characters such individual is important because he marks the beginning of neoliberal<sup>3</sup> dominance in Brazil. During the neoliberal era, which began in 1990 and so far never ended, the Brazilian economy undergoes a major setback in most of its aspects, from the renewed emphasis on primary exports, the main driver of the economy until the 1930s, to the complete destruction of productive chains. External dependence has been reinforced and financial capital has overthrown industrial capital from its primacy on the Brazilian agenda. The neoliberal framework and its ever-present degradation process did not contain itself to the economy: aspects of life had been increasingly mercantiled, since basic things such as health and education to cultural things such as samba music and football.

Although the Collor government, upon its election, did not have a solid and broad political support base, it managed to gain the support of society's sectors eager to "modernize" the country. This so-called "modernization" would have as its vital axis the privatization of State-owned enterprises. Here the argument of "scrapping of SOEs" came in full force to persuade public opinion: according to the preachers of privatization the State could not efficiently manage the SOEs, opportunistically forgetting that SOEs were used as macroeconomic instruments since the late 1970s, and so the only way out possible, as per them, was to privatize SOEs and enlarge the sphere of private appropriation in Brazil's economy.

In 1990 it was established the National Privatization Program ("*Programa Nacional de Desestatização*"; PND). Initially, 34 companies from the State productive sector and 32 minority interests in companies were included in the PND (PRESIDÊNCIA DA REPÚBLICA, 1995). The PND was conceived in a dual hierarchical structure: above the National Privatization Council ("*Conselho Nacional de Desestatização*"), which role was of supervision and decision-making, and below the BNDES, as an executor of this council guidelines and as the program manager, and the National Privatization Fund ("*Fundo Nacional de Desestatização*"; FND), which was a fund with shares or quotas issued by companies that had been included in the

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<sup>3</sup> We understand neoliberalism as an strategy of development which screams for an ever-increasing presence of market as a regulator of social relations.

PND. As the program manager, BNDES acted as a financier in the stage of acquisition financial restructuring of enterprises to be privatized (BNDES, 2009, p. 5; HERMANN, 2010, p. 290). So, here manifests itself the hipocrisy of capital and its “parrots”: they need the help of the State to buy SOEs but preach to keep State out of the economy.

The first “big” privatization of PND was Usiminas (Usinas Siderurgicas de Minas Gerais). This company back then was one of the largest producers of steel in this world. Despite or because of this, it was chosen by the Collor administration as a priority to be privatized. And so it went, but they do not stop there: by 1993 Brazilian government had already completed the privatization of all major steel companies (Companhia Siderúrgica Nacional (CSN), Cosipa, Companhia Siderúrgica Tubarão, Piratini, Acesita, Cosinor and Açominas) (BNDES, 2002; VELASCO JR., p. 350-5, 360). In the long run, the result of these privatizations was disastrous: despite being one of the largest producers of iron ore (by 2011, Brazil was the third largest iron ore producer country in the world<sup>4</sup>), Brazil has not managed to build a globally competitive steel industry (by 2013, Brazil was only the ninth steel producer in the world<sup>5</sup>).

Considering both Collor and Itamar Franco terms, privatization currencies (or "rotten coins") were the main means of payment. The "rotten coins" were old securities issued by the government, which could be purchased for 50% of its value. As an example of using "rotten coins" Biondi (1999, p. 8, 17-18) quotes the case of Companhia Siderúrgica Nacional (CSN): its sold's price was R\$ 1,05 billion, from which the amount of R\$ 1,01 billion were paid with “rotten coins”. The rotten currencies accounted for 13% of total sales revenue with the privatization of the period 1990-2002. During the period 1990-1994, the rotten currencies accounted for 81% of revenues from privatization. Amid the SOEs there was Embraer, one of the largest aircraft manufacturers in the world (VELASCO JR., 2010, p. 358; BNDES, 2002b).

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<sup>4</sup> Source: UNITED STATES GEOLOGICAL SURVEY (USGS) MINERALS RESOURCES PROGRAM. “2012 MINERALS YEARBOOK. IRON ORE [ADVANCE RELEASE]” Page 39.17. Available at: [http://minerals.usgs.gov/minerals/pubs/commodity/iron\\_ore/](http://minerals.usgs.gov/minerals/pubs/commodity/iron_ore/). Accessed: 26/08/2014.

<sup>5</sup> Source: WORLD STEEL ASSOCIATION. “WORLD STEEL IN FIGURES 2014.” Page 9. Available at: <http://www.worldsteel.org/dms/internetDocumentList/bookshop/World-Steel-in-Figures-2014/document/World%20Steel%20in%20Figures%202014%20Final.pdf>. Accessed: 26/08/2014.

The privatization spree continued with president Fernando Henrique Cardoso, which spell in power spanned from 1995 to 2002. Following an macroeconomic stabilization plan (“*Plano Real*”) based on exchange appreciation and financial and trade liberalization, this administration hoped to use the privatization of SOEs as a means to raise external resources in order to sustain the currency and as a means to reduce public debt. In both cases there was no success. The exchange rate was devaluated in 1999 and external debt went to the roof: net public sector debt increased by 267% between 1994 and 2000 (CARCANHOLO, 2002).

In Cardoso’s administration, public utilities became part of the privatization programme. The first one was Espírito Santo Centrais Elétricas (Escelsa), in 1995. One of the features of public utilities privatizations was the sharp increase in tariffs prior to the privatization process. For example, as of November 1995 increases up to 500% were made in the tariffs of the telephone companies and of 150% in the tariffs of the suppliers of electricity (BIONDI, 1999, p 10).

Also in 1995 there was the inclusion of the Brazilian states in the process of privatization. Their privatizations programmes were centered in the electric sector, gas, sanitation and road concessions (CARVALHO, 2011, p. 4). But the “cherry in the cake” was the privatization of statewide banks (the biggest was the bank of São Paulo, Banespa). BNDES also took part on the states privatization programs, providing resources and technical help (VELASCO JR., 2010, p. 369-370). In 1996, the main privatizations were Light, the electricity company of Rio de Janeiro, and Federal Railway (“*Rede Ferroviária Federal Sociedade Anônima*”, RFFSA). According to Biondi (1999, p. 40) the latter privatization had a peculiarity: RFFSA’s equity valuation was 33% of the value appointed by technicians, which means that its minimum price should have been increased by 200%. By the end of 1996, 47 companies had been privatized (BNDES, 2002).

The emblematic case of Brazilian privatizations is the selling of Companhia Vale do Rio Doce (CVRD), one of the most profitable companies in the country and one of the leading producers of iron ore and other minerals in the world. This company was sold at bargain prices to private investors in 1997: CVRD was sold in May 1997 for



R\$ 3.3 billion, which was an insignificant amount. To have a parameter, the sale's value was only a third of this company's net profit in 1997 (CRUZ, 2006).

In 1998, the government sold Telebrás and its statewide phone companies (VELASCO JR., 2010, p. 371-75). The sale of the Telebrás companies generated revenues of R\$ 22 billion, equivalent to US\$ 19.2 billion (BNDES, 2002). It must be said that Cardoso administration made massive investments in the telecommunications sector before privatizing it: between 1996 and 1998 they invested R\$ 21 billion in this sector (BIONDI, 1999, p. 19-20). In the long run, like other privatizations, the result was terrible: national companies were sold at discount price to foreign capital, leaving as a legacy an expensive and inefficient system to the end user, with the destruction of whole productive chains and destruction of the domestic technological generation, besides the problems in the balance of payments and national security (BIONDI, 1999, p. 35-36).

Privatizations were far from filling the need of external resources required to sustain the exchange rate. International financial crises (Asian Tigers (1997) and Russia (1998)) had demanded an increasingly higher interest rate to maintain the overvalued exchange rate. The accumulation of external liabilities arising from this policy led to the abandonment of the currency band system and the adoption of a floating exchange rate. This would conform, with two other components, the so-called "satanic trident"<sup>6</sup> which dominates Brazilian economy in the years ahead. Such a "trident" is formed by a floating exchange rate regime, an inflation targeting system and the maintenance of a high primary surplus (theoretically) capable of reducing the ratio public debt to GDP (gross domestic product). In order to support this new phase of the Brazilian economy an agreement with the IMF was signed and a law institutionalizing fiscal adjustment was enacted (Lei de Responsabilidade Fiscal). The "satanic trident" would become the axis of the second term of PSDB ("*Partido da Social Democracia Brasileira*"; Brazilian Social Democracy Party) in office, from 1999 to 2002.

What privatization is capable of appeared in full detailed during the second Cardoso term. One of the arguments for privatization would be that increased competition would lead to increased investment. The 2001 Brazilian energy crisis

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<sup>6</sup> GONÇALVES (2012, 2013).

(“*apagão*”) is the bare demystification of such naive argument. Given the currency crisis of 1999 and the poor performance of the economy, the private investors who had acquired the electric sector companies, following a simple capitalist logic, halted the investment to increase productive capacity. Because of this, the Cardoso’s administration established a energy rationing, and *ipso facto*, Brazilian population was compelled to reduce its level of electricity’s consumption. Take notice that, again, the result of privatization was tragic: with them global coordination of activities was impaired, because every firm only cares about the maximum individual return; they do not care, after all they are private companies, about the maximum overall return of the system which would suffice the end user needs. And this is more dramatic in the electric sector, because in this sector there is generation, transmission and distribution and these three items make up a system. With privatization, systemic efficiency was blemished (GONÇALVES, 2005, p. 214-219).

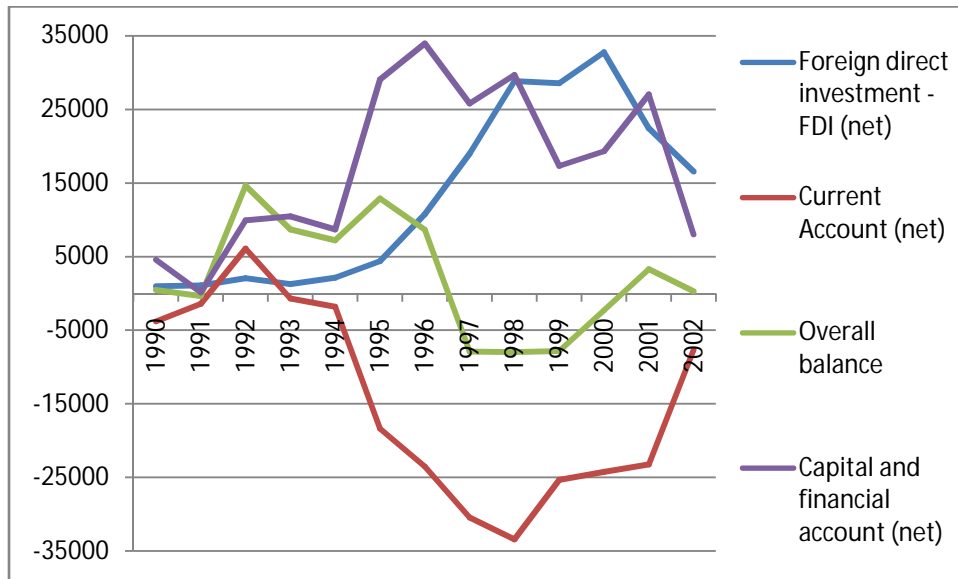
The privatization of SOEs and public utilities in this tragic period has had as its protagonist a fraction of the bourgeoisie linked to foreign capital: they respond to 48.3% (US\$ 42,135 million) of the total sale proceeds of privatizations (US\$ 87222 million)<sup>7</sup> (BNDES, 2002b). However, it should be noted the close links between this fraction and the domestic fraction and how from privatizations emerged a different pattern of industrial organization, with interconnected corporate relationships which conform oligopolies with high propensity for abuse of economic power (TAUTZ ET AL, 2010, p. 249-286).

The chart below sums up Brazil’s balance of payments situation during the “open” neoliberal era. Pay attention to the sharp increase in Foreign Direct Investment (FDI) as of 1995. This increase can be mostly credited to privatizations of SOEs and public utilities. In the second half of the 1990s, over the total FDI inflows the share of investments in privatizations was always above 20% (IEDI, 2003, p. 15). It should be noted that privatization with denationalization causes a whole range of permanent problems in the balance of payments which tend to far surpass the occasional inflow of resources from the FDI (GONÇALVES, 2005, p. 214-219).

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<sup>7</sup> The sales proceeds from foreign investors were US\$ 398 million in the period 1990-1994 and between 1995 and 2002 were US\$ 41,737 million (as to the total sale proceeds they were US\$ 8608 million in the period 1990-1994 and between 1995 and 2002 were US\$ 78,614 million) (BNDES, 2002b).

**Brazil's balance of payments 1990-2002 (US\$ million)**



Source: Banco Central do Brasil<sup>8</sup>.

In summary, this section dealt with the period from 1990 to 2002 and covered three presidents terms. The Collor administration inaugurates the Brazilian “open” neoliberal phase, being succeeded by Itamar Franco, who sponsored the implementation of the macro-economic stabilization plan “*Plano Real*”, which managed to restrain the price level. The Cardoso administration maintains this stability through exchange band regime, high interest rates and balance of payments imbalances between 1997 and 2000. During this period is that privatizations were in its heyday, being part of an explicit strategy of government.

#### **4. LULA AND DILMA ROUSSEFF: THE AGE OF “ASHAMED” NEOLIBERALISM**

This section covers the period 2002-2014 and investigates what is the privatization strategy of Workers’ Party (“*Partido dos Trabalhadores*”, PT) since they took office. The main point is that PT continued with the neoliberal strategy of development, that is the ever-increasing presence of the market in the spheres of social life. Because PT was a leftist party in its beginning, we say that its spell in power is an

<sup>8</sup> Data available at: <https://www.bcb.gov.br/?BALANCESPECIAL>. Accessed: 07/09/2014.

age of “ashamed” neoliberalism, that is neoliberalism in everyday life and traces of an leftist discourse to the public.

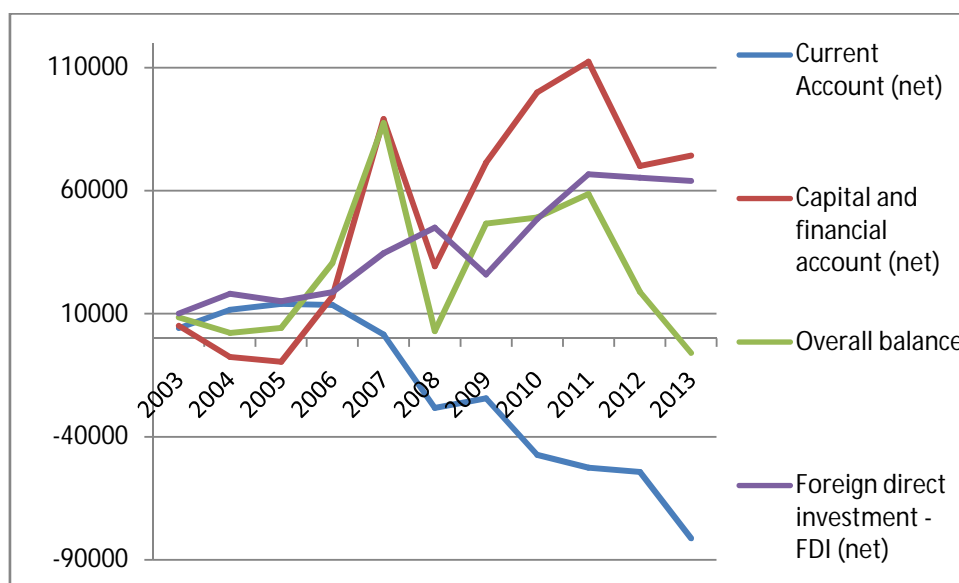
The 2002 presidential election relegated to Brazil the rise in power of PT, headed by Lula, the new president. The assumption of this party to power initiate the era of “National Developmentalism in Reverse<sup>9</sup>” (NDR), which is characterized by: de-industrialization, import de-substitution; reprimarization of exports; greater technological dependence; greater denationalization; loss of international competitiveness, growing structural external vulnerability due to the increase in the external financial liabilities; greater concentration of capital; and increasing financial domination which expresses subordination of development to monetary policy focused on inflation control policy (GONÇALVES, 2012). Although its genesis can be traced to the 1990s, it is with PT that NDR consolidates itself.

The difference between Cardoso and Lula administrations was not of adopted policies or strategy of development but of external environment. Under Lula, due to the improvement in international liquidity conditions, the price of commodities boom and the rise of China as a "suction pump" of primary products from Brazil, the results in macroeconomic indicators could be positive (CARCANHOLO, 2010). In Rousseff's administration, under another external environment (global slowdown), economic growth decreased (GDP growth was 2.7% in 2011, 0.9% in 2012 and 2.3% in 2013) and Brazil entered into a path of economic and social instability. In this government already we see clearly the disastrous economic legacy of NDR, which includes de-industrialization of the economy, emphasis on primary exports and deepening of the external constraint on growth. The chart below provides information on the balance of payments between 2003 and 2013. Note the recent deterioration of the current account balance, due to the increase in net foreign liabilities and consequent overload of the same service (CARCANHOLO, 2010).

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<sup>9</sup> This is a translation from Portuguese language of “*Nacional-Desenvolvimentismo às Avessas*” (GONÇALVES, 2012, 2013). It is worth to say that neoliberalism and NDR are defined in different levels of abstraction and, *ipso facto*, they are not the same thing.

**Brazil's balance of payments under PT administration (US\$ million)**



Source: Banco Central do Brasil<sup>10</sup>.

In terms of privatization, although the 1990s were the heyday of the privatization spree, the PT age has left nothing to be desired. Of course, the fact that the major privatizations had already taken place, left not so much for PT to privatize. One optimistic PT militant could expect that the government would take steps to renationalize privatized firms and seriously investigate what happened in the sales of SOEs<sup>11</sup>. However, tacitly engulfed by dominant bloc (financial sector, agribusiness, big companies, etc), PT warded off such confrontations and rejected attempts to bring this issue into the political agenda.

Worker's Party (PT) in office has avoided, as a privatization strategy, the outright privatization, which would be a quite explicit break with the history of this former leftist party. The strategy deployed is the use of "implied" privatization through concessions, public procurement, public-private partnerships and outsourcing of labor in public administration. Under this administration there was the privatization of banks, roads, airports, power plants, transmission lines, etc. In the case of airports, the aim is to sell the most profitable units to foreign capital (ERICKSON, 2012). Ports and university hospitals seems to be the new spearhead on the privatization movement.

<sup>10</sup> Data available at: <https://www.bcb.gov.br/?BALANCESPECIAL>. Accessed: 07/09/2014.

<sup>11</sup> One could expected, at least, under a PT administration measures similar to the renationalization of YPF, the oil company of Argentina. But they did not take place in Brazil.

An important "implicit" privatization example is the outsourcing of labor in the public sector. The "excuse" for outsourcing is that the shift of support activities to the private sector would serve to reduce costs and increase the "efficiency" of public management. That is because companies that contract out third-party firms absolve themselves from labor costs of these employees, which serves to contain costs and increase profits. However, this is not what happens. Outsourcing does not serve to increase the "efficiency" but rather to increase the private accumulation sphere within the State environment. It should be noted also that the goal of public administration is the common good and not to be "efficient". In addition, outsourcing is something pro-capital because divide and demobilize the working class, facilitating the precariousness of labor conditions. Outsourcing also weakens the ability of state-controlled firms to act independently of the private sector. And this impairs the State's ability to plan and coordinate activities. The most glaring example of the situation of "implicit" privatization via outsourcing is Petrobras, the oil company. In 2011, the ratio outsourced employees / permanent employees was 4.0: there was 328,133 outsourced employees versus 81,918 permanent employees (PETROBRAS, 2013, p. 325).

In summary, the PT administration has been a major tragedy for Brazil. After twelve years, the country has become more fragile and dependent, and the most serious consequence, the possibility of an left alternative was destroyed by the disarticulation that the tacit compromise between the main left party until 2002 and the dominant groups (financial sector, agribusiness, big companies, etc) caused in the left as a whole. The PT in power consolidates what Francisco de Oliveira (2006) calls "class domination without politics." He says (ibid, p 286.): "*Politics as a method resource of the dominated classes was completely vandalized by the presence of the PT in the federal government*<sup>12</sup>". Even what is pointed out as positive aspects of this administration, like the improvement in income distribution, are highly questionable for the way they were applied within a logic of neoliberal programs targeting social policies<sup>13</sup>.

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<sup>12</sup> Author's translation of: "A política como recurso de método das classes dominadas foi inteiramente depredada pela presença do PT no governo federal" (OLIVEIRA, 2006, p. 286).

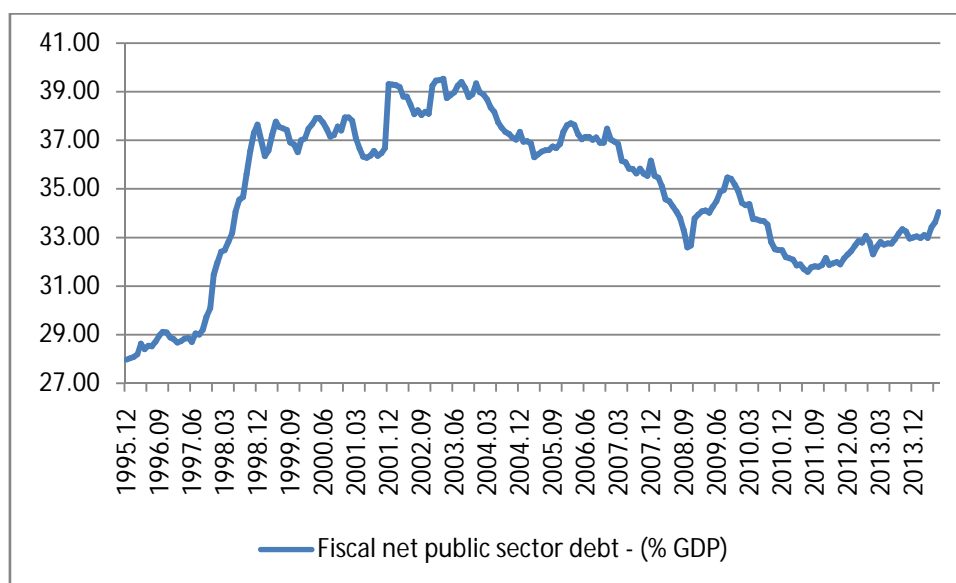
<sup>13</sup> Which contains extreme poverty, but cloud the overall picture of the system and therefore contribute to the maintenance of the existing order.

## 5. CONCLUSIONS

The objective of this work was to briefly recover the Brazilian history of privatizations in the last three decades. In order to do this, the text was divided into three periods: the “lost decade”, the period of “explicit” neoliberalism and the era of “ashamed” neoliberalism. The main argument for privatization is that (i) they would help in the so-called fiscal adjustment, through a reduction of the public debt, and (ii) they would boost the overall economy’s efficiency because increased competition would encourage a hike in the investment level and promote betterment of the services provided to the public, including the reduction of tariffs (GONÇALVES, 2005, p. 214-219).

Both points are fallacious. Regarding the first, it should be said that privatization with denationalization brings only a ephemeral positive effect on the balance of payments: because utilities sectors are non-tradable sectors, they only obtains revenue in local currency and *ipso facto* the cannot raise hard currencies through trade. Moreover, foreign companies in the infrastructure sector remit profits abroad and have greater propensity to import than the former SOEs. So, if privatizations indeed decrease the internal debt of Brazil, this reduction did not offset the increase in external debt and external liabilities of the country (GONÇALVES, 2005, p. 214-219). Looking at the chart below, which brings information about fiscal net public sector debt, including privatization and exchange devaluations, we see that fiscal net public debt only increase from the heyday of privatizations onwards, remaining above 30% of GDP since november of 1997.

**Fiscal net public sector debt (% GDP). Monthly from 1995.12 to 2014.07.**



Source: Banco Central do Brasil, Boletim, Seção Finanças Públicas (BCB Boletim/F. Públ.) - Ipeadata<sup>14</sup>.

The second point is also misleading: the level of investment has not increased and the quality of services rendered to end users has deteriorated<sup>15</sup>. One of the arguments of privatization is that it would enhance competition and, because of that, it would improve the quality of services rendered to the public, including decreases in tariffs. This was not the case of Brazil. In general, the privatized companies abuse their economic power, even under regulation by regulatory agencies, created precisely to avoid such events<sup>16</sup>. Concerning tariffs, they were kept low, before the privatization spree, because they were used as a way to curb inflation. After privatizations, in most cases, these tariffs have been pegged to some price index and then being able to receive real increases over time (GONÇALVES, 2005, p. 214-219). The following chart brings evidence that the existence of a positive correlation between privatizations and the investment rate is a mere fable.

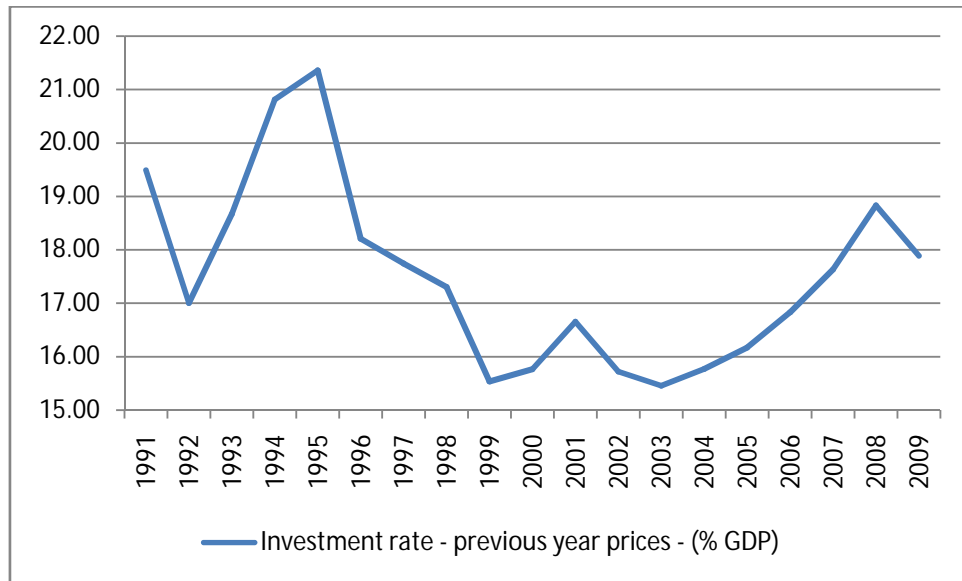
<sup>14</sup> Data available at: <http://www.ipeadata.gov.br/>

<sup>15</sup> In the 2012 ranking of Procon-SP, the Consumer Protection Agency from São Paulo State, of the top ten companies with the most customers complaints, half (5) are companies which arose out of privatizations (Claro, Vivo, Grupo Oi, Eletropaulo Metropolitana Eletricidade de São Paulo and Santander Real). None are SOEs. The leader of the ranking is Itaú Unibanco, which bought the statewide Bank of Rio de Janeiro, Banerj. Source: [http://www.procon.sp.gov.br/pdf/acs\\_ranking\\_2012.pdf](http://www.procon.sp.gov.br/pdf/acs_ranking_2012.pdf). Accessed on: 07/09/2014.

<sup>16</sup> About that see: <http://jornalggn.com.br/blog/luisnassif/os-problemas-das-agencias-reguladoras/>; <http://www.viomundo.com.br/denuncias/mario-scheffer.html>; <http://acertodecontas.blog.br/economia/o-poder-privado-abduziu-as-agncias-reguladoras/>; <http://horaciocb.blogspot.com.br/2011/02/afinal-para-que-servem-as-agencias.html>. All accessed on: 27/08/2014.



**Investment rate - previous year prices (% GDP). Annual from 1991 to 2009.**



Source: Instituto Brasileiro de Geografia e Estatística, Sistema de Contas Nacionais Referência 2000 (IBGE/SCN 2000 Anual) – Ipeadata<sup>17</sup>.

In this paper, a leading actor was the BNDES. The trajectory of the BNDES has been in accordance with the hegemonic forces of power (GARZÓN, 2010). For example, this bank was one of the builders of the Brazilian State-led capitalism, but was also one of the deconstructive agents of the same State, through the process of privatization. Whilst performing such function, this institution has been a direct instrument for the consolidation of the post-1980s Brazilian industrial accumulation pattern, based on the formation and strengthening of private conglomerates that are fostered by public funds (TAUTZ ET AL, 2010, p. 249-286).

A curious aspect of privatization is that they took away the main source of employment of the Brazilian middle class, especially the "modern" and "progressive" sector, which embodied itself in the social democracy party, the PSDB, in the early 1990s. In supporting the reform of State and the privatization programme they promote a "shot in the foot." If, before the 1980s, it was certain that the children of the middle class could get the safe jobs from civil service, nowadays those jobs are doomed to go to the children of the upper class, better "trained" to make good use of the chances that the Brazilian capitalism provides to perpetuate the distributive aberration of income and wealth.

<sup>17</sup> Data available at: <http://www.ipeadata.gov.br/>

In June 2013 Brazil was swept by mass protests in most of its cities. The main vindication of the protesters was about the sharp deterioration in fields like education and health, where people are compelled to buy private health and education services because of the lack of quality in the public services rendered to the end user. Here, once more, the ever-increasing privatization of spheres of life makes its way. And this takes place in a country which follow a regular policy of fiscal adjustment in order to be able to pay to be its debt. To have an idea about how bad is Brazilian subordination to finance capital, we should look at the federal budget. According to “*Auditoria Cidadã da Dívida*<sup>18</sup>”, in 2013, the expenses with federal debt took 40.30% of Brazil's Federal Budget, while expenses with education was 3.70% and health was 4.29%. As James Petras (2013) says, Brazil is, indeed and unfortunately for its own people, a “finance capital’s economic paradise”.

In summary, we saw how, in the last thirty years, Brazil has become a country of "class domination without politics" (OLIVEIRA, 2006), and how privatizations opened up renovated spaces for private capital accumulation.

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<sup>18</sup> Source: <http://www.auditoriacidada.org.br/e-por-direitos-auditoria-da-divida-ja-confira-o-grafico-do-orcamento-de-2012/>. Accessed: 11/09/2014. We had translated “*gastos com juros e amortizações da dívida*” as “expenses with federal debt”.

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