BUSINESS AND DELAYS IN PORT REFORM: INSTITUTIONAL OBSTACLES AND COLLECTIVE ACTION PROBLEMS

Dra. MAHRUKH DOCTOR, Research Fellow in International Political Economy, Centre for Brazilian Studies, University of Oxford

RESUMO: O caso da reforma de modernização portuária no Brazil incorpora os problemas que os reformadores brasileiros tem se defrontado nos últimos anos. Embora a reforma legislativa tenha sido aprovada em 1993 (Lei 8630/93), muitos obstáculos permanecem para a sua plena implementação. Este artigo analisa como as atitudes e ações empresariais retardam a reforma, e demonstra, em particular, como os empresários são incapazes de contribuir para implementação da reforma por causa dos obstáculos institucionais e problemas de ação coletiva. O paper sugere então possíveis abordagens para superar estas dificuldades; em especial, ele examina a evolução do corporativismo e a importância de desenvolver um novo cenário associativo, com a construção de "policy communities" comprometidas com as necessidades de cada setor, e também de uma ampla confederação capaz de representar os diferentes interesses inter-setoriais. O estudo utiliza uma combinação pouco comum de três abordagens teóricas que, surpreendentemente, complementam uma a outra: economia institucional (Douglas North); a lógica de ação coletiva (Mancur Olson); e a "policy network analysis" (Marsh & Rhodes, Jordan e Richardson).

PALAVRAS-CHAVES: Economia institucional; lógica de ação coletiva; reforma portuária; corporativismo no Brasil.

ABSTRACT: The case of port modernization reform in Brazil encapsules the problems Brazilian reformers face. Although reform legislation was passed in 1993 (Law 8630/93), many obstacles remain for full implementation of its provision. This article focuses on how *business* attitudes and actions deferred reform, and demonstrates how business is unable to contribute to reform implementation because of institutional obstacles and collective action problems. It then suggests possible approaches to overcoming these difficulties; specifically, it examines the evolution of corporatism and the value of developing a new associational landscape, with the construction of both close-knit policy communities meeting the needs of each sector and a broader peak association representing cross-sectoral business interests. The study applies an unusual combination of three theoretical approaches that surprisingly complement each other: institutional economics (Douglas North), the logic of collective action (Mancur Olson), and policy network analysis (Marsh & Rhodes, Jordan and Richardson).

KEY WORDS: Instituional Economics; Logic of collective action; port reform; corporatism in Brazil.

Area de Classificacao da **ANPEC**: Area 01 – Metodologia, Historia e Economia Politica
Codigo da Classificacao do **JEL**: D78

I. INTRODUCTION

This article analyses the case of port modernization reform in Brazil and explains business' exceptional role in formulating policy, but subsequent weak performance in contributing to and monitoring reform implementation. The case is particularly interesting because it encapsules the problems Brazilian reformers face elsewhere in the liberalization process and throws light on the incrementalist approach to reform, typical in Brazil. It also demonstrates how corporatist institutions hamper business articulation, interest representation and profits.

This article focuses on how *business* attitudes and actions deferred reform, but it is based on a wider and extensive study of the formulation, adoption and implementation of the Port Modernization Law (Law 8630/93). It shows how business is unable to ensure reform implementation because of institutional obstacles and collective action problems, and then suggests possible approaches to overcoming these difficulties. It explores the options open to Brazil with respect to adapting corporatist institutions to a democratic and increasingly open market economy. Specifically, it examines the evolution of corporatism and the value of developing a new associational landscape, with the construction of both close-knit policy communities meeting the needs of each sector and a broader peak association representing cross-sectoral business interests. Institutional constraints suggest a progressive pluralization of corporatism, with increasing democratization of societal input into policy-making, rather than a complete abandonment of the corporatist institutional structure.[1] There appears to be positive potential for the gradual evolution of corporatism. Conversely, success would be less likely should policy-makers decide to introduce systemic change via a comprehensive overhaul of economic regimes and rules of the game.

The theoretical and empirical analysis appears side-by-side throughout the article, which applies an unusual combination of three theoretical approaches that surprisingly complement each other: institutional economics as developed by Douglas North, the logic of collective action as elaborated by Mancur Olson, and policy network analysis as developed by Marsh and Rhodes, Jordan and Richardson.[2] This combination enriches the analysis and is justified, given that any single approach cannot adequately explain the outcomes of the Brazilian political economy. Thus, for example, institutional analysis focuses on the impact of institutions on policy design and outcomes, the Olsonion model focuses on the rationale behind the organization of groups, how this determines their power and impact on the policy process, and the policy network approach emphasizes the importance of on-going close links between business and State actors to maximize the

---

[1] For the purposes of the study, corporatism refers to the formal structure of interest representation instituted by Vargas in the 1930s and 1940s. The specific features of the corporatist structure include singular, compulsory, hierarchical and functionally differentiated categories organised into representative associations granted exclusive control over group resources and a representational monopoly *vis a vis* their interaction with the State (Schmitter, 1971). See Schmitter (1971 &1974), Diniz and Boschi (1978), Diniz (1993), Boschi (1991),Cardoso (1986), Cawson (1986), Cohen (1989), Evans (1979 & 1995), O'Donnell (1977), and Tavares de Almeida (1989) for good descriptions and analysis of corporatism in general and in Brazil.

[2] See bibliography for full references of these authors' works.

match between policy intentions and outcomes. However, North erroneously attributes goals to institutions instead of to societal actors and organizations and also fails to elaborate how institutions (such as corporatism) might actually *increase* transaction costs, Olson erroneously underplays the impact of the State in organizing collective action and of institutions on policy outcomes, and policy network analysis fails to consider the difficulty of forming and maintaining a policy community in times of policy change.

In terms of methodology, the research project was based on written questionnaires and over seventy open-ended interviews (lasting between one and three hours) with most of the major participants in the process, including business and labor leaders, policy-makers in the legislature and executive, port administrators, a labor court judge, and senior journalists (the media played a key role).

The article has five sections: (i) introduction to the analytical framework; (ii) brief comments on the situation in Brazilian ports and the impact of business lobbying; (iii) how corporatist sectoralization and business disunity obstruct reform implementation; (iv) suggestions for overcoming business difficulties, specifically, policy networks to build sectoral strength and a business peak association to enhance national influence; and (v) some concluding remarks.

II. BUSINESS AS SPUR TO PORT REFORM LEGISLATION

Although a number of factors influenced the formulation and approval of the Port Modernization Law, Law 8630/93 in February 1993, the contribution of business lobbying stands out as the central factor, indispensable to the successful formulation of the policy. *Ação Empresarial Integrada* (AEI), as the business lobby was known, was unique in Brazilian history, because it was the first time business formally organized a unified lobbying network to achieve a policy change via democratic means. AEI's success may lie in its unusual structure – a peak association that operated like a network. At its height, it included 52 business associations and federations[3], with the key members coming from the major exporting industries (mainly steel) and large private terminal owners. Entrepreneurs eager to exploit the market's demand for importing capital and consumer goods also gave AEI low-key support. Moreover, it was willing to test new approaches to lobbying. AEI convinced policy-makers in the executive and legislature of the importance of port reform and successfully presented its case to the media and the public. Most remarkably, it managed to convince labor peak associations that reform was necessary and therefore to withhold their support from port unions.

Table I - Sectoral Origin of AEI Members (May 1992)

Confederations and Federations (industry & commerce)	10
Mining, Steel & Other Metals	9
Machines, Equipment & Transport Materials	6
Chemicals, Textiles, Paper & Others	9

[3] Although the federations did not actively participate in lobbying Congress, they lent their support to AEI and allowed it to speak in the name of most business. This allowed AEI to rely on the moral support of the official corporatist associations, augmenting its legitimacy in the eyes of legislators and society.

Food & Agriculture	9
Shipping & Port-Related	5
Exports	2

Source: AEI, 1992

By 1990, inefficient infrastructure, inadequate institutions and neglected investment needs lay at the heart of the high cost and low productivity of Brazilian ports. AEI's inner core of six or seven businessmen undertook all negotiations and lobbying on behalf of business. They avoided blaming the government directly for the situation in ports and focused on three principles:

1. End of the labour union monopoly;
2. Liberty of the private terminals to handle third party cargoes; and
3. Privatisation of port services and restructuring of ports in the near-term.

A key AEI member provided useful insight when he acknowledged that:

> "Businessmen at best had a general idea of the inefficiencies of the Brazilian port system. They also knew that change would be beneficial, but were unsure about what exactly would serve their best interest. This is the big secret of our unity. We appeared monolithic; we acted unified because the majority of businessmen did not understand the system. They left port reform in our hands to do as we thought best."

Business consensus was most remarkable given the typical businessman's attitude which is self-regarding, short-term and competitive *vis-à-vis* other businessmen. Business interviewees repeatedly stated that business refused to give up in the face of unmotivated governments, lethargic bureaucracies and insular labour unions. However, as one business interviewee commented, "maintaining solidarity is very difficult, when business commitment dissolves with the first threat of a strike."

Table II - Degree of Lobbying Success of Business and Labor Groups

Option	**Business (port users)**	**Labor (port unions)**
Very Successful	18%	4%
Successful	62%	29%
Little Success	20%	58%
Unsuccessful	0	9%

Source: 45 questionnaire responses

Interviews revealed numerous positive evaluations of business unity and lobbying performance. Port union leaders unanimously praised AEI's organisational effort. Here is one example: [4]

> "It is the most competent lobby ever seen in the country. Business made excellent use of the media, maintained a constant presence in Congress, employed competent staff and pursued a rigorous follow-up on all points."

[4] Interview in Santos in May 1994.

Finally, in the context of democratization and liberalization, AEI demonstrated that business understood the need for a re-evaluation of past business strategies and a new approach to business-State relations.

In addition to strong and effective business lobbying, another four key factors acted as spurs to reform: (i) the effect of globalization, trade liberalization and systemic competitiveness (*Custo Brasil)* on the Brazilian economy; (ii) the impact of the disastrous situation in Brazilian ports on the efficiency of cargo handling; (iii) the experience of other country's with port reform, especially port labor regime reform; and (iv) strong media interest which increased public awareness of the inefficiency of Brazilian ports.

Table III - Loading of Non-Plane Steel Products (1989)

Port	**Average Cost** (US$/Ton)	**Size of Work Team** (land + ship)
Antwerp	4.50	24 + 18 = 42
Hamburg	5.90	21 + 15 = 36
Rotterdam	7.20	18 + 12 = 30
New Orleans	10.00	24 + 15 = 39
Vitoria	12 – 15	
Rio de Janeiro	18 – 23	28 + 45 = 73
Santos	35 – 37	

Source: ASP, 1989

Table IV - Average of Tons Loaded Per Man/Hour (1990)

Kobe	184
New Orleans	120
Rotterdam	70
Hamburg	60
Santos and Rio	30

Source: Jornal do Brasil, 1991

Table V - Containers Loaded Average number per Hour (1990)

Germany	28
Belgium	25
USA	20
Chile	19
Brazil	12

Source: Gazeta Mercantil, 1990 & 1996

Most businessmen admitted that before the liberalization of the economy, end of numerous subsidies, downturn in the domestic market and noticeable impact of globalization, businesses paid little attention to high port costs. Moreover, ports were plagued by crumbling equipment and infrastructure, out-dated technology, the government's arbitrary and precarious system of taxation, entangled port bureaucracy, inefficient customs procedures, as well as an unproductive labor regime.

However, it is only after 1990 that port costs and inefficiencies noticeably damaged the competitiveness of general cargo (i.e. non-bulk goods), or the very area of exports that dealt with manufactured goods with a higher value added component. Although general cargo represents only a quarter of Brazilian exports, they stem from crucial sectors that affect the competitiveness and development of the economy. Although the problems were recognized, business interviewees noted the risks of investing in ports under the prevailing institutional structure, because of uncertainly about the government's commitment to improving basic infrastructure and streamlining bureaucratic procedures and business' inability to independently determine its labor requirements.

III. BUSINESS AS OBSTACLE TO PORT REFORM IMPLEMENTATION

Ironically, business was not only the champion of port reform, but also one of the main agents to create obstacles in the path of reform implementation. Its share of the blame goes beyond the ill-advised action of AEI leaders to disband immediately after port reform received presidential approval. Business presented port workers with an opportunity to reclaim lost ground. Workers gambled on uninformed port-users, the ambivalent position of ship owners and the satisfaction of private terminal owners. Union leaders correctly surmised that port-users would not monitor progress made on implementation; that ship owners would avoid confrontation on board their ships; that private terminal owners' would lose the motivation to fight for the full implementation of all aspects of the new law.[5]

Corporatist Sectoralization: The research project on which this paper is based found that the institutions of corporatism are so pervasive that they color the calculations and behavior of all economic agents. The benefits of adhering to corporatist expectations are assimilated at all levels, and they provide the context within which policies are designed and then implemented. Corporatism is the major underlying cause for the slow implementation of port reform. Corporatist institutions award privileges and foster opposition to reform in port labor; create sources of power among bureaucrats and engender obstruction to reforms when these powers are withdrawn; and fragment business interests and generate apathy to the consequences of reform among businesspeople.

[5] The law authorised private terminals to handle third party cargoes, thus granting the main demand of their association, ABTP.

The government is aware that port reform will stagnate unless corporatist privileges are withdrawn, but it is reluctant to address the general issue of institutional reform and unwilling to cut into the powers granted via the Consolidation of Labor Laws (CLT), the heart of corporatist legislation.[6] Although corporatism influenced the behavior of all actors in the port sector, this paper focuses on how corporatism shaped business attitudes and inhibited business action. Corporatism brings workers and bureaucrats closer to their respective groups, but engenders disunity and apathy in a fragmented business class.[7] Thus, whereas labor and bureaucratic opposition to port reform required active obstruction, in the case of business, passive neglect ensured that corporatist institutions successfully blocked reform. Business acknowledges that apathy is the result of years of

- economic uncertainty and survival concerns;
- reliance on State subsidies and incentives, creating a culture of dependence and paternalistic interaction with State institutions; and
- inadequate consultation of the membership base and the politicized management of the corporatist associations.

Corporatism was popular among industrialists, because it maintained established patterns in capital-labor relations, granted access to substantial resources via the *"Sistema S"* (apprentice and training programs), and provided a guarantee against radical changes. Corporatist institutions provided some extra reassurance in a country beset with social, political and economic problems. Moreover, business did not rely on corporatist associations alone, precisely because it was aware of the weaknesses inherent in corporatist groups and methods of interest representation. The private sector often benefits from a parallel representative structure, which operates outside the confines of corporatist legislation. However, Schmitter found that members attitudes, even in voluntary associations, are reminiscent of habits learnt in the corporatist arena: thus, they see private associations more as "conduits for favors from above, than as channels for expressing their own demands." (Schmitter, 1971)

Corporatism failed to create strong business class solidarity and disallowed the formation of a single peak association. The State ensured that businesspeople, locked into monopolistic structures, were given few opportunities to organize and co-ordinate their activities. Businesspeople learned to live with and benefit from State intervention, and to focus their actions on requests made in their individual capacity. Business interviewees did not remark on the contradiction inherent in the federal government's withdrawal from port operations, but right to nominate the head of the new port authority.

---

[6] Curiously, the daily-hire port union monopoly is based on privileges awarded under the CLT, although port workers formally fall outside theCLT (this is because the CLT does not apply to *avulsos*/daily-hire workers).

[7] Perhaps the worst consequence of embedded corporatism is the evident apathy it generates. Thus, for example, when the capital moved, the CNI did not find it necessary to move its headquarters to Brasilia. This only occurred in late 1996, when the new president of the confederation, Fernando Bezerra (who is a senator, and therefore, spends most of his time in Brasilia), insisted that industrialists cannot hope to monitor developments in the capital and influence policy without a permanent presence in Brasilia.

Instead, they use the Port Authority Councils (CAPs) as a forum for the discussion of capital-labor issues, with the government as mediator in the corporatist tradition.

Several businessmen commonly referred to their associations and federations as "parasites" and "dinosaurs", that they "represent diluted interests and operate like grand money spending machines, and serve to inflate the egos and pockets of their directors."[8] One claimed, "Doctrine and philosophy are not as important as the struggle for power within the FIESP. Unimportant businessmen often strive for the most important positions within the federation." One Sao Paulo businessman noted that in the Northeast, directorships in federations were often used as points of access to federal and state government officials to arrange personal benefits, such as debt pardon.

Policy implementation highlighted corporatism's truly debilitating affect on business action and unity. Here are two illustrations of the problem: the Commercial Association of Sao Paulo (ACSP) port-user committee, COMUS, conducted a survey in May 1994. It sent out 1000 survey forms to small and medium-sized export businesses and received only 81 responses. 95% of these firms said that they did not follow progress in the implementation of Law 8630/93. A less obvious case is the low level of protests from port-users affected by the cartel-like practices of the private sector warehousing firms in the Santos area. Warehousing firms argued their case based on the legal requirement that they charge clients at least as much as the state-owned dock company, CODESP (this type of regulation invalidates port-users' protests). A similar situation developed with respect to the tariffs charged by the newly qualified private sector port operators. Business seldom bothers to make collective protests against uncompetitive business or regulatory practices.

However, business attitudes appear to be changing. The younger generation of businesspeople, such as Ricardo Semler, often refers to FIESP as an "irrelevant, anachronistic and comatose" institution. In June 1996, he wrote:

> "FIESP has no reason to exist any longer. Not in its classical format. … All organizations of this type (i.e. agglomerating business interests) are bureaucratized to the point of inactivity; they are cellars facilitating influence bargaining and corruption, and end up attracting petty interests and figures of little importance." [9]

The institutions of Brazilian corporatism are decaying and fragile, but there is still an unwillingness to overhaul a system believed to offer business more positive rewards than negative sanctions.

---

[8] These comments are from a number of business interviewees in São Paulo, Rio de Janeiro and Porto Alegre. I am not including any personal details about the interviewees, because of the sensitive nature of these comments.

[9] Signed article by Ricardo Semler in Folha de São Paulo, 21 June 1996. Semler is a past director of FIESP and a vocal critic of business corporatism.

Disintegrating Consensus: Decades of past governments' divisive strategies made business consensus rare and unlikely to last. This gave port workers the opportunity to encourage the differences that were bound to arise among businesses. Tavares de Oliveira noted the competitive behavior of businesses that ignored collective decisions and made private agreements with unions to speed up the handling of their own cargoes.[10] This type of free-rider behavior discredited any attempt to demonstrate business unity and solidarity on the port issue.

Business consensus suffers, because of the short-term approach of most businesspeople. Most suffered from the policy shifts and shocks of the past two decades, reducing their capacity to resist, based on principle. As one AEI leader noted, "Everybody is courageous when all is well … The first sign of trouble and all resistance breaks down. This makes maintaining solidarity an unrealizable goal." (interview in October 1997 in Rio de Janeiro). Conflicts of interest among directors and conflicting interests of members are the norm. Matters are further complicated by the fact that federations in different states sometimes oppose each other's positions.[11] Not surprisingly, government and legislators usually receive a confused picture of business policy preferences. Brazilian business' Achilles heel is disunity.

Ultimately, AEI failed because business was disunited. Cooperation and consensus were practical as well as theoretical problems. A superficial consensus, once exposed, strengthened the hands of the opposition. It was superficial to the extent that it was a passive agreement to go along with AEI leaders' demands.[12] What had been a strength during policy formulation (because it limited the number of participants in the policy arena and concentrated policy inputs), became a weakness in the policy implementation phase of reform (because most businessmen were not committed to AEI positions, and hence, uninterested in monitoring implementation). Cargo volumes and values were not sufficiently large to make it worthwhile to hold out for reform, and businesses preferred to yield to the demands of port unions and port operators to ensure timely delivery of their goods.

The fragile consensus broke down as soon as the diverse sub-sectors realized the differing impact of port reform on each of their businesses. Thus, while port-users continued to struggle with high prices and inefficiency, port operators suddenly resisted reducing prices and investing in modernization. Both operators and ship owners were accused of cartel-like price setting.[13] Finally, some business sectors, that had initially passively supported AEI's demands for port reform, woke up to the fact that more efficient ports also increase the competitiveness of imports, possibly with a negative impact on their own profits.

---

[10] See O Globo, 9 November 1995 and 3 October 1996.

[11] For example, FIESP opposed a bill providing special incentives for the merchant marine and ship-builders. In Rio de Janeiro, there was strong support for the bill reflecting the importance of ship-builders in the Rio federation. Interviews in Sao Pauloin July 1994.

[12] One labour leader remarked on the "fictional and fabulous" nature of the business consensus, which "once unmasked could not protect business victories." (interview in October 1997 in Brasilia).

[13] A 1996 FIPE study found that the private sector was to blame for a large proportion of port inefficiency and high costs. It specifically noted the uniform price table of port operators in Santos port.

One important lesson for business was that the fighting spirit must be maintained until implementation is assured and complete. Businesspeople soon realized that reviving their former unity of purpose and action was a formidable task, and the reconstituted AEI, operating under the name *Comissão Portos,* was unable to achieve the same level of commitment and unity among its members. All the same, AEI set a powerful example. In fact, business tried to build an AEI-style unified multi-associational platform around demands for constitutional reform. Jorge Gerdau was specifically invited to lead this effort, in an attempt to capitalize on his reputation as leader of AEI.

Business also learnt that consensus and unity were invaluable assets in a lobbying campaign. In 1996, Fernando Bezerra, President of CNI, called upon industry to present a united front to government and society:

> "We feel the necessity of constructing unity in the industrial sector, which is not an easy task. Not that we are disunited, but the fact is that we are dispersed. Also the client-supplier relation can be conflictual. Hence, the need to create unity. The time has come when industry must show its face to Brazilian society, to express what we think, to state what we want and to present a strong profile. … We have a contribution to make that goes beyond our factories; we have a contribution to make to the economic, political and social development of our country."[14]

To summarize, in certain cases, business provided workers and bureaucrats with the ammunition to destroy hopes for an efficient and cost-effective port system. Although corporatism and disunity reinforce each other, there are signs of change. Firstly, globalization, liberalization and deregulation pose new challenges for business and promote more active participation in the policy debate.

Secondly, democratization altered the parameters of acceptable business lobbying and interaction with State actors. The means employed to influence outcomes became as important as the composition of business demands. Currently, lobbying as well as policy outputs are evaluated in terms of their normative content, and demands must be couched in terms of the public interest to achieve legitimacy in the eyes of society. Moreover, the State no longer possesses the authoritarian capacity to enforce implementation, and must negotiate with interest groups so that policy intentions match policy outcomes.

Thirdly, whereas in the past, government ministers "bought the conscience" of federation directors by handing out subsidies and privileges, the new environment forces the federations and businesses to look within themselves for profit and success. Many businesses have committed substantial resources to modernizing and improving the quality of their output and the productivity of their factories. The new business elite is drawn from firms that are winners in a competitive environment, and are unlikely to allow reactionary corporatist practices to jeopardize the success of their investments.

---

[14] Quoted in the Estado de São Paulo, 19 May 1996.

AEI's achievements give business hope that corporatism and disunity can be overcome, and that institutions and behavior respond to changing circumstances.

IV. OVERCOMING BUSINESS DIFFICULTIES

Analysis of business difficulties in influencing and sustaining the pressure for policy reform raises the issue of whether the rigid structures of corporatism are compatible with liberalization and modernization. Does corporatism inhibit progress? The port reform case indicates that it does, while the early period of AEI success suggests solutions that move in opposite directions. On the one hand, at the sectoral level, business needs to overcome fragmentation and weak policy formulation and implementation capacity by constructing close-knit and closed policy communities. On the other hand, at the aggregate (class) level, it must overcome disunity and problems of collective action by building a broad peak association structure that can aggregate and articulate business interests at the national level. The following analysis demonstrates that these solutions are complementary in character, although they might appear to be contradictory.

Policy Networks and Sectoral Strength: Instituions place formal and informal constraints on economic and political actors, and these may or may not be supportive of reform. They might focus on redistributive activities, instead of promoting productivity enhancing activities. They might increase the costs of doing business, instead of reducing costs (an excellent example is the so-called labor union monopoly in Brazilian ports). This paper demonstrates how corporatist institutions influence the representation of interests and how the institutional structure of ports affects economic performance. Institutions provide stability, but must include mechanisms to allow society to explore alternatives to solving new problems and to respond to new issues. "It is essential to have rules that eliminate not only failed economic organizations, but failed political organizations as well … *that the institutional structure* not only rewards successes, but also vetoes the survival of maladapted parts of the organizational structure, …"[15]

Transaction costs (as featured in North's analysis) are a static concept, whereas evidence suggests that institutions may present a more dynamic element. Thus, institutions can steer the process of change, enlisting cooperation among economic and political actors, and circumventing obstacles in the smoothest way possible. This study considers the need for institutions that allow the implementation of a more radical and fast-paced reform process. The research project found it useful to look into the option that policy network analysis offers to adapt corporatist institutions to a modernizing reform agenda.

Policy network analysis, one of the recent developments in the study of interest group intermediation, emphasizes the continuity of relations between interest groups and government departments, in an essentially pluralist context. It focuses on the meso-level of policy-making, usually looking into the relationship that develops between political institutions and interest groups. Jordan and Richardson developed the idea of the policy

---

[15] North (1990), p 81, Italics are my words.

community as a closed and close group with frequent interaction and shared values, where State actors tend to consult certain groups, and limit access to others. The relationship was not zero-sum, since a well-resourced State can increase its autonomy, and extend its infrastructural power, through policy networks. In the longer run, the Tienanmen Square option is not a feasible one (Smith, 1993). The network approach emphasized the difficulty in drawing a stark dichotomy between State and civil society. After all, State actors are members of society.

Networks can range from a limited exchange of information to institutionalization of the group within the policy process; from open issue networks to closed and close-knit policy communities. Marsh and Rhodes note that networks can be arranged on a continuum, ranging from policy community to issue network (see Table VI). In a policy community there is a high degree of consensus on policy aims, rules of the game, as well as the range of problems and potential solutions to them. Policy communities create stability in the policy arena, since they de-politicize the issue. In an issue network the reverse applies – there is no consensus between groups on policy aims, a large number of groups and government departments may be involved, increasingly politicizing the issue and impeding stable and lasting solutions.

Table VI – Policy Network Analysis

Dimension	**Policy Community**	**Issue network**
Membership	Limited numbers; some exclusion	Large numbers
Type of Interest	Economic/Professional	Wide range of interests
Frequency of Interaction	Frequent; high quality	Contact fluctuates
Continuity	Membership, values, and outcomes are persistent	Fluctuating access
Consensus	Participants share basic values	Some agreement; some conflict
Power	Positive-sum; balance	Zero-sum; unequal

Source: Smith (1993); Marsh & Rhodes (1992)

Although there are a few exceptions, notably Peter Evans[16], the general body of network literature does not deal with developing economies. Yet here the importance of networks, personal and institutional, cannot be overlooked. Brazil is a case in point. In a country where economic groups are marginalized from strategic decision-making, businesspeople are forced to develop alternate, informal channels of access to State actors, usually to the relevant bureaucratic agency, entrusted with the application of rules and the allocation of resources, in the sector. Thus, business associations develop into sector-specific nuclei with solidarity to particular agencies. All the same, policy network analysis represents a new approach to business-State relations in Brazil, notwithstanding hints in the literature referring to iron triangles and bureaucratic rings.

[16] Evans (1995) developed the concept of “embedded autonomy” to explain the network of social ties that binds the State to society and provides the institutional channels for policy formulation in developing countries like Brazil, India and Korea.

Already, Schmitter noted the paradox of the highly formal nature of corporate interest groups that contrasted with the intimate, interpersonal and largely unrecorded manner of conducting business-State relations. For most of the past 60 years, business normally dealt with the government via narrow, decentralized, *ad hoc* networks, or what Cardoso called "bureaucratic rings". When in the early 1980s, Minister Delfim Netto phased out official representation of business in government councils, businesspeople were forced to turn to the middle-level bureaucracy, and to create informal links with them to influence policy implementation. Thus, bureaucratic spheres emerged, drawing in bureaucratic allies of business to defend the latter's economic interests (Cardoso, 1986). This maintained the importance of informal networks, and the particularistic and individualistic style of Brazilian business-State relations. However, as Schneider notes, industrialists only had limited success at perforating bureaucratic insulation, and in general, "industrialists have never modeled lasting paths of access to policy-making circles." (Schneider, 1991).

Bureaucratic rings should not be seen as the equivalent of policy communities. They differ on a number of important aspects. First, bureaucratic rings were targeted at the regulatory and implementation phase of policy; a policy community's objective is to influence policy-formulation and monitor implementation. Second, business approached State actors in bureaucratic rings as a supplicant, in the expectation of some reward; in a policy community, the State consults business at every stage, and business is an almost equal partner in determining the policy agenda and policy output. Third, bureaucratic rings were *ad hoc* groups, based on personal relations and interaction; a policy community is long lasting with frequent interaction based on semi-institutionalized relations (i.e. a policy community does not rely on exclusively personal connections and preferences, and exists beyond the terms of office of individual ministers, bureaucrats and group leaders). Fourth, bureaucratic rings were often secretive and did not seek exposure in the media, making them most successful in a non-democratic setting; a policy community operates in a democratic context and relies on the media to communicate its views to society.

Table VII – Types of Policy Networks in Brazil

Dimension	**Policy Community**	**Bureaucratic Ring**
State Actor Participation	High-level bureaucrats; Ministers	Middle- bureaucrats; rarely ministers
Target	Policy formulation & implementation	Policy regulation & implementation
Interaction	Frequent; semi-institutionalized	Ad hoc; personal
Continuity	Membership, values, outcomes persistent	Fluctuating access and outcomes
Consensus	Participants share basic values	Not directly relevant
Power	Positive-sum; balance	Positive-sum; unequal
Media	Free and democratic	Controlled and censored

Source: author's own elaboration

The key concern in a democratic setting is the State's need to retain autonomy and prevent its agent's closeness from degenerating into rent-seeking coalitions, that is, bureaucratic rings are seen as unacceptable forms of business-State interaction. Evans found that industrial transformation thrived, where the State successfully combined an embedded bureaucracy with an autonomous State and where business-State networks helped improve policy inputs and outcomes. One of the main benefits of "embedded autonomy" was that it helped States resolve the contradiction between credibility and flexibility in a reform project. It allowed bureaucrats to make adjustments to reform packages, without losing credibility. The key was communication with business networks that learned to understand the signals and intentions of State actors. Reformers need societal support.

The juggling act that demonstrated firmness of intentions and flexibility of actions required strong institutions and lines of communication between the key participants in the political economy. In this sense, policy communities assist in achieving a close match between policy intentions and outcomes due to their ability to maintain open lines of communication between State and society. In Brazil, repeated economic crises forced policy-makers to change direction on a number of occasions, but limited dialogue between business and State increased uncertainty and complicated implementation. Moreover, fragile institutions, at both the State and associational levels, made it difficult to organize support for reform programs. The only strong institution, corporatism, hindered market-oriented reform, and hampered the formation of new networks geared towards structural reform.

The strength of the "port union leaders-port administrators-Brasilia bureaucrats" network had never been challenged before AEI and Collor. The institutionalized separation of capital and labor served the interests of the obstructive bureaucracy, who realized that structural reform reduced their power and increased the possibility of their unemployment. The coincidence of port workers' and bureaucrats' interests, in one of the few corporatist networks to exclude business participation, reinforced opposition to reform. The network's lasting power became evident during the struggle to implement Law 8630/93. Union leaders, interviewed in 1994, could proudly claim that "so far we have lost nothing; nothing has changed." There is no better testimony to demonstrate the effectiveness of the corporate network in maintaining the *status quo* than the survival of the port union monopoly in nominating daily-hire labor to work teams aboard ships.

Liberalization and globalization forced business to open its eyes to the long-lasting hold of the port unions on port policy (the port labor regime dates back to the 1930s), and exposed the weakness of business networks in the port sector. Democratization provided business with channels to attract the attention of the executive and legislature. Business understood that the politicization of the port issue was necessary to force a complete change in the structure and institutions of the port sector, to overthrow the established rules of the game and consultation mechanisms. It needed to muscle its way into the comfortable relations within the corporatist network between bureaucrats and labor in the sector. The competence and perseverance of the AEI lobby bore fruit in terms of business impact on policy output. But the lack of a stable policy community jeopardized business influence over a match between policy intentions and outcomes.

AEI's relations to State actors resembled an issue network in terms of frequency of interaction, continuity and consensus. In terms of the other dimensions in Table II, i.e. membership, type of interest and power, it resembled a policy community. At the policy formulation stage, AEI could have been described as a fledgling policy community. However, business leaders initially failed to recognize the importance of establishing a long-term close-knit policy community to monitor reform implementation, reducing AEI at best to an issue network, suffering from the associated weaknesses of such networks.

Although corporatist networks and policy communities are based on very different principles, their essential structure of stable relations between State and non-State actors are sufficiently similar to allow incremental adjustments to corporatist institutions, democratizing them, to eventually establish policy communities. The research project found that corporatist networks could serve as the building blocks for the development of democratic policy networks via the restructuring and consolidation of the former into policy communities. The latter provide groups with new opportunities to form constructive democratic alliances that collaborate with reform efforts and offer a feasible option for the evolution of corporatism.

However, policy communities do have their limitations. Firstly, the legacy of corporatism in Brazil: replacing corporatist institutional arrangements with their emphasis on the top-down approach to interest representation with policy communities with their emphasis on a shared role for all participants in decision-making is unlikely to be seamless. Secondly, impatient reformers might not be willing to wait for the gradual development of policy communities. Moreover, policy communities in general can have the distinct disadvantage of discouraging innovative approaches and radical solutions to policy problems, because of their emphasis on institutionalized non-conflictual relations within the community.

It may not be possible to create efficient policy communities in the short run, but these networks present a better medium-term opportunity for business to influence policy outcomes than do purely pluralist options. There is a certain appeal to the logic of adaptive efficiency, where the institutional structure changes via incremental adjustments to the formal rules and the informal constraints and norms of behavior, avoiding abrupt breaks in the historical evolution of these institutions.

Peak Associations and National Influence: This section seeks to explain the origins and formation of AEI from a theoretical point of view, and to demonstrate a likely source of momentum for the evolution of corporatism. The simple Olsonian argument is that the effectiveness of a group is not a function of its degree of support in society, but rather depends on its ability to organize itself to attain a collective good. Moreover, "the business community as a whole is not well organized in the sense that particular industries are. The business community *as a whole* is not a small privileged or intermediate group – it is definitely a large, latent group. As a result, it has the same problems of organization as the other segments of society." (Olson, 1965).

The logic of collective action leads to the expectation that interests remain latent unless a so-called political entrepreneur succeeds in making co-operation rational and minimizes the problem of free-riders. The entrepreneur overcomes the final obstacles to collective action, if he can gain official recognition for the group, guaranteeing access and contact to the State (this may be via acceptance into the relevant policy community). Olson's original version of the logic of collective action, mistakenly, does not pay much attention to the role of the State in organizing interests and the impact of institutions on the translation of policy preferences into policy outcomes. It focused on the formation of groups, but not on their survival and influence over policy.

In developing countries, bureaucratic control over distribution of subsidies gives industrialists every incentive to focus on individual interests and free ride rather than investing effort in developing a collective agenda. In this context, it becomes necessary to develop institutions that minimize the conflict between social and individual interests. Government economic decision-makers must be insulated from personalistic and partisan pressures. As Geddes (Geddes, 1986) points out, economic development involves a shift of resources between sectors, geographical areas and social groups as well as from consumption to investment. This imposes costs and generates opposition. When opposition originates in groups, where a secure and established network between officials and private interests exist, reform and economic transformation is delayed, if not aborted. Hence, in this view, the importance of giving a wide variety of interest groups the conditions to organize and represent their interests.

A crucial point in the logic of collective action model is that given the dynamics and difficulties of group organization, normally organizing small groups is much easier. Olson, noting the high degree of organization in the business community elsewhere, points out that the "by-product" theory need not always apply to small or privileged groups, because organizing collective action in small groups is usually based on "special interests". Moreover, "widespread and enthusiastic agreement on a political goal may give rise to no contribution at all" (Moe, 1980), because nobody has a disproportionate gain from or a special interest in organizing for it. Thus, in terms of impact on public policy, where large groups fail to organize, small groups manage to organize around their special interests. This may severely distort the underlying social plurality of interests. The above scene repeatedly plays itself out in Brazil.

State corporatism and interventionism encouraged businesses to present their demands individually, by focusing on particularistic paths of influence to State actors, despite nominal membership of corporatist-monopolistic associations. Moreover, Brazilian business had little experience in organizing cross-sectoral collective action, and when in the 1980s, it attempted to do so found that it backfired as a strategy to guarantee access to and influence over State actors. The *União Brasileira dos Empresarios, Pensamento Nacional dos Bases Empresarias* and *Instituto de Estudos para o*

Desenvolvimento Industrial [17] are examples of peak association type structures that aimed to create cross-sectoral consensus on industrial policy issues.

All three associations failed to make an impact, because of the inconsistencies inherent in the variety of ideological and regional positions, and the divergent styles and mechanisms used to articulate business interests.[18] After 1990, the situation was exacerbated by the dissonance between fashionable neo-liberal ideology and traditional corporatist practice. Even AEI's new approach to lobbying failed to lay down a lasting structure for an encompassing peak association to support necessary structural and institutional reforms.

The Brazilian corporatist model made no provision for an encompassing peak association, and there were separate confederations for each business sector, such as commerce, industry, banking and agribusiness. Theory argues that an effective peak association, including members from all sectors and regions, would force business to look beyond the individualistic and sectoral interests of firms. Political scientists and economists suggest this as one of the best solutions for creating a cohesive, organized, informed and effective business class.[19] Instead, in Brazil, strong regional rivalries and corporatist fragmentation hamper a national consensus.[20]

The case of port reform is a superlative example where the logic of collective action model is relevant. Port union leaders were efficient and effective political entrepreneurs. The port union monopoly over employment on the docks and onboard ships guaranteed a loyal membership. Port worker's inflexible interests and assets made cohesive strong associations/unions vital for their survival.[21] Moreover, the strong networks between State actors and port unions left the latter relatively secure in the knowledge that change would not be introduced easily. It is also relevant to note that port unions did not belong to any of the labor peak associations, and this left them free to ignore the impact of inefficient ports and the port union monopoly on other workers. As Moe points out, "formal membership indicates that the group is successful at selling selective incentives not that it is politically popular." (Moe, 1980).

---

[17] IEDI was not interested in mass dissemination, but focused on the elite of economic bureaucrats and industrialists. However, economic crisis, protectionist sympathies of some members, discord over the influence of the PNBE, and the 1992 FIESP elections led to a weakening of the organisation. When IEDI President Paulo Cunha refused Itamar Franco's offer of the Finance Ministry in 1993, many members left, disappointed with what they saw as a lack of commitment to furthering industrialist's interests. IEDI, subsequently, lost much of its support, is seen as very protectionist, and is now marginal in the policy-making landscape.

[18] See Diniz and Boschi, (1993) and Schneider (1997) for an extensive discussion of this problem.

[19] Witness the success of Mexican, Chilean, Colombian and Korean business associations.

[20] The regional dimension traditionally pitted the large rich states (São Paulo, Minas Gerais, Rio de Janeiro and Rio Grande do Sul) against each other, and more recently pitted the rural poorer North against the richer industrialised South.

[21] Frieden (1991) argues that sectors using more specific and dedicated assets are more likely to overcome obstacles to collective action and lobby the government to minimise the costs of policy adjustments during periods of reform, even if these reforms are beneficial to the economy in general.

Until recently, in line with Olsonian predictions of group behavior, port-users, a dispersed group with few strong motivations for collective action, remained a latent interest group.[22] Business assets were more flexible and seldom tied to one area of activity. An effective port reform lobby was organized only after the impact of globalization, an end to ISI and the opening of the economy forced industry to focus on competitiveness. Again in line with Olsonian predictions, the few large industrialists with a vital stake in reducing port costs, or expecting a disproportionate gain, took the initiative in organizing the port reform lobby (this included the steel exporters, like Gerdau, and private terminal owners). The importance of a critical mass of individuals willing to bear the initial costs of organizing collective action was crucial. This active group of winners could then overcome the apathy of the rest. However, AEI failed to institutionalize its organizational structure, and hence, lost an opportunity to build a stable policy community or even a broader-based peak association.

The port reform issue underlined the erosion of traditional business-State relations. Democratization and socio-economic modernization changed the political and economic context within which business operated, and challenged the existing patterns of interest aggregation and representation. First, democratization increased the importance of transparency in policy-making and implementation, and of augmenting the role of labor to prevent business capture of bureaucratic agencies. Second, democratization changed the position of bureaucrats, as business networks or individual firms' ties within bureaucratic rings were diluted. Third, labor became more assertive with socio-economic modernization. It was quick to form a number of competing labor peak associations to bring their collective interests to bear on policy-makers and to enhance their bargaining power with employers. Fourth, the heightened complexity of economic policy-making and the reduced capacity of the State enhanced the role of business associations in policy implementation. Fifth, the younger generation of business leaders accepted the need for an open and democratic approach to policy-makers and other State actors. It is in this modern business class that there originates the strong possibility of moving beyond rent-seeking coalitions and individualistic forms of business-State interaction.

V. CONCLUSION

It is worth highlighting the significance and scope of the research project as well as the benefits from applying an eclectic mix of approaches and theories to explain business behavior. Although the port reform process in Brazil is a very specific and narrow area of study, the case is rich with suggestions for institutional and structural reforms in other issue areas in Brazil. It demonstrated the consequences of overlooking the influence and entrenched position of prevalent corporatist networks. The wide-ranging impact of port reform on the economy as a whole and the way it involved all participants in the political process provide useful insight into how interests can successfully approach the question of policy and institutional reform.

---

[22] This argument is reinforced by the fact that capitalists in general find it very difficult to co-operate since their principal relationship to each other is governed by competition.

To summarize, this article analyzed the impact of corporatism and the difficulty of institutional change; it then used policy network analysis to suggest the possible direction of institutional modernization. The dynamic element in the evolutionary process was explained via the logic of collective action model, which involves evaluating the conditions required for business to organize and co-operate in its demands for institutional change. AEI closely reflects the theoretical explanations for the evolution of Brazilian institutions and interest groups. It constructed unity from corporatist fragmentation, after an active group of winners managed to organize collective action along the lines of policy networks.

Although AEI managed to put in place a successful issue network, it failed to establish a policy community to replace the old-style corporatist network in ports. This failure touches on a very important question in the academic debate around institutional change: what accounts for the survival of institutions that consistently under-perform over long periods of time? The paper provided some insight into the nature of vested interests, and how reformers find it extremely difficult to shift the former's focus from redistributive to productive activities. Another obstacle is State capacity, which this article does not elaborate on.

The slow and costly reform process, weighed down by the legacy of corporatist inertia as described in this article, is perhaps the least efficient approach to reform, but Brazil is yet to demonstrate political commitment and economic backing for a radical, clean-cut break away from past institutional structures and procedures. The question of constructing a lasting consensus reappears at numerous junctures, but so far institutions and the political bargaining process have been unable to prevent the consensus from disintegrating. While some attempts were made at establishing policy networks to steer the reform process, these have not only failed to entrench themselves, but also proved unable to rationalize policy reform and maximize the social and economic benefits of the reform process.

Brazil is often criticized for its incrementalist approach to reform, but these critics do not take a number of specific conditions into consideration. Firstly, and most obviously, Brazil is a vast country with a sophisticated and complex institutional structure seldom encountered in other countries with a similar level of development. The differing levels of development and capacity to implement policy directives complicate the situation. Thus, the federal government might set out general policy prescriptions, but must rely on the capacity of local officials to interpret and implement these policies. Needless to say, this need to cater to the varying capabilities of State actors provides private groups with opportunities to bargain for a favorable interpretation of their interests.[23] Secondly, the State was further weakened, because the subjective models or ideologies of most actors hampered institutional change, and the poor information feedback made it difficult to measure the costs and benefits of reform (the latter is not an issue in the case of port reform). Thirdly, Brazil underwent a unique controlled internal process of democratization as well as economic liberalization. The gradual

[23] Geddes and Nunes make similar arguments to explain the difference in State capacity and coexistence of efficient and modern with traditional, clientelistic bureaucrats.

democratization and relatively more abrupt liberalization[24] were adopted via internal decisions and not imposed by external pressures. Fourthly, this domestic control over the crucial modernization processes gave State actors and interest groups enormous self-confidence in their abilities to orchestrate change.

The Brazilian political economy is still searching for innovative ways of expressing the newfound political freedom and controlling the damage inflicted by the new economic forces operating in the country. The port reform process might be an extreme and stark example of business lobbying and the legacy of corporatism, but it served as an excellent means for laying bare the tendencies exhibited by and hindering the Brazilian reform process. The main value of the analysis lies in the fact that port reform can be linked to the broader reform agenda in Brazil and Latin America.

To conclude, the port reform process exposed all the weaknesses of Brazilian business, but also demonstrated that business could overcome these weaknesses. The key lessons were that strength and influence were the fruits of unity and consensus among businesspeople, and corporatist institutions could evolve into policy networks based on pluralist and democratic approaches to business-State relations. AEI showed business that its Achilles heel could be overcome and perhaps cured.

REFERENCES

Boschi, Renato R. (ed); Corporativismo e Desigualdade, 1991
Cawson, Alan; Corporatism and Political Theory, Blackwell, Oxford, 1986
Cohen, Youssef; The Manipulation of Consent: the State and Working-class Consciousness in Brazil, University of Pittsburg Press, Pittsburg, 1989
Diniz, Eli (ed); Empresários e Modernizacão Econômica: Brasil Anos 90, Ed. UFSC, 1993
Diniz, Eli; Crise, Reforma do Estado, e Governabilidade, FGV Editora, Rio de Janeiro, 1997
Diniz, Eli and Renato R. Boschi; Empresariado Nacional e Estado no Brasil, Forense Universitária, Rio de Janeiro, 1978
Diniz, Eli, Renato Boschi and Roberto Lessa; Modernizacão e Consolidacão Democrática no Brasil: Dilemas da Nova República, Editora Vertice, São Paulo, 1989

[24] Economic liberalisation was pushed through with minimum delays, partly because of business fragmentation and disunity, and its inability to organise collective action. Moreover, reformers did not have to struggle with a pre-existing close-knit corporatist network obstructing implementation. The vested interests favouring protectionism were too dispersed a group to exercise an effective veto.

Evans, Peter; The Alliance of Multinational, State and Local Capital in Brazil, Princeton University Press, Princeton, 1979
Evans, Peter; Embedded Autonomy: States and Industrial Transformation, Princeton University Press, Princeton, 1995
Faro, Luiz César and Ricardo Bueno (eds); Brasil: Propostas de Reforma, Ed.Paz e Terra, 1994
Frieden, Jeffry A.; Debt, Development and Democracy: Modern Political Economy and Latin America, 1965-1985, Princeton University Press, Princeton, 1991
Geddes, Barbara J.; Economic Development as a Collective Action Problem: Individual Interests and Innovation in Brazil, Ph.D. dissertation University of California, Berkeley, 1986
Marsh, David and R.A.W. Rhodes (eds); Policy Networks in British Government, Clarendon Press, Oxford, 1992
Maxfield, Sylvia and Ben Ross Schneider (eds); Business and the State in Developing Countries, Cornell University Press, Ithaca, 1997
Moe, Terry M.; The Organization of Interests, University of Chicago Press, Chicago, 1980
Moreira, Mauricio Mesquita; Industrialization, Trade and Market Failures: the Role of Government Intervention in Brazil and South Korea, St. Martins Press, New York, 1995
North, Douglass C.; Institutions, Institutional Change and Economic Performance, Cambridge University Press, Cambridge, 1990
O'Donnell, Guillermo, Philippe Schmitter and Laurence Whitehead (eds); Transitions from Authoritarian Rule: Prospects for Democracy, Johns Hopkins University Press, Baltimore, 1986
Olson, Mancur; The Logic of Collective Action: Public Goods and the Theory of Groups, Harvard University Press, Cambridge, 1971
Schmitter, Philippe C.; Interest Conflict and Political Change in Brazil, Stanford University Press, Stanford, 1971
Schmitter, Philippe C. and G. Lembruch (eds); Trends toward Corporatist Intermediation, SAGE, London, 1979
Schneider, Ben Ross; Helpless Giants: Big Business and Constitutional Reform in Brazil, Paper at ILAS Brazil Conference, London, 1997
Silva, Francisco C. de Morais; Direito Portuário: a Modernizacão dos Portos Brasileiros, Lei n. 8630, Del Rey Editora, Belo Horizonte, 1994
Smith, Martin J.; Pressure, Power and Policy: State Autonomy and Policy Networks in Britain and the United States, Harvester Wheatsheaf Press, New York, 1993
Marques de Velasco, Luciano Otávio, and Eriksom Teixeira Lima; "O Sistema Portuário Brasileiro", Revista do BNDES, December 1996
Schmitter, Philippe C.; "Still the Century of Corporatism?", Review of Politics, v 36(1), 1974
Tavares de Almeida, Maria Hermínia; "Direitos Socias, Organização de Interesses, e Corporativismo no Brasil", Novos Estudos nr. 25, October 1989