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Veröffentlichungsversion / Published Version

Zeitschriftenartikel / journal article

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Empfohlene Zitierung / Suggested Citation:

Souza Leao, L. d. (2013). Bringing historical sociology and path-dependence together: a case study of the Brazilian political economy (1930-2000). *Historical Social Research*, 38(2), 172-196. <https://doi.org/10.12759/hsr.38.2013.2.172-196>

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Bringing Historical Sociology and Path-Dependence Together: A Case Study of the Brazilian Political Economy (1930-2000)

Luciana de Souza Leão*

Abstract: »Zur Zusammenführung von historischer Soziologie und Pfadabhängigkeit: Eine Fallstudie der politischen Ökonomie Brasiliens (1930-2000)«. Historical sociology and path-dependence theory both try to understand how change and continuity interact in long-term social processes. Even so, there is still a lot of uncertainty on the ways that the two methodologies can be adopted together. This paper addresses this question by studying 70 years of interaction between the state and the market in Brazil. Particularly, it shows how an understanding of the historical process that characterized modernization from above in Brazil sheds light on the argument that, despite *de facto* changes in the country's politico-economics in the 1990s, there is still a strong influence from the state institutions formulated during the 1930s. The paper discusses the main economic, political and administrative changes in state structures that happened over 70 years to provide new insights into the ways in which the historical perspective can contribute to the interpretation of the period of reforms in Brazil.

Keywords: historical sociology, path-dependence, state, political economy.

1. Introduction¹

The idea conceived during the Vargas era, that only the state could be the architect of the Brazil's economic modernization, is the basis of the historical pattern of interaction between the state and the market in Brazil. During the Republican period, this pattern remained constant – both in democratic (1889-1937 and 1945-1964) and dictatorial (1937-1945 and 1964-1985) regimes, until the 1980s economic crisis when the concept of state interventionism started to be questioned. Throughout the 1990s, different measures, like privatization and trade liberalization were adopted to try to break away from this historical pattern. However, today, 20 years after the introduction of these market-oriented

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¹ I would like to thank professor Elisa Reis for her helpful comments and suggestions to previous versions of this paper.

reforms in Brazil, we can still observe strong interventionist economic policies coexisting with liberal policies.

This paper argues that the current scenario can only be understood if we analyze the historical trajectory that characterizes the relationship between the state and the market in Brazil. I adopt a historical perspective and I employ ideas related to the concept of path-dependence to show: how the notion that only the state can determine the appropriate ways for the country to develop economically and socially was reproduced through time; and the dynamics of change involved in this historical process. Existing literature has already explored how some political legacies, like clientelism or corporativism, have made it difficult for Brazil to adopt neoliberal policies. The objective of this paper is to highlight the historical process by which these institutional legacies have operated, both as constraints and as strategic resources for political actors as they responded to political and economic changes.

In analyzing this long-term social process, I also highlight the gains to be had by using concepts derived from path-dependence theory, like learning effects, coordination effects and adaptive expectations to complement socio-historical analysis. I argue that the combination of these historical methodologies can provide powerful insights on the ways that sociologists analyze change and continuity.

Secondary sources and different economic and political longitudinal indicators are used in this research, which is divided into four main periods: 1930-1945; 1946-1964; 1964-1985 and 1985-2000. The analysis emphasizes the major political, administrative and economic characteristics of each period, and shows how the historical choices made consolidated mechanisms that, in the long run, guaranteed the priority of state authority over market mechanisms in Brazilian politico-economics. By demonstrating how this historical process unfolded over time, this paper intends to avoid erroneous notions of historical inevitability, that is, interpretations that look at the final form of institutions and to the past for explanations, as if they were the only logical ones possible (Pierson 2004; Tilly 1984).

The paper is organized in three sections. In the first, I provide an overview of the two theoretical perspectives explored in this study, historical sociology and path-dependence theory, giving special focus to their analytical complementarities. The second and third sections focus on the historical process that consolidated the basis of the interaction between the state and the market in Brazil and on the attempts to change this pattern in the 1990s. The final section presents an overview of the article and suggestions for further research possibilities based on the combination of historical sociology and path-dependence literature.

2. Studying Long-Term Social Processes: Historical Sociology and Path-Dependence

The search for explanations of long-term social processes has been a persistent challenge in the social sciences. From the work of the authors that are considered the founders of modern sociology (Marx, Weber, Durkheim and Tocqueville), social scientists have grappled with questions related to long-term social change, like processes of industrialization, bureaucratization and democratization (Abrams 1980; Skocpol 1984). Historical sociology builds on this tradition and is devoted to exploring long-term social processes that are considered to be transforming our world today (Tilly 1984).

Classical studies in this field started as a reaction to the a-historical tendencies present in American sociology in the 1950s and 1960s, when debate on modernization was dominated by theories that focused on the necessary stages that societies had to pass through in order to modernize. This agenda had the universalist aspiration of finding relationships among causal variables that one would expect to hold across a wide range of settings, independently of temporal and spatial specificities (Pierson 2004). This understanding implied in a static view of societal change, one that conceived modernization as a smooth transition from a declining tradition to a rising modernity, without any explicit concern for the dynamics of change (Bendix 2007).

In contrast to this perspective, classical studies in historical sociology propose a historically grounded analysis as an alternative to the timeless, placeless models of social change and social organization. According to Skocpol (1984, 1-2), truly historical sociology studies can be identified as having the following characteristics: (i) they ask questions about social structures or processes understood to be concretely situated in time and space, (ii) they address processes over time, and take temporal consequences seriously in accounting for outcomes, (iii) they deal with the interplay of meaningful actions and structural contexts, and (iv) they do not see the world's past as a set of standardized sequences, being understood instead as a sum of contingent factors.

Although they share the characteristics listed by Skocpol, authors who adopt a historical perspective in fact contribute to a sprawling literature characterized by tremendous internal diversity (Thelen 1999). The approach adopted in this paper is mainly inspired by the work of Reinhard Bendix (2007), whose proposal of studying social change based on the analytical division between authority and solidarity, and his reformulation of the concepts of tradition and modernity are especially relevant to my research interests.

Bendix builds his analysis of social change on the notion that modernization should be studied as a continuous process in which traditional and modern elements interact in unique ways in each society. In his view, the analytical contrasts between features of an earlier social structure (for example, the tradi-

tional society) and a later one (the modern) need to be seen as conceptual instruments that should always be considered in the light of the empirical evidence. In other words, Bendix understands that modernization can only be understood as an ideal typical process, since what exist are singular processes of modernization that combine traditional heritage with modern acquisition in unique ways (Reis 1998).

Additionally, Bendix points to the difference between processes of modernization in advanced and follower societies. In his words (2007, 412-3),

the economic and political ‘breakthrough’ which occurred in England and in France at the end of the eighteenth century, put every other country of the world in a position of ‘backwardness’ (...). Ever since the world has been divided into advanced and follower societies.

According to the author, modernizing experiences of follower societies will always be determined by this “backwardness” condition – this is why in these societies governments attempt to play a major role as modernizing agents, and it is common for political groups to stay in power for extended periods of time. As we will see, these points correlate directly with the Brazilian experience.

This methodological approach inspired in Bendix has three immediate implications for this research in particular and to understanding long-term social processes in general. First, it takes the state as the main object of analysis,² treating it as a social actor, and not as a mere reflection of the social structure or economic forces (Skocpol 1985; Reis 2009). Second, the idea that the study of social change cannot be based on simple “before-and-after” models implies that we should expect to identify changes and continuities interacting simultaneously in any changing societal arrangement. Finally, as the development of the national state is seen as a dynamic process rather than a historically limited event (Reis 1979), the timing and sequence of events are central to understanding the unfolding of social processes. This is why in the remaining part of this section I will present how the insights brought by the concept of path-dependence can complement the historical sociology approach.

As already noted by many authors, path-dependence has become a faddish concept, which is usually invoked, but rarely explained (Pierson 2004; Thelen 1999; Mahoney 2000).

This concept, imported from economic theory (David 1985; Arthur 1989), is used to describe historical processes in which initial events (critical junctures) set into motion specific trajectories or event chains that reinforce the initial path chosen, which is then difficult to change. A crucial feature of path-dependent processes is that they generate self-reinforcing mechanisms (or

² What is referred to as the “state” is a set of organizations based on the legitimate monopoly over violence, the public nature of their action, and the authoritative enforcement of decisions in particular territory.

positive feedback), which implies that each step taken in a particular direction makes it more difficult to reverse a course (Pierson 2004).

According to Thelen (2003), the idea of path-dependence proposed by economic theory is attractive to other social sciences because it considers the fact that social life involves some elements of choice (like choosing a preferred technology for economics), but that, once a path is taken and relevant actors adjust their strategies to accommodate this pattern, other viable alternatives become increasingly remote. In other words, the concept of path-dependence is interesting because it raises questions about the temporal relationship between structure and action in any social order.

Users of the concept of path-dependence, however, tend to fluctuate between broader and narrower interpretations of the term (Streeck and Thelen 2005). The concept may be used just to indicate that “history matters” or that “past legacies affect the choices of the present”. Under this loose definition, the concept is used to stress the limited space for innovation that actors have in political and social settings, even in many periods of reform – a perspective usually adopted to contrast functionalist and utilitarian theories that view institution building as being solely related to the construction of an efficient structure of incentives. Little or no attention is given to the temporal and dynamic aspects of the historical trajectories.

There are, however, more strict definitions that consider path-dependence as “specifically those historical sequences in which contingent events set into motion institutional patterns or event chains that have deterministic properties” (Mahoney 2000, 1), which give more importance to the ways in which path-dependent processes evolve through time. Authors who adopt this interpretation usually draw a sharp distinction between high levels of contingency and unpredictability in the initial events that are followed by long periods of reproduction and continuity in trajectories (Thelen 1999). Using this definition, path-dependence is related more to continuity than to change, even when authors try to avoid deterministic explanations (Mahoney 2000; Pierson 2004).

In my view, the great strength of the path-dependence literature lies in the way that it incorporates matters of timing and sequencing into the analysis, looking specifically at the high level of contingency *ex ante* and different options available at initial events. It is less effective, however, in specifying the mechanisms of endogenous change in social structures, i.e. in highlighting the interaction between change and continuity typical of long-term social processes (Streeck and Thelen 2005). In this paper, besides considering matters of timing, sequencing and contingency, I use concepts derived from path-dependency theory, like learning effects, coordination effects and adaptive expectations to help explain the difficulties encountered by the Brazilian state in adopting market-oriented policies in the 1990s.

The gains to be had by using these concepts to complement historical sociology analysis are enormous, and in this paper I explore in detail two analytical complementarities that I believe are more promising:

(a) *Contingency and sequencing*: although historical sociologists usually determine an initial period from when they start their interpretations of long-term causalities (Tilly 1975; Bendix 2007), it is path-dependence theorists that explore in detail the notion of multiple *equilibria* and contingency of initial events in historical trajectories (Mahoney 2000). By bringing to the analysis concepts related to collective action, rational choice and marginal effects, analysts that work with path-dependence sophisticate the argument of how different equilibriums in social structures emerge.

On the other hand, historical sociology gives special attention to the possibilities and limits of bounded change in historical trajectories that are essential to avoid the logical consequences of process determinism that often emerge in path-dependence explanations (Thelen 1999). In general, these studies attribute the possibility of change only to exogenous effects and are not able to identify the mechanisms of reproduction and changes as well as historical sociologists do. In a few words, the combination of path-dependence's good definition of initial contingency combined with historical sociology's use of sequencing and possibilities of change in trajectories can enhance our analysis of long-term social processes.³

(b) *Learning effects, coordination effects and adaptive expectations*: the implications of continuing use and repetition; the fact that initial choices create coordination effects that encourage/discourage particular actions; and the self-fulfilling character of expectations are fundamental to understand continuity in long-term processes (Pierson 2003). These are all concepts imported from economic theory that provide valuable insights to historical analysis and should be explored by sociology to enhance our understanding of long-term processes (Arthur 1989). They are particularly important to understand how different institutional legacies have operated both as constraints and as strategic resources for political actors as they responded to political and economic changes in different historical settings. Political scientists have consistently used these concepts in their analysis, but historical sociology is still beginning to fully recognize their benefits to understand changing societal arrangements.

In the next section, I will present one attempt to combine the strengths of historical sociology and path-dependence. In exploring the interaction between the state and the market in Brazil over an extended period of time (1930-2000), I demonstrate how process-oriented analysis is fundamental to understand the current interaction between liberal and interventionist economic policies in the Brazilian political economy.

³ One interesting study that implements this combination of the two methodologies is the work of Abram DeSwaan "*In care of the state*". Cambridge: Polity Press, 1988.

3. Understanding Continuity and Change in Brazilian Political Economy – The National State as the Main Actor, 1930-1985

The historical relationship between the state and the market in Brazil is characterized by strong patterns of state intervention in the economy. From the 1930s onward, the state played a key role in the chosen developmental strategy, and state capitalism was perceived as the most legitimate model for combating underdevelopment and promoting social inclusion (Martins 1988; Reis 1998). Over the 55 years I analyze in this section, this pattern proved to be incredibly resilient and resistant to change, even in the face of huge historical changes, including the implementation of two dictatorial regimes, significant economic modernization and rapid industrialization.

The objective of this section is to show how the pattern, implemented during the Vargas era, which gave priority to state authority over market mechanisms, was consolidated over time and to suggest how it was influenced by the way modernization and state-making processes proceeded thereafter. To do so, I have divided the analysis into three sub-periods (reflecting three different political regimes): 1930-1945, 1945-1964, 1964-1985, and I highlight the main political, administrative and economic characteristics of each period that allowed state authority to shape the development of the market economy in Brazil, even in the face of major socio-economic and political changes.

3.1 The Vargas Era (1930-1945): The Beginning of a New Order in Brazil

During the 15 years of the first Vargas government (1930-1945), important political and institutional mechanisms were institutionalized that ushered in a new period of statebuilding and a new pattern of interaction between the state and the market in Brazil, which was characterized by state intervention in the economy and by the centralization of political and administrative institutions (Nunes 1997).

The changes that the Brazilian state underwent during this period initiated a process of modernization from above that would be reproduced until the 1980s. Although this specific type of social change (from top down) involves an increase in political and economic differentiation, it does not imply a real break with the past. In this scenario, a strong state becomes the leading agent of modernization because it is the only actor able to conciliate the old and the new orders. The usual dynamics associated with this type of national modernization are the denial of class conflict, the co-optation of social groups, the promotion of economic development and the rationalization of government administration

(Reis 1979; Sola 1998). In Brazil, this process was initiated in 1930 and strengthened under the Estado Novo (1937-1945) dictatorial regime.

In the political sphere, the changes that the state underwent during the Vargas period were reflected in the processes of political centralization and concentration of power. The early provision of social policies and the implementation of the corporatist system allowed the public authority to act as a centralized agent of social control (Schmitter 1971). With this strategy, the state could control the political incorporation of new political actors created by industrialization (mainly urban workers) and also guaranteed that the representation of interests would be conducted under state tutelage, and as such also served as an instrument of economic regulation (Diniz and Boschi 2004; Boschi and Lima 2001; Santos 1979).

The multiple functions resulting from the strategy of labor incorporation into the system were an important part of the authoritarian path to modernization initiated in the Vargas era. By acting as the workers' benefactor, the state secured a source of support independent of the dominant economic interests, which would prove to be of fundamental importance in future years (Vianna 1978). The corporatist system also served to help support the strategy of modernization from above. By placing the national will above class interests and justifying the need for a strong government to implement social harmony, corporatist doctrine was central to legitimizing the strengthening of the state observed in this period (Schmitter 1971; Reis 1979; Schwartzman 1982).

The new role expected from the state required the creation of a set of legal norms governing the corporatist system and the policy of pre-emptive co-optation, and demanded that state institutions be created to perform these tasks. Therefore, the process of political centralization was accompanied by a process of bureaucratic expansion, which was reinforced during the 55 years analyzed in this section (Nunes 1997). In terms of state-building, the growth of the bureaucratic state apparatus during the period clearly points to a significant increase in the process of authority centralization, which may be understood as the result of the central government's attempt at greater control over the political and economic decision-making processes (Reis 1979).

The expansion of the state administrative machine resulted in an increase in size of the public sector, and was also decisive in the elaboration and implementation of decisions at the economic level. The role of the state as a catalyst for economic growth stemmed from indirect and direct action. Indirect action involved the creation of several government agencies designed to regulate, control and supervise many productive sectors that were considered necessary for Brazil's economic development. Direct state action resulted in the creation of many national state companies, including two that would become future players in Brazil's industrial development, *Companhia Siderúrgica Nacional* and *Companhia Vale do Rio Doce* (Wirth 1973, Diniz 1978). These measures

contributed significantly to the state's gradual move towards greater control of the economic decision-making process.

By the end of the Vargas era, in 1945, the Brazilian state was quite different from the one that had existed in the Old Republic (1889-1930). A centralized state administrative machine had substituted the former federalist and liberal government arrangement, a state controlled technocratic system had been put in place, a corporatist system had been institutionalized and greater control of the economy had been achieved. In short, a modern state with centralized control over Brazilian territory and with solid institutionalized means of action had been established for the first time in the country's history.

However, when compared to other states in late-developing countries of that time, or to what the Brazilian state would eventually become, the state in 1945 still had limited capabilities. Kohli (2005) points to the fact that the state formed by Vargas still had limited powers to direct Brazil's development, because it was present mainly in urban areas and failed to penetrate and incorporate the vast agrarian periphery, because it remained dependent on foreign resources and technology, and because the economy was based primarily on agricultural commodities.

Even so, if we consider Bendix's approach, we should expect to identify changes and continuities interacting simultaneously in the Brazilian state, especially in the initial stages of social change. The Vargas era symbolizes the beginning of the transformation of the state, as part of a continuous historical process. If we consider a "fully modern" state, without any traditional traces, as an abstraction without sociological meaning, then the focus of our analysis must be the study of the dynamics and direction that state transformation has taken in different periods. Hence, the choice of using the Vargas era as the starting point (or critical juncture) of a period when the state was the main modernizing agent is justified by the fact that political actors, in later periods, used the institutional foundations created by Vargas to shape their own strategies, designed to reinforce the preference of state authority over market or societal mechanisms.

The historical importance of the institutions created in 1930 lies in the role they played in shaping the economic and political development of Brazil in the process of modernization from above (Sola 1998; Boschi 2010b). The permanence of these institutions, even in the face of major political and social change, is testimony to their resistance and flexibility. I will now consider how these dynamics proceeded in the period of democracy, between 1946 and 1964.

3.2 Democracy and Continuity: 1945-1964

In 1945, Vargas was overthrown by the military, and democracy was re-established in Brazil. However, contrary to what one would expect, the state, as institutionalized during the Vargas era, was not dismantled with the return of a

democratic regime. On the contrary, the role of state authority as the leading agent of national modernization was reinforced (even if different mechanisms were adopted), and the main institutions and legislation from the previous period were left untouched. The only real change was that certain Estado Novo measures, limiting civil rights, were eliminated (Nunes 1997; Diniz 1978).

In terms of the political arrangement, it was the maintenance of the corporatist structure that guaranteed the continuity of state leadership, and thus there was a high level of state social control over political groups, even with the return to democracy. With this strategy, the state was able to maintain its autonomy and control over economic and political decision-making processes in the same way that it had done during the Vargas era (Oliveira 1973; Diniz and Boschi 2004). More problematic for the implementation of a pluralistic system of representation, however, was the fact that the corporatist structure continued to serve as the basis for any new political parties created, thus eliminating any chance of establishing a strong parliamentary system (Campello de Souza 1990). Finally, the clearly populist character of the new regime, which concentrated power in the office and figure of the President, allowed the state to continue to act as the main agent of social control and centralized power, limiting the independent political participation of a number of political actors in the process of national modernization (Weffort 2003; Sola 1998).

Similarly, in the administrative sphere, the proliferation of government agencies associated directly with the Executive, together with the process of bureaucratic insulation, allowed the central government to maintain a high degree of autonomy in the economic decision-making process, and to avoid the possible pitfalls and delays associated with democratic decision-making (Nunes 1997, Diniz 1978, Sola 1998). Moreover, there was indirect expansion of the state machine during this period through the creation of agencies with overlapping jurisdictions and interests that served mainly to consolidate a pattern initiated in the Vargas period in which public authority became the major employer outside the agrarian sector, favoring the state's co-optation of social interests (Camargo 1982; Draibe 1985; Schmitter 1971). This combination of a few highly insulated and influential agencies, responsible for the formulation and implementation of economic policy and the expansion of indirect state apparatus, allowed the state to assume a variety of functions and directly shape the development of Brazil.

The high degree of state autonomy in the political and administrative spheres could also be observed in the economic arena. During the democratic period, the contours of a strong developmental state were drawn (Schneider 2000), and direct intervention of the state in the economy increased significantly. Throughout the 1950s, many state enterprises were created in a number of infrastructure areas to avoid possible bottlenecks in Brazil's industrialization process (including petroleum, electricity, public transportation and telecommunications), giving the central government experience in organizing massive,

technologically difficult projects – a know-how that would improve state capabilities in future years. The Brazilian National Development Bank (BNDE) was established in 1952 to provide finance for these new state enterprises, and for the development of national private companies. This process allowed the state to control the majority of long-term credit to industry (Giambiagi et al. 2005; Baer et al. 1973; Evans 1979). These plural initiatives gave the state a powerful lever with which to shape and direct the process of capital accumulation.

It is important to stress that the nationalist ideology, and an increase in the state's general involvement in the economy during this period, did not mean that international capital and private companies were excluded from the developmental model. On the contrary, the industrialization model, based on import substitution (ISI) and designed to boost the presence of private national firms in the consumption goods sector, was dependent on international capital to finance the huge investments necessary and to import the essential technologies (Evans 1979, Schmitter 2000). This interaction between state, local capital and multinationals – the triple alliance – although fundamental for rapid industrial and economic growth, was also responsible for the high inflation and the balance-of-payment difficulties that characterized this period (Kohli 2005).

The proliferation of economic plans and price control policies – symbols of the idea that state resources should be used to organize and control the market – also enabled the state to maintain its leadership during this period. A number of economic plans (President Kubistchek's *Plano de Metas* in particular) were important because they allowed the state to choose which sectors were fundamental for Brazil's development, thus politicizing capital accumulation. Price control policies were designed to control inflation by artificially fixing prices in the market, but they were not successful in controlling inflation during this and future periods (Abreu 1989).

During the period of democracy, therefore, the process of modernization from above continued to unfold, even when other societal and market forces could have played a more important role in determining Brazil's development. This developmental model was allowed to continue despite the political regime change because of (i) the maintenance of the corporatist structure, (ii) the bureaucratic insulation and expansion of the state administrative machine, and (iii) an increase in state interventionism in the economic arena. These mechanisms of continuity were based on the institutional foundations created during the Vargas era and were used by political actors to reinforce their preference for state authority vis-à-vis market or societal mechanisms. As we will see in the next subsection, the same institutional scheme first reinforced then drained the state leadership during the military dictatorship.

3.3 Military Period (1964–1985): Strengthening and Breakdown of the Model

In 1964, a dictatorial regime was re-established in Brazil. For the first time in the country's history, the armed forces took direct control of all state functions, and suppressed most civil and political rights. During this period, a strategy of maintaining high economic growth rates was used to legitimize the regime, and the civil and military bureaucracies were given the responsibility for implementing it. Moreover, the normative and entrepreneurial roles of the state were strengthened, and an increase in its capacity to raise revenues and centralized decision-making capacities were achieved (Martins 1985).

During the military dictatorship, the process of modernization from above, initiated during the Vargas era, reached its peak and then collapsed. In terms of its apogee, the processes of political and administrative centralization and state interventionism continued to develop, resulting in a high degree of institutional continuity. As in previous periods, enormous power was concentrated in the Executive (with the difference that competitive politics had now been completely eliminated) and the corporatist structure still served the purpose of maintaining state control over urban groups and eliminating any form of voluntary organization that might constitute an independent political force (Skidmore 1973).

In the administrative and economic spheres, the network of state corporations and regulatory agencies, created by Vargas and expanded during the democratic period, were still firmly in place and bureaucratic insulation was reinforced, with highly-qualified civilian staff working closely with the military in defining policies. These measures, together with an exponential expansion of the public sector and the state administrative machine, allowed the state to direct all major economic and social activities.

During the military dictatorship, the number of State firms expanded enormously through two distinct mechanisms (Evans 1979; Trebat 1983). Firstly, state-owned enterprises created in the 1940s, which had now reached maturity, were expanded through the creation of holding companies and subsidiaries, like Siderbrás, Eletrobrás, Petroquisa, Braspetro, among others. Secondly, many firms were created in productive sectors in which the state was still not present, but which were considered important for the purposes of rapid industrialization. The numbers are impressive: by 1965 there were only 40 state companies. Between 1966 and 1975, 231 new state companies were created (Giambiagi et al. 2005; Martin 1985).

The strategic goal of the military was to increase political and economic centralization, and to achieve this a greater role was given to state companies during this period. This objective was also pursued through a proliferation of price controls, regulatory policies, and with the financial and fiscal reforms (between 1964 and 1967) that provided the central government with vast re-

sources for investment and lending, and facilitated the state's access to the international capital market (Hermann 2005).

These coordinated economic and political policies, together with a favorable global economic climate, resulted in Brazil experiencing, between 1968 and 1973, a period called the "economic miracle" – an allusion to a combination of high growth rates (an average annual growth rate of 11.1% of GDP in real terms), declining inflation, and overall surpluses on the balance of payments (Bacha and Malan 1989). However, as the maintenance of this high growth rate strategy depended on the capacity of Brazil to borrow, and thus on the availability of foreign credit and favorable international trade and market conditions, it was seriously hit by the first oil crisis of 1973, which caused an abrupt increase in international interest rates and a contraction in the global economy.

However, despite a worsening international economic scenario, there was no attempt by the military government to make any structural adjustment or to revise their growth ambitions downward. On the contrary, a new economic plan was launched in 1974 (the II PND), signaling that the state had decided, not only to continue with a debt-led growth strategy, but to intensify the program of import substitution industrialization with respect to capital goods and raw materials. Although this strategy was effective in terms of reducing Brazil's productive dependency, it also increased the country's vulnerability to external shocks. After another increase in oil prices in 1979, the strategy of modernization from above finally became unsustainable.

The state decision to insist on the developmental model, even if this meant the state bearing almost all of the costs itself,⁴ is a good illustration of the belief that the state should (and could) deal with market disequilibrium, and an acknowledgment of the fact that it was the state's role to guarantee the economic welfare of different political and economic interests, even if this meant incurring extraordinary indebtedness. As historically the state had adopted policies designed to minimize possible sources of political conflict (mainly through the corporatist system and bureaucratic insulation), when the Brazilian economy almost collapsed in the 1980s, market and society actors expected the state to deal with the situation, like it had done in previous periods (Sallum Jr. and Kugelmas 1993).

By the beginning of the 1980s, there was a complete breakdown in the developmental model first adopted in 1930, a model which had incorporated both change and conservatism by guaranteeing industrialization while, at the same time, protecting rural interests. This collapse was a result of the state strategy of trying to both please multiple political interests and maintain high growth

⁴ In 1980, the public sector was responsible for 80% of the Brazilian debt, whereas, in 1974, this value had been only 50%. See Werneck (1986) and Bacha and Malan (1990) for explanations of mechanisms that made the state assume an important part of the private indebtedness in Brazil.

rates. This policy provoked a deep financial and fiscal crisis that progressively reduced the state's abilities to direct and coordinate Brazil's development in the same way that it had done since the Vargas era (Sola 1993). This economic fragility, together with an increase in the number of popular protests for a more democratic political arrangement, resulted in the state losing its monopoly over national development.

Kohli (2005, 216) points to the fact that the choice of continuing with the debt-led growth model needs to be analyzed in the context of the mixed character of the Brazilian state – “developmental, yet limited”, that constrained the choices available for political actors. When viewed from this standpoint, the state's failure to limit external dependence was the result of the state's historical incapacity to say no to various powerful groups when it came to limiting expenditures, and also to the fact that modernization from above was justified by its overwhelming success as an economic strategy (Sallum Jr. and Kugelmas 1993).

If we consider the contradictory way in which modernization from above came about in Brazil, it becomes clear that the very same factors that contributed to the success of the developmental model were also responsible for its demise. The state created by Vargas and reproduced until the 1980s had a nationalist project, but was dependent on international capital and was therefore extremely vulnerable to external shocks; its fostering of economic modernization created new social groups (with new demands) that only had access to state structures through the corporatist system (Evans 1979). The state was able to maintain this strategy while growth rates were high, but when the economy and society became more complex and the global economic scenario worsened, the process of modernization from above broke down. It was not possible to maintain the same development strategy as before.

As we will see in Section 4, with the return to democracy in 1985, important economic, social and political reforms were implemented to alter the basis of the historical pattern of interaction between the state and the market in Brazil. In order to understand this period of socio-economic reforms, it is important to comprehend the historical process that led to the process of modernization from above in Brazil. This understanding will be helpful in avoiding all the simplistic explanations resulting from “before-and-after” models, explanations that do not take into account the impact of the historical process and consider that Brazil either successfully adopted a purely neoliberal model in the 1990s, or, on the contrary, that it did not effectively implement market-oriented reforms.

4. Market-Oriented Reforms: Continuities, Changes and Historical Dynamics (1985-2000)

In the last 25 years, Brazil has undergone great economic, political, social and institutional transformations. The military regime was replaced by a civilian government in 1985, a new Constitution was promulgated in 1988, and direct Presidential elections were held for the first time in 30 years in 1989. During this period, the Brazilian economy was progressively opened to international investment and trade, many state enterprises were privatized, price controls were eliminated and a new economic regulatory framework was established.

The reforms of the 1980s and 1990s represented a redefinition of the national development strategy, and transferred power from the Federal Executive to state and local governments, to Congress, to civil society and to the market. However, almost 20 years later, the general consensus is that Brazil's approach to state and economic reforms, when compared to other Latin American experiences, has been highly selective and gradual, with a nuanced interpretation of neoliberalism (Doctor 2009; Boschi 2009; Schneider 1997). The goal of this section is to show how an understanding of the historical process that characterized modernization from above in Brazil sheds light on the argument that, despite *de facto* changes in the country's politico-economics, there is still a strong influence from the state institutions formulated during the Vargas era. To do so, I will discuss the main economic, political and administrative changes in state structures that have been attempted over the last two decades and try to provide new insights into the ways in which the historical perspective can contribute to the interpretation of this period of reforms in Brazil.

As discussed in the previous section, from the 1930s to the 1980s, the Brazilian state played a highly interventionist role in the country's modernization process, not only in terms of industrial policy, but also as a direct investor, owner and manager of enterprises in a variety of different sectors. However, with the severe debt crisis of the 1980s and with the beginning of the redemocratization process, it was clear that the national development strategy needed to be redefined (Bresser-Pereira 2007). At that time, neoliberalism was in vogue and influenced most of the state reform in Latin America. This fact, combined with persistent criticism of state inefficiency, government failures, and rent-seeking bureaucracies made the shrinking of the Brazilian state seem a good option. As Reis (2009) put it, "less state and more society became the prevailing ideology". Moreover, the modernization discourse had moved to elevating the value of markets, free enterprise and internationalism, while disparaging state interventionism as outdated and ineffective (Diniz 2008).

In Brazil, the most effective market-oriented reforms in the 1990s were the programs of trade liberalization and privatization. The Brazilian government started opening markets in the late 1980s through a steady, continuous reduc-

tion in import taxes (the average import tax was reduced from 130% in 1987 to 15% in 1994) and the removal of many other controls and barriers to imported goods (Barros de Castro 2005). The goal of trade liberalization policies was to stimulate the competitiveness and efficiency of Brazilian companies that had been historically protected by the state (increasing the diversity of consumer goods available), and to help reduce inflation (Pinheiro, Bonelli and Schneider 2004).

The opening of the Brazilian economy is considered by many authors to be the dynamic that provoked the most profound changes ever in state actions and strategies. In this new situation, the Brazilian state had to move away from inwardly-oriented development policies and extensive formalized state planning. It now had to deal with the challenges of the modern knowledge-based globalized economy and had to adapt its strategies to accommodate international market oscillations – a completely different scenario from that of previous decades (Doktor 2009; Boschi 2010a; Evans 2008).

The second main change in the national development strategy was the introduction of a privatization program in the governments of President Fernando Collor de Mello (1990-92), Itamar Franco (1993-94) and President Fernando Henrique Cardoso (1995-2002). Many of the state-owned enterprises controlling Brazil's economic infrastructure, including state banks and energy, transportation and communications enterprises, were sold off during this period.⁵ As a result, the 1990s saw a massive restructuring of industry and deep structural changes in Brazilian capitalism (Barros de Castro 2005).

Despite these important changes in the economic sphere, certain forms of state intervention continued unabated in Brazil. Many authors have pointed to the major role still played by some state institutions and enterprises, such as BNDES and Petrobrás, in allowing the state to directly influence market dynamics and thus decisively impact Brazil's national development. BNDES, for example, is still the main provider of long term credit to Brazilian companies, and has been effective as an instrument of macro-economic policy (Boschi 2010b). Furthermore, state resources continue to play a central role in stimulating training schemes for the labor market, in promoting technological development and in settling capital and labor conflicts (Boschi 2010a).

The same dynamics of change and continuity could be observed in the political and administrative spheres following attempts at state reform in the 1990s. In the political sphere, such reforms included decentralization, modifications in the Federal Executive's prerogatives and alterations in the corporatist structure,

⁵ The privatization process was timidly initiated. Between 1990 and 1994, 33 federal companies, with total revenue of US\$ 8.6 billion, were sold. Under Cardoso, it received a boost, and 170 companies were sold, worth more than US\$ 100 billion in revenues (Giambiagi and Além 2001).

all of which had the goal of transforming the former political power structure that had characterized Brazil's modernization path until the 1980s.

Political and fiscal decentralization was focused on the need to restructure intergovernmental relationships, by granting more fiscal autonomy and decision-making capacity to states and municipalities (Arretche 1996). Although it is undeniable that the decentralization program was successful in its fiscal and tax objectives, by allowing for the greater independence of local governments (Giambiagi and Além 2001), it advanced irregularly in different issue areas (Almeida 1995; Melo 1993, 1998; Arretche 1996). A common criticism of the way decentralization was implemented in Brazil is that it depended heavily on incentives and on federal government control of local governments, and that it had not advanced in important areas, such as social security.

Another important development that changed the basis of the historical interaction between the state and the market in Brazil was the rising importance of Congress and the Judiciary in decision-making and regulatory processes, and the increased power of mechanisms of control over public administration, including the important role played by the *Ministério Público* in this process (Abrucio 2007; Vianna 2002). Likewise, the new social and political demands engendered by democratization meant that different actors could participate in public policy decision-making (including federal and state deputies, trade unions, mayors and state governors), thus reducing the state's autonomy (Sola 1993). However, despite these political-institutional changes, authors point to the permanence of the Federal Executive in its role as the principal interlocutor of interest groups and controller of macro-economic policy as being one of the constants in Brazil's politico-economics (Boschi and Lima 2003). Moreover, important institutional mechanisms still guaranteed the concentration of a lot of power in the Presidency, thus allowing the Federal Executive to directly influence the developmental agenda (Figueiredo and Limongi 1999; Melo 2004).

With respect to changes in the corporatist structure, debate in the literature is highly polemic as to whether the 1988 Constitution was effective in implementing a more pluralistic system of interest representation in Brazil or not. On the one hand, the new legislation guaranteed more independent representation by reintroducing the principle of freedom of association and organization in Brazilian unions, and by guaranteeing more participation for labor unions in key national public policy forums (Almeida 2004, Boschi 2010a). These actions reduced the state's social control over interest groups by reducing its monopoly with respect to decision-making. On the other hand, some controls over independent representation were maintained, such as the single trade union principle, compliance with occupational categories for establishing a trade union, the hierarchical system of organization of unions, and mandatory contributions. The system, as outlined in the CLT, still exists in Brazil (Vianna and Burgos 2010; Boito 1994), and these measures indicate that the state still has considerable influence over social groups.

Finally, in the administrative sphere, different measures were taken to provide a more efficient and flexible state machine, and to limit state intervention in sectors considered strategic, such as central banking, planning and budgeting (Nunes et al. 2007; Abrucio 2007; Bresser-Pereira 1999). Among the main innovations proposed in the administrative reform were the transformation of foundations and autarchies into social organizations and executive agencies, the creation of regulatory agencies, the institutionalization of administrative performance policies, and more accountability and transparency in state activities. However, many of these proposed innovations were not fully developed in practice (for example, only one executive agency, INMETRO, has been created). Likewise, there is still a lot of uncertainty as to the role of regulatory agencies. They are criticized for their lack of accountability and for not being effective in implementing their decisions in some sectors, such as civil aviation and energy (Reis 2009; Mello and Anuatti 2008; Pessoa 2010; Cruz 2007).

The fact that the Brazilian state, even after the market-oriented reforms of the 1990s, has never adopted a fully liberal ideal can only be understood if we consider that state-led development has been a success story in Brazil. It is under state leadership that Brazilian society has been modernized and has maintained a long period of sustained growth. For almost 60 years, state-based capitalism was uncontested by society. In other words, since the Brazilian modernization process and the establishment of a national state occurred simultaneously (and to the detriment of autonomous market and civil society development), attempts to change the country's national development strategy will always be limited by the power of state authority and by the fact that political actions and beliefs of the old model are deeply institutionalized (Reis 1998; Almeida 1999).

In this sense, the understanding of how modernization from above unfolded in Brazil sheds light on the interaction between the changes and continuities in the political and economic institutions highlighted in the literature. Firstly, the maintenance of some patterns, mainly in the corporatist structure, needs to be understood as being part of a historical trend of institutional adaptation to political and economic changes (Boschi 2010a). As we saw in the previous section, corporatism was one of the main factors that made active re-creation of modernization from above possible. This long-lived permanence cannot be dissociated from how important the corporatist structure was to different actors in different periods: during dictatorial regimes it was used as an important state instrument of social control, and, during democratic times, social groups used it to gain direct access to state structures (Almeida 2004; Cruz 2007). From this viewpoint, it makes sense to suppose that the corporatist structure could be adapted to a new socio-economic order, and still be of fundamental importance for the maintenance of specific political coalitions. The same rationale can be used to analyze other institutional resiliencies observed after the 1990s reforms,

such as the central role still played by BNDES and other state institutions and enterprises.

The use of concepts derived from path-dependency theory also helps to explain some difficulties encountered in implementing a more complete state reform policy in the 1990s. During this period, state interventionism was already an institutionalized tradition in Brazil, and, as such, political actors designed their strategies and actions using this historical reference, even if their intention was to change the current situation (Diniz and Boschi 2004). If we accept that conceptions in the political world are difficult to change, then it becomes clear that the idea that it was the state's obligation to define and support its national strategic interest in development constrained any possible reform proposals and their implementation (Pierson 2004).

Other forces of path continuity might have played an important role in limiting the scope of change during the period of reforms in the 1990s. Simply put, continuity in politico-economic arrangements usually results from high transformation costs, the inertia of action, disagreement among policy-makers and power relations that propel political economies along their 'paths' (Becker 2009). In this sense, since the Brazilian modern economy has historically given priority to state resources over market mechanisms, coordination effects that reinforce this pattern are widespread (since formal and informal arrangements that help to structure interaction between market and state are intricately linked) and adaptive expectations make it difficult to change this situation, since particular courses of action are encouraged or discouraged because of the anticipated actions of others.

Finally, matters of timing, sequence and the specific content of the reforms were of central importance in determining reform outcomes, and are central in understanding the desultory approach towards state reform in Brazil discussed in the literature (Melo 1998; Doktor 2009). Both historical sociology and path-dependence theories depart from the understanding that acknowledgement of when an event occurs may be of crucial importance in understanding its results. With respect to market-oriented reforms, for example, it is clear that the fact that democracy preceded attempts to stabilize the economy had important consequences, because it empowered actors who could offer resistance to economic reforms. In other Latin American countries, such as Chile and Argentina, where market-oriented reforms started to be implemented under dictatorship regimes, this different timing directly influenced the effectiveness and types of policies implemented.

5. Final Remarks

The historical reconstruction of the relationship between the state and the market in Brazil that I have presented in this paper is intended to show the gains to

be had by combining the strong points of historical sociology and path-dependence.

Inspired by Bendix's approach, with respect to the period of state leadership in question (1930-1985), I highlighted the main economic, political and administrative factors that made possible the re-creation of the understanding that only the state could be the architect of the country's economic modernization. Departing from the idea that state-building itself has to be understood as a continuous process if one is to avoid inadequate reductionisms in explaining phenomena that concern both state and society (Reis 1979), I showed how modernization from above institutionalized practices and beliefs with respect to the appropriate role of the state, and how these practices and beliefs decisively restricted the negotiation of policies and the extent to which state reforms could be successfully implemented.

I also showed that trade liberalization, privatization and political and administrative decentralization imposed *de facto* changes on the relationship between the state and the market in Brazil. Today, the state has to adapt its actions to international market oscillations and demands, and can no longer independently determine Brazil's national development strategies. However, these changes interact with relevant continuities that allow the state to retain a decisive influence over the economic sphere, such as the maintenance of (i) Federal Executive decision-making power, (ii) some insulated bureaucracies and (iii) the corporatist structure.

Interpretations of historical changes and continuities depend, to a considerable extent, on intellectual concerns as well as on the basic theoretical framework employed by the analyst (Pierson 2003, 189). In this paper, I was less worried about finding a definitive answer to the question of why Brazil did not fully adopt neoliberal policies in the 1990s, and more concerned with proposing a possible historical logic that could be used to interpret 70 years of politico-economics in Brazil. To do this, I focused on the diverse ways in which changes and continuities interacted in different periods, and demonstrated how historical sociology and path-dependence can help us to understand the current coexistence of old and new elements in the relationship between the state and the market in Brazil.

I strongly believe that the historical perspective, which is normally used to try to understand how the past influences the present, or to analyze how relevant social and political processes unfold over time, can also be extremely valuable in discussing the viability of future political arrangements and, mainly, the challenges involved in transforming the Brazilian state. As Evans (2008, 18) aptly put it, the search for the 21st century developmental state requires an appreciation of how the historical character of development is changing, and for this we need to understand the unique historical difficulties that the Brazilian state faces in becoming "agile, active, resourceful and able to act independently of private interests" – requirements of the new developmental state.

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