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The Public Bank Trilemma

Brazil's New Developmentalism and the BNDES

What is Brazil's development model for the twenty-first century? The ubiquitous term "new developmentalism" may best be used to identify the large degree of consensus on economic policies that has characterized all of Brazil's governments since President Fernando Collor. To understand Brazil's development model, I examine the recent trajectory of the country's industrial development bank, the National Bank for Economic and Social Development (Banco Nacional de Desenvolvimento Econômico e Social; BNDES) through the lens of the "public bank trilemma." The trilemma encapsulates the larger conflict inherent in state-led capitalist development: that of balancing autonomous, technocratic decision-making ("Expertise"), and the immediate demands of ordinary citizens for a better life, as expressed through their political representatives ("Democracy"), with the delicate challenge of using state monies and regulatory authority to stimulate voluntary, decentralized, competitive, and efficient private investment ("Markets"). The fights over BNDES operations conveniently illustrate many of Brazil's ongoing debates over the pace, biases, and goals of mixed-capitalist economic growth in a middle-income but still highly unequal country.

Brazil's "New Developmentalism" and the BNDES

The old developmentalism in Brazil and Latin America was the import-substituting industrialization (ISI) of the 1950s through 1970s, which promised, but did not deliver, rapid catch-up with wealthy countries, through protected industrial production for the domestic market. In contrast to ISI, the new developmentalism (ND) of the 1990s through the present has emphasized macroeconomic stability (low inflation), greater participation in global markets, and reducing domestic inequality.[1] Some proponents of ND have championed, in addition, the need to rely on domestic savings rather than foreign loans or investment and, especially, to maintain a competitive (non-overvalued) exchange rate (Bresser-Pereira 2009). The ND is not a sharp break with the past, sharing with the ISI-era a belief in the essential economic role of the state in identifying strategic goals and providing supportive public goods (as in Souza and Miranda 2015). In Brazil, the state has played the central role in financing infrastructure since the early 1950s. Astonishingly, Brazil's federal government, through the BNDES, also has been virtually the only domestic source of medium-to-long-term bank credit for private industry during the entire period from the late 1960s to the present. The BNDES has been central to each phase of Brazilian developmentalism.

Why adopt the BNDES as the symbol of the ND? First, the BNDES, founded in 1952, spans both the old and new developmentalism.[2] Second, it is a dominant institution that has recently become even larger. Its recent growth in annual loan disbursements (shown in nominal *reais* in Figure 11.1), has been truly extraordinary. In 2010 the annual flow of gross new BNDES loans briefly reached 4.3 percent of GDP, before falling back to "only" 3.2 percent in 2011 and averaging about 3.5 percent thereafter.[3] As of late 2015, outstanding BNDES loans stood at 11.2 percent of GDP and accounted for 21 percent of the stock of all credit to firms and households from the entire national financial system. The BNDES also supports Brazilian businesses through consulting and equity participation. By the end of 2014, the bank held total assets worth 16 percent of Brazil's BR$5.52 trillion (about US$2.3 trillion) GDP, of which 75 percent was loans to Brazilian firms, 7 percent investments in corporate equity, and the remaining held in other investments, including 12 percent in government securities.

Brazil's BNDES also looms large in comparative international perspective. Although legally limited to support only Brazilian companies and their customers, the BNDES is significantly larger than the Inter-American Development Bank (IADB), and roughly equivalent in size to the World Bank (Table 11.1). In terms of total assets, the BNDES is the second largest national development bank among emerging economies. As former BNDES presi-

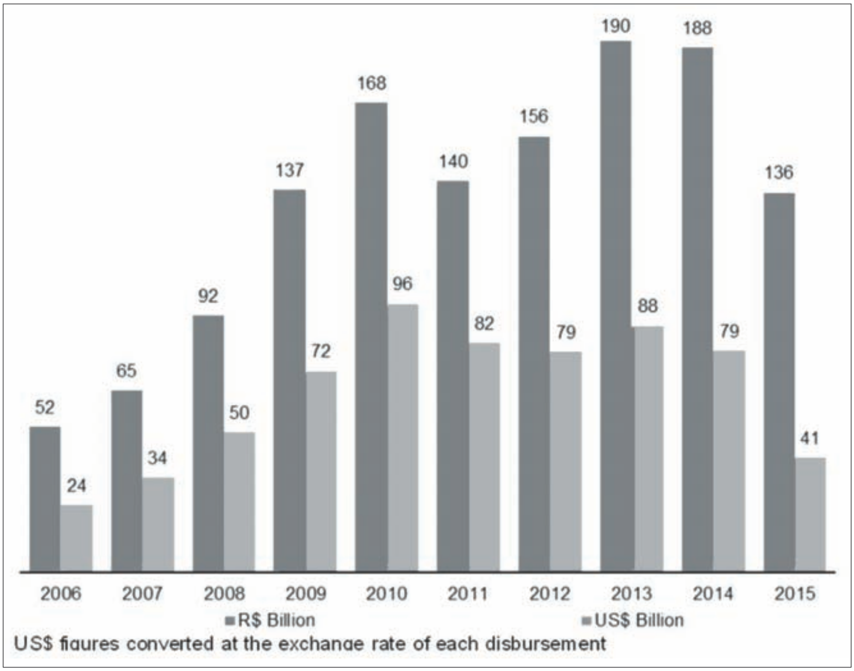

Figure 11.1. BNDES: Evolution of Annual Loan Disbursements, 2006–2015 (BR$billions and US$ billions). *Source*: BNDES 2015d, 43.

dent (2007–2016), Luciano Coutinho, confidently noted, "The Chinese and South Korean development banks lend more than us, but they only do monolines. . . . We do credit, we support capital markets, and we operate through the private banking sector itself" (Wheatley 2009).

Finally, there are clear sub-periods within Brazil's new developmentalism. The governments of presidents Fernando Collor, Itamar Franco, and Fernando Henrique Cardoso in the 1990s through 2002 leaned "neoliberal," because of their emphasis on fiscal responsibility, privatization, and freer trade and capital movements (Armijo and Faucher 2002), while the 2003–2016 period of PT presidents Luiz Inácio Lula da Silva and Dilma Rousseff was more assertively "new developmentalist." Yet Brazil's policy shifts in both directions have been less ideological and extreme than contemporaneous reforms elsewhere in Latin America. There has been substantial continuity in Brazil's ND economic policymaking, as practiced if not always as articulated. Partisan differences within the post-1990 consensus, although they exist, look more significant from within the country than from outside. This said, topical controversies over the future trajectory of the BNDES go to the heart of important nuances currently being debated within Brazil, and within the larger ND consensus.

Table 11.1. Comparison of BNDES with Other Large Development Banks (2014)

	BNDES	*IADB*	*World Bank*	*China DB*
Total Assets (US$ billions)	330.3	106.3	343.2	1,662.5
Loan Disbursements (US$ billions)	79.3	9.4	44.6	N/A
Income + (–) (US$ billions)	3.2	0.5	(0.8)	15.8

Source: BNDES 2015b, 67.

The Public Bank Trilemma

The BNDES illustrates what one might term the "public bank trilemma," which is similar to the better known "central bank [regulatory] dilemma." On the one hand, it is accepted wisdom that central banks should be independent of political authorities in carrying out their day-to-day implementation of monetary policy (Goodhart 1990; Bernhard, Broz, and Clark 2003). In this way they can resist pressures to sacrifice price stability for electoral expediency, as by easing liquidity in the months prior to elections, generating the infamous "political-business cycle." Yet on the other hand, monetary policy is not purely a technical matter. Only the legitimate political authorities can decide whether central bank governors should target inflation exclusively, a preference typically favored by the transnational epistemic community of bankers to which they belong (Epstein 1992; Henning 1994), or whether central bankers also should consider how money and credit aggregates influence other outcomes, such as unemployment or the nation's exchange rate. The central bank regulatory dilemma is thus that of balancing the imperatives of the independence of the technical experts ("Expertise") with oversight and goal-setting by the legitimate, democratically chosen authorities ("Democracy").

The challenge of regulating a public commercial or development bank in any modern mixed-capitalist economy is more complex still (Caprio et al. 2005; Bonney 1995; Allen and Gale 2000; Aghion 1999; Bacha 2002; Shleifer 1998). Regulators and managers must simultaneously prioritize three intrinsically contradictory goals: Expertise, Democracy, and Markets. The core rationale for creating a public bank (or having a national industrial policy, more generally) is to empower competent technocrats, operating above the political fray, to aggregate financial resources, typically subsidized by citizens, to make investments (usually long-term) resulting in public goods that otherwise would not be provided ("Expertise") (cf. Shapiro 2007). Like central banks, effective public banks should be independent of partisan and short-term political pressures. Nonetheless, decisions about the outcomes of public bank activities necessarily involve choices about values and thus belong with the country's legitimately elected political authorities, charged to execute the will of the citizenry ("Democracy").[4] In addition, public sector banks in a mixed-capitalist economy must support, rather than undercut or substitute for, private credit and capital markets ("Markets"). A fair evaluation of the performance of any public bank must consider each dimension of this complicated regulatory trilemma.

The public bank trilemma frames this analysis of the BNDES. The initial rationale for public banks, and thus the apex of the triangle, is Expertise. A public bank that cannot plausibly claim to be providing public goods in a competent fashion has no reason to exist. Nonetheless, Expertise alone is insufficient. Following a short historical overview, we will then analyze contemporary tensions in the BNDES between Expertise and Democracy and between Expertise and Markets.

The Shifting Roles of the BNDES over Time

Founded in 1952 to furnish project finance for big infrastructure projects, the BNDES later in the decade also began financing the production of capital goods through its wholly owned subsidiary, FINAME.[5] Following the 1964 military coup, which the new government justified by reference to economic disarray under its civilian predecessors, a barrage of liberalizing reforms attempted to build a solid regulatory framework for capitalist economic growth (Fishlow 1973; Skidmore 1973). However, Brazil's chronic high inflation was not controlled, and long-term, voluntary, private bank credit did not emerge. Consequently, in the late 1960s large business owners, especially from São Paulo, successfully pressed the government to reorient BNDES activity away from financing public infrastructure and instead toward long-term lending to firms, which has remained its core mission ever since. In the 1970s the bank sought to ease fiscal pressures on Brazil's central government, hitherto its primary source of funds, by borrowing cheaply in international markets and on-lending these resources within Brazil. When Brazil's accumulated foreign loans and volatile international conditions led to the debt crisis in the early 1980s, closely followed by the upheaval of the democratic transition, the BNDES was a key component in the federal government's response. The bank helped large Brazilian corporations cope by inaugurating a wholly owned subsidiary, BNDES Participações (BNDESPar), which rescued illiquid firms from bankruptcy through debt-to-equity conversions. When markets recovered, BNDESPar managers sold these shares, in most years turning a profit on the transactions.

In the post–debt crisis 1990s, Brazil's government (and thus the BNDES) embraced pro-market economic reforms. The BNDES ran Brazil's privatization program, ultimately overseeing sales of US$105 billion (BNDES 2002b, 2). As part of the process, economic policymakers usefully cleared out US$18 billion in public debt securities of questionable value (*moedas podres*, or rotten monies) that had been issued by various state firms and entities over the previous twenty years, allowing holders of these securities to spend them in the privatization auctions. From the late 1990s through the present, the BNDES has promoted exports and Brazil's regional and global economic insertion, while also inaugurating new programs for small businesses. The bank has seldom been free of controversy, and earlier arguments over its proper role were as fierce as those that now rage. Nonetheless, and over decades, the BNDES has maintained an enviable reputation for both competence and flexibility. Brazil in 2016 is currently in the throes of both economic and political crises. Present challenges place pressure on each leg of Brazil's public bank management trilemma.

Balancing Expertise and Democracy in the BNDES and the Internationalization of Brazilian Business

The conflict between autonomous, technocratic policymaking (Expertise) and political oversight by the elected authorities, responding to public preferences (Democracy), is illustrated by the way the BNDES has promoted greater engagement with the world economy. There are many different ways to implement an outward economic orientation, ranging from the least to most state interventionist. One may unilaterally remove tariff and non-tariff trade barriers, on the theory that all trade (even when it involves a surge of imports) is good trade, because the country's post-liberalization consumers and firms enjoy better or cheaper goods. A somewhat more activist state will seek the reciprocal removal of trade barriers. More statist still is the belief that "good" trade means the export of manufactures, not commodities, and that it is the government's job to promote this "higher value-added" trade. Both the right-leaning (Collor through Cardoso) and left-leaning (Lula and Dilma) strands of Brazil's new developmentalists have been in agreement that it is better to export airplanes than coffee or soya. Even a recent World Bank report (penned by Brazilians) worries that Brazil's high technology exports grew by only 35 percent (by value) in the decade following 2000—as compared to over 800 percent for China and almost 400 percent for India (Canuto, Cavallari, and Reis 2013).

The BNDES has sought to promote exports, particularly manufactured ones. Brazil's private banks, funding themselves from abroad, provide short-term trade credits to Brazilian firms (Rossi and Prates 2009). However, since foreign customers will not pay the extraordinarily high nominal and real interest rates that have reigned for decades in the free segments of Brazilian markets (see below), longer-term funds to provide suppliers' credit to foreign purchasers of Brazilian exports must also be borrowed abroad or the Brazilian government (and ultimately taxpayers) must subsidize the additional interest cost. In support of this policy goal, BNDES Exim loans (earlier called FINAMEX), increased dramatically (prior to the current crisis), rising from 4 percent of total BNDES loan disbursements in 1996 to 11.5 percent in 2009.[6]

More intriguing—and controversial—are the further steps taken by the BNDES since the mid-2000s to promote the "internationalization" of Brazilian business, particularly its policy of promoting "national champions," that is, specific firms judged able to compete with the largest transnationals in global markets. De facto, this means that the taxpayer-supported BNDES acts as a full-service merchant bank to Brazil's largest transnational firms, financing almost any activity that forms part of one of these firms' strategic corporate visions. Most innovative—or merely startling—have been BNDES loans to giant companies such as the meatpacker JBS Friboi, now one of the largest firms in its industry worldwide, to gobble up foreign rivals through mergers and acquisitions (*Latin Finance* 2009). The BNDES also assisted the wood products company Aracruz to recoup foreign exchange bets gone wrong. In 2009 the bank arranged a merger with Brazilian rival Votorantim Papel e Cellulose, forming the new company Fibria (Valle 2012). The BNDES also has opened large credit lines for foreign governments—prominently including those in Andean South America, Lusophone Africa, and Cuba—to acquire Brazilian goods and services, often from one or a handful of companies.

A few firms have received a lot of money. For example, from 2006 to 2012, the BNDES extended US$3.2 billion in loans to the government of Angola, of which almost half purchased consulting and construction services from Brazil's mega-engineering firm Odebrecht (Fellet 2012). From 2008 to 2012 the BNDES lent a cumulative R$40.8 billion (approximately US$22.7 billion) to only six firms, all privately owned: JBS Friboi, Marfrig (both frozen foods), Oi (telecommunications), BRF Brasil Foods (food and beverages), Fibria (pulp and paper), and Ambev (food and beverages) (*O Globo* 2011). Of the BNDES's total loan portfolio of outstanding loans as of mid-2012, 39 percent had gone to the top five borrowers, and a further 28 percent to the fifty next largest borrowers, revealing a high degree of concentration of funding (BNDES 2011, 53). Of BNDES's equity holdings, 80 percent by value are shares of state-owned or de facto controlled firms (such as Petrobras and Vale, in petroleum and mining, respectively), each of which would fit any list of plausible national champions (BNDES 2012, 4). The BNDS also owns large blocs of equity in private firms, including 30.4 percent of Fibria, 20.25 percent of Klabin (pulp and paper), 17.3 percent of JBS Friboi, 13.9 percent of Marfrig,

Table 11.2. Brazilian Export Structure, 2015*

Partner	*% of Total Exports*	Commodities	*Of which:* Semi-manufactured	Manufactured	*Total to Partner*
Asia	33	73	16	11	100
EU	19	46	15	39	100
Latin America	19	17	3	80	100
United States	17	17	16	67	100
Africa	4	37	23	40	100
World	100	46	14	38	100
China	19				

Note: * Data column 1 adds down; columns 2–4 add across.
Source: MDIC *2015.

12.2 percent of América Latina Logística (transportation infrastructure), and 3.5 percent of Gerdau (construction) (Bugiato 2013, 31).

A related goal of Brazil's ND policies from the mid-1990s onward has been South American economic integration, through both the reduction of intra-continental trade barriers and the promotion of the construction of new transportation and power infrastructure. The BNDES has provided whatever funds it can, within its legal mandate to support only Brazilian firms. (Thus, the BNDES will finance, for example, up to 80 percent of a loan to Ecuador's government to hire a Brazilian construction company to build a dam.) For Brazilian ND governments, the focus on South American integration makes strategic economic as well as political sense. While Brazil's exports to Asia are overwhelmingly commodities, Brazilian exports to Latin America tilt heavily toward manufactures ("good" trade in the ND vision), as shown in Table 11.2.[7] The outward foreign direct investment (also described as "internationalization") of Brazilian firms has also been focused on South America, with Argentina and Venezuela being particularly lucrative host markets, a circumstance that explains the otherwise puzzling support of Brazil's conservative business community for the entry of left-leaning Venezuela into the Mercado Comun do Sul (MERCOSUR) (Lissardy 2011; *Estado de São Paulo* 2012c).

Is there a problem? The Expertise displayed remains high. For example, BNDES officials take great care to demonstrate that the bank is profitable and a good steward of the funds entrusted to it (BNDES 2015c, 2015d)—although this judgment takes as a given its low cost of funds. Some critics maintain that the bank's heavy support for oligopoly players undercuts Democracy. Voices from the left, both within and outside Brazil, conceptualize Brazil's continental policies as expansionist and neoimperialist (Luce 2007; Costas 2012; Zibechi 2012). Others question the goal of BNDES financing for Brazilian firms to move their production—and thus potential Brazilian jobs—abroad. Building on an index developed by the United Nations Conference on Trade and Development (UNCTAD), researchers at the Fundação Dom Cabral calculated a firm's "transnationalization" as the mean of three qualities: assets abroad as a share of total assets, revenues abroad as a share of total revenues, and employment abroad as a share of total employment. By this metric the list of the most transnationalized Brazilian firms—which includes such names as JBS Friboi (54 percent transnationalized, with 62 percent of employees abroad), Gerdau (52 percent), Stefanini IT Solutions (46 percent), Metalfrio (45 percent), Marfrig (45 percent), and Odebrecht (42 percent)—overlaps quite closely with the list of the largest borrowers from the BNDES (Cretoiu et al. 2012, 17). The question is not whether these firms ought to be expanding abroad but whether their corporate strategies ought to receive public subsidies.

In 2011 one incident sparked particular public ire. Brazil's large supermarket chain, Pão de Açucar, proposed a merger with a major competitor, the Brazilian subsidiary of the French supermarket chain Carrefour—in a €2 billion-plus deal arranged by the BNDES. The bank's press statement highlighted the prospect of promoting sales of Brazilian products through the French parent firm's worldwide retail network (Rosas 2011). Nonetheless, five-term federal deputy Darcísio Perondi (PMDB, Rio Grande do Sul), despite being nominally a member of the Dilma government's allied legislative coalition, was among those who quickly attacked the project, calling it crazy to spend monies derived from payroll and social security taxes on a supermarket, particularly given unmet health and education needs, and noting that the merged company easily could employ its resulting oligopoly share of 32 percent of Brazil's retail grocery market to squeeze both small farmer suppliers and customers (Perondi 2011). Public opposition was sufficiently intense that the BNDES backed off, offering the bland excuse that not all of the anticipated private co-funding had materialized (Leahy 2011).

More recently, the revelations of the Lava Jato corruption scandal in 2015–2016 (see Taylor this volume) have subdued BNDES (and Brazilian society's) support for Brazil's large transnational corporations and has put pressure on the BNDES to increase transparency with respect to the precise terms and amounts of its loans to large borrowers. Revelations of corruption within Petrobras, which initially exploded in the context of the company's outward Foreign Direct Investment (FDI) in the United States, generated a sharp plunge in its stock market quotation, and a subsequent BR$15 billion balance sheet "impairment" charge for the BNDES in 2014 and 2015, a major Petrobras shareholder (BNDES 2015b, 6).[8] In 2015 and early 2016 Brazilian courts found the top officers of several of Brazil's largest construction firms, including major BNDES client Odebrecht, guilty of price-fixing and bribery. In mid-2015 Brazil's Congress opened a Parliamentary Inquiry Commission on the BNDES. Asked to provide "more than 10 million pages" of documents, the bank was not in the end accused of wrongdoing yet prudently has instituted several new initiatives to promote greater transparency in its relations with both investors and Brazilian voters. For example, unlike the national development banks of Mexico, Canada, Germany, Spain, and Japan, the BNDES now releases the names of individual client firms (Suchodolski 2016, 7, 10).

Despite understandable differences of opinion over BNDES support for the internationalization of national champions, there is not, strictly speaking, a problem from the viewpoint of the public bank regulatory trilemma—because the bank's policies have been those of the legitimately elected executive branch political authorities. BNDES policies have supported Brazil's ND economic strategy of increasing manufactured exports and also the country's de facto foreign policy strategy of being perceived as a regional leader, thus enhancing its global political status. In the words of Brasília business consultant Thiago de Aragão, "Brazil's number one interest is to make itself influential within the region, and to have its neighbors recognize it as an instrument of regional development" (Lissardy 2011; my translation). Overall, BNDES activity in support of the internationalization of firms, although controversial, has been largely consistent with the need to balance the competing claims of Expertise and Democracy.

Equilibrating Expertise and Markets in the BNDES, Private Banks, and Brazil's Public Finances

The balance within the Expertise versus Markets vector of the public bank regulatory trilemma also has become contentious, revealing clear differences between the center-right and center-left within the larger ND model. There were problems of financial markets in the late 1960s that the BNDES was asked to solve, and a pre–Lava Jato contemporary intra-Expert debate on how the BNDES should complement Brazil's private banks. Disagreements over BNDES finances by mid-2015 had become embroiled in the struggle to impeach President Dilma Rousseff.

For decades, from at least the 1930s through the mid-1990s, Brazil was in the peculiar position of having an economy that suffered from chronic high to very high inflation, yet the country always managed to avoid the disastrous breakdown associated with true hyperinflation (Armijo 1997). One of the consequences of persistent high inflation, however, was the disappearance, or failure to develop, of long-term credit in the economy, as bankers would not loan long-term in a currency that they expected to be devalued on repayment. In the mid-1960s, orthodox economists appointed by the military attempted to end inflation and stimulate private long-term finance (Syvrud 1975; Trubeck 1971; Armijo 1993). After that effort at price stabilization failed, the BNDES reoriented its lending toward long-term support of Brazilian business. This background sets up today's policy conundrum. Ever since the Plano Real (the successful stabilization program of the mid-1990s), Brazil's annual inflation has averaged in the high single digits—the era of chronic, crazy inflation is over. Arguably, continuing the wholesale substitution of Expertise-based, in place of Market-organized, provision of long-term corporate financing in one of the world's largest economies unbalances the public bank triad of goals. However, like other organizations, particularly ones whose leaders understandably perceive their institutions to be at the top of their game, the BNDES resists shrinking.

Probably the most burning contemporary debate about the BNDES within the Expert community centers on the BNDES's sources and costs of financing, and the implications of this for Markets, in the form of private banks. Former senior economic policymakers associated with President Cardoso—including former BNDES and Brazilian Central Bank (BCB) president Pérsio Arida, former BNDES president Luiz Carlos Mendonça de Barros, and former BCB president Gustavo Loyola—have been prominent critics of the BNDES's role in Brazilian financial markets (Arida 2005; Leonel 2010). These center-right critics make four main points. First, the majority of BNDES funding derives from Brazilian taxpayers. Until about 2007, approximately 10 percent of BNDES resources (liabilities) derived from shareholders' (the central government's) equity, and another 75 percent from forced savings, primarily obligatory "investments" by the FAT (Workers' Support Fund, whose resources come from payroll taxes), allocated to the BNDES by the 1988 Constitution. The BNDES has a statutory (but vague) obligation to employ FAT funds for projects that benefit workers by increasing Brazilian employment and production. Although these FAT investments (loans to the BNDES) are safe, they are remunerated at a special "long-term interest rate," the TJLP, which is well below the free market cost of funds in Brazil. There is therefore a question of the opportunity cost to the worker owners of the FAT of directing these monies to the BNDES. Under the PT governments since 2003, the BNDES has greatly expanded lending, especially following the appointment of Luciano Coutinho as its head in 2007, at the start of President Lula's second term. As FAT resources were no longer sufficient, in recent years the BNDES has increasingly been funded by direct transfers from the National Treasury, through special programs including the PAC (Accelerated Growth Program) and PSI (Sustainable Investment Program). Treasury transfers increased from 11 percent of BNDES funding in 2005 to 57 percent by mid-2015 (BNDES 2015b, 43).

Second, these critics contend that it is the BNDES that is pushing up real interest rates in the free segment of the economy (Arida 2005; Romero 2011; Mello and Garcia 2011). There is only a set quantum of savings in Brazil, Therefore, the larger the share accessed by the BNDES at below-market rates, the smaller the share available for all other borrowers—and therefore the higher the price at which credit in the free market will be offered. A rough approximation of the extent of the subsidy enjoyed by the BNDES may be seen by the difference between the SELIC, Brazil's policy interest rate, which is the rate at which the BCB makes short-term loans to commercial banks needing liquidity, and the TJLP, the rate at which the BNDES borrows. Normally, a central bank's policy rate (in the United States, the federal funds rate) is *below* the best rate available to the most creditworthy non-financial business borrowers (in the United States, the prime rate), as banks need to borrow more cheaply than they lend. In Brazil, by contrast, the SELIC is *higher* than the TJLP. Meanwhile, the free market interest rate for thirty-day working capital for excellent corporate borrowers is very high: it fell from 42 percent in January 2009, at the height of the global financial crisis, to "only" 32 percent in mid-2012 (EIU 2012, 41).[9] Naturally, those firms able to do so would prefer to borrow either from the BNDES or abroad. Real annual interest rates to consumers are 70 percent or more.

Third, over the past twenty odd years the BNDES has demonstrated that it can capture resources through bond issues in private capital markets, both within Brazil and internationally. The critics of current funding patterns therefore propose that the BNDES be obliged to move gradually to market sources of funds. If the consequence is a shrinking of the total size of the institution's assets and liabilities, then so be it. Critics' analysis stresses that Expertise, which almost no one questions that the bank displays, should supplement private financial Markets, not replace them.

Fourth and finally, the liberal camp worries that the recent expansion of BNDES lending imperils Brazilian public finances. While monies booked as investments by various social insurance funds paid into by workers (FGTS, PIS/PASEP, and FAT, all of which have provided resources to the BNDES over the years) have no direct fiscal implications, the recent large transfers from the National Treasury have as a counterpart Brazil's public debt: money borrowed from the public (prominently including private banks) at significantly higher rates than the TJLP.[10] Mello and Garcia (2011, 10–11) conclude, "If BNDES keeps expanding as it did since the 2008 crisis, it will surely constitute a major threat to the solvency of the Brazilian government."

The response from defenders of the BNDES's profile in the PT years, including former BNDES president and long-serving Finance Minister Guido Mantega (March 2006–December 2014), former BNDES president Luciano Coutinho, former BNDES president Carlos Lessa, and many others, coheres around four main points (Lessa 2005; Torres Filho 2005, 2009; Torres Filho and Costa 2012). As Coutinho patiently explains, the reason for large grants of public money to the BNDES is that Brazil has urgent needs for centrally prioritized investments, which provide an invaluable public good (Wheatley 2009). Brazil's recent senior elected officials have been fully supportive of this policy. Thus former President Lula da Silva frequently reiterated his support for the BNDES as essential to the country's commitment to public investment in exports, in industry, in basic research, asserting that, "the world will continue to need more food, and Brazil has all the proper conditions to produce part of that food. . . . [W]e have just discovered a lot of oil, and we do not want to use oil as traditionally the oil countries have used oil. . . . We want to be exporters of oil derivatives, not exporters of oil, because we want to develop a strong oil industry and a strong shipbuilding industry together. We want to build our own drilling rigs, our own offshore platforms, and our own ships. And we want to develop a strong petrochemicals industry" (Barber and Wheatley 2009). The argument for BNDES leadership is that these projects are simply too big, too risky, and too long-term for the private sector to handle: hence the need for public financing.

Second, BNDES officials insist that the bank has nothing to do with Brazil's problem of high interest rates or the related problem of high bank spreads between their deposit and lending interest rates. The origins of Brazil's high interest rates are historically generated expectations being extrapolated forward, combined with oligopoly in the commercial banking sector, the latter compounded by significant barriers to entry into banking. In Coutinho's words, "The [only] distortion is that short-term borrowing rates in Brazil are much higher than in other countries. Our long-term rates are [just] a bit higher than in the US, the UK or South Korea. There's no distortion there" (Wheatley 2009). That is, since the BNDES loans only long-term, and at low rates linked to its low cost of funds (the TJLP), it can hardly be taxed with responsibility for Brazil's abusive short-term rates, which instead derive from high deposit-loan spreads and other inefficiencies in Brazil's commercial and private investment banks.

Third, the activities of the BNDES do not conflict with the private financial sector. On the contrary, the BNDES "crowds in" private financing and investment by working closely with a wide range of private financial actors.

For example, around 50 percent of BNDES lending is “indirect,” consisting of on-lending through a nationwide network of private banks. The BNDES helps keep these smaller banks, who are close to their small business customers throughout Brazil, in business. For big projects, including major new infrastructure undertakings such as hydroelectric dams, the BNDES does the project design and provides partial financing but also offers lucrative co-financing opportunities for Brazil’s largest financial institutions, whether the big universal banks or smaller investment/merchant banks. Moreover, the BNDES has been a great help in the expansion and technical improvement of Brazil’s capital markets—which are finally beginning to provide an alternative domestic source of long-term financing. BNDESPar is one of Brazil’s major institutional investors, and its trading activity assists in keeping the market liquid. In other words, the BNDES’s current overwhelming dominance of long-term financing in Brazil indeed should change as Brazil modernizes: such a shift is already in progress, and the BNDES is promoting it (Torres and Costa 2012).

Fourth, Brazil’s government needs a strong, competent, flexible instrument with which to respond to changing national and international circumstances, and the BNDES has proved its worth on this score time and again (Lessa 2005). To take a recent but stunning example, Brazil performed well in the global financial crisis of 2007–2009, which Finance Minister Mantega countered in two ways. Mantega instituted a series of new temporary capital controls, while also expanding liquidity both directly and by transferring a large sum of money from the National Treasury to the BNDES, which contributed to rapid expansion (see Figure 11.1). Because the BNDES was competent and honest and, together with its nationwide network of private bank partners, had a long list of plausible investment projects essentially ready to go, the stimulus quickly got out to the real economy. Even the International Monetary Fund praised Brazil’s crisis management, observing, “Due to deft policy responses and built-in financial system buffers, the financial system weathered the global crisis remarkably well,” highlighting the “quasi-fiscal stimulus through the national development bank” and “measures to channel liquidity to small and medium-sized banks facing stress” (Madrid 2012, 6). In December 2012, President Dilma Rousseff again used the BNDES to implement emergency economic stimulus measures (Biller 2012). In early 2016 the BNDES announced an emergency fund to support research on combating the Zika virus.

In sum, the critics on the center-right allege that cheap BNDES funds crowd out the development of private long-term credit and capital markets and are a burden on the taxpayer, primarily going to subsidize large firms. They advocate a smaller BNDES refocused on its core competencies in infrastructure, heavy industry, innovation, and special purpose funds. Defenders of the current center-left trajectory counter that Brazil needs a bank to implement (and in practice often to formulate; see Almeida, Lima-de-Oliveira, and Schneider 2014) a strategic vision of where the country should be heading, that the BNDES in fact complements private banks, and that the bank's essential role in both crisis management and economic development legitimates its government-subsidized funding profile.

The preceding discussion summarizes the largely intra-Expert debate as it stood as of about mid-2013. The political and macroeconomic crisis that has exploded since 2014 has provided some almost surreal twists to recent iterations of the polemics over the proper relationship of the BNDES with private financial Markets—and public finances. As noted, the advocates of a smaller, leaner BNDES have long been critical of transfers from the Treasury, which they argue provide the BNDES with an unfair competitive advantage vis-à-vis private banks. Thus, when President Dilma responded to the deepening recession by appointing a more orthodox economist, Joaquim Levy, as Finance Minister in January 2015, one of his first moves was to end direct Treasury transfers to the BNDES. The problem at that point was perceived, among both economists and other intellectuals loosely arrayed on the center-right of Brazil's domestic political spectrum, as one of the federal government squandering scarce taxpayer resources: the BNDES, and its favored clients, were implicitly imposing on Brazilian society.

However, over the course of 2015, Dilma's detractors, including Social Democracy Party (PSDB) politician and losing 2014 presidential candidate Aécio Neves, tried unsuccessfully to find evidence of personal corruption linked to the president. They eventually seized upon, and subsequently sought to define as not merely slovenly but also explicitly illegal, what was widely acknowledged to be a longtime tactic of financially strapped Brazilian governments: intentionally delaying payments to creditors and suppliers, a practice known as "pedaling." Thus by late 2015 the BNDES—along with two other large public banks, the Banco do Brasil (BB), long one of the country's two largest commercial banks, and Caixa Econômica Federal (CEF), or Federal Savings Bank—rather than being perceived as taking advantage of the National Treasury were, in a sharp cognitive reversal, themselves increasingly portrayed as victims of dodgy public sector accounting (Costa 2015; Pato 2016). The president's accusers noted that all of these public banks had been tasked with disbursing assorted social benefits and other payments to the public—the CEF, for example, was responsible for distributing Bolsa Família payments to poor families (Hunter and Sugiyama this volume). However, intentional delays in transfers from the central government (pedaling) meant that the BNDES and other public banks instead were forced to dip into their own resources to fulfill these obligations, which compromised their own financial integrity.

Although it was true that such delayed payments (technically overdrafts) had been used by previous governments, their magnitude had increased enormously under the PT administrations, rising steadily from only about 0.1 percent of GDP under President Cardoso and during Lula's first term to almost 1.0 percent of GDP following Dilma's reelection in mid-2014 (Pato 2016). The government, worried about this legal tactic, suddenly repaid all its arrears to BNDES on December 30, 2015, issuing Treasury bonds the following week to prevent the surge in liquidity from generating inflation, and sparking further intra-Expert debate on needed reforms of public financial institutions (for example, Duran 2016). Despite what the BNDES carefully referred to as "prepayment" (BNDES 2015c, 1) by the Treasury, the formal impeachment petition filed by the president's opponents in early 2016 accused her of the "crime of responsibility" for intentional and unlawful (not merely incompetent) management of public finances, including those of the BNDES, for partisan political gains.[11] The articles of impeachment ultimately led to Dilma's conviction and removal from office in August 2016.

This has been a sometimes acrimonious policy debate, whose major proponents are past and present government economic officials and other policy elites. Recently (and curiously), certain strands of these quintessentially subtle and technical arguments were hijacked to serve as fodder in the recent presidential impeachment crisis. The larger picture is that BNDES officials throughout all of the PT governments have claimed the mandate of Expertise to increase the size and reach of the bank, while also ostensibly promoting private financial Markets. Their critics, often associated with Cardoso-era officials and the PSDB, claim that the bank's access to large quantities of subsidized funds undermines both healthy national financial development and Brazilian public finances. The intellectual debate remains unsettled, but any change by newly inaugurated President Michel Temer in the operations or mandate of the BNDES, an institution still widely and justly revered, will almost certainly be gradual.

Conclusions

The principal differences between Brazil's old ISI developmentalism of the 1950s through 1970s and the new developmentalism of the 1990s onward lay, first, in the ND's greater enthusiasm toward participation in global markets and, second, in its basis in a radically different underlying Brazilian macroeconomy, one with credibly stable prices and a renewed attention to the evils of intense inequality. There exist two recognizable policy camps within the larger centrist Brazilian economic policy consensus on capitalist developmentalism. The public bank trilemma is a useful framework for thinking about not only the BNDES but also the internal strains within Brazil's ND more generally.

The rationale for a national development bank turns on the autonomous exercise of Expertise to identify public goods that the private financial sector will not provide voluntarily—from promoting a unified South American market and transnational Brazilian "champions" to enabling implementation of a rapid counter-cyclical macroeconomic policy response to a global financial crisis. There is a potential conflict with the imperative of Democracy, most especially when that bank draws heavily on taxpayer funds, which it lends out at subsidized rates to Brazil's largest firms, operating in oligopoly markets. There are also legitimate political conflicts over policy goals, at which point the proper stance of a public bank is to remain, ultimately if not operationally, subordinate to the legitimately constituted political authorities, which the BNDES consistently has done. Overall, Brazil has managed the Expertise-Democracy vector of the public bank regulatory trilemma reasonably well.

The Expertise-Markets vector is more problematic. Brazil's private financial sector, which benefits from on-lending, co-financing, and securities markets support coming from the national development bank, is comfortable with its relationship with the BNDES. But whether the BNDES's dominance is good for financial market functioning (as opposed to the profits of financial institutions) is less clear. Even before the current politicization of public bank finances to be used as a weapon in the impeachment wars, the BNDES's role in public finances has on occasion been ambiguous. For example, journalists in 2013 decried a large loan to the state electricity firm, Eletrobras, whose timing suggested that it would be used to pay stock dividends (including to both the BNDES and central government), thus serving as "creative accounting" to improve the look of public finances (Campos 2013). There is a clear bifurcation between those, mostly on the center-right, who would oblige the BNDES to rely on increasing shares of market financing, consequently shrinking its activities, and those of the center-left, including President Dilma Rousseff, who remained extremely proud of the BNDES's accomplishments—and of its size per se.

While there are extensive areas of new developmentalist agreement across most partisan divides in contemporary Brazil, weak economic and industrial growth rates in Brazil under the Dilma government sharpened the debate (see also Kingstone and Power this volume). Still, the differences that loom large from within the country appear modest from outside. Views on the desirable role of the BNDES, for example, fall out along a partisan (but in fact not terribly wide) divide. No politician with a realistic opportunity to capture national policy influence wants to attack basic private property rights—all agree that capitalism promotes growth. Neither are there influential voices raised that would radically dismantle Brazil's extensive apparatus of state credit and investment. Overall, the underlying national consensus on an activist state as the best option for achieving rapid growth is unlikely to falter. Brazil's basic model of state-led capitalism should continue to guide public policy for the foreseeable future.