Monopolies, Dictatorship and Populism

Aldo Musacchio
Brandeis University and NBER
Motivation: largest firms in Lat Am have had consistent high returns for decades
Three failed opportunities for change:

- Democratization (late 1980s)
- Liberalization (1990s)
- Introduction of antitrust (late 1990s-2000s)

- Let me use the case of Brazil to illustrate how large firms with rents have survived these institutional changes
Brazilian variety of capitalism

• Large firms and conglomerates dominating business landscape

• High prices for tradeable goods (and iPad used to be 2x-4x what you paid in US); computers are still 2x-3x... mostly because of tariffs

• Large firms enjoy high margins; high concentration of large firms then thousands of small competitors

• Red tape also serves as a barrier to entry (tons of payroll taxes and complicated tax system)

• Large firms enjoy SUBSIDIZED credit from the development bank (BNDES)
Subsidized credit goes to firms that do not necessarily need it

<table>
<thead>
<tr>
<th>Company</th>
<th>Percentage of total loans in the database</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>In 2004</td>
</tr>
<tr>
<td>Petrobras (oil)</td>
<td>14.5</td>
</tr>
<tr>
<td>Telemar Norte Leste (telecom)</td>
<td>10.4</td>
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<tr>
<td>Vale do Rio Doce (mining)</td>
<td>n.a.</td>
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<tr>
<td>Suzano (paper &amp; energy)</td>
<td>3.4</td>
</tr>
<tr>
<td>Brasil Telecom</td>
<td>n.a.</td>
</tr>
<tr>
<td>Neoenergia (electricity)</td>
<td>3.2</td>
</tr>
<tr>
<td>CPFL Energia (electricity)</td>
<td>6.8</td>
</tr>
<tr>
<td>VBC Energia (electricity)</td>
<td>2.7</td>
</tr>
<tr>
<td>CSN (steel)</td>
<td>4.2</td>
</tr>
<tr>
<td>Klabin (paper)</td>
<td>1.3</td>
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<tr>
<td>Aracruz (cellulose)</td>
<td>2.4</td>
</tr>
<tr>
<td>Cesp (electricity)</td>
<td>11.2</td>
</tr>
<tr>
<td>Sadia (food and agribusiness)</td>
<td>3.2</td>
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<tr>
<td>CPFL Geração (electricity)</td>
<td>n.a.</td>
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<tr>
<td>Embraer (airplanes)</td>
<td>n.a.</td>
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</tbody>
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Source: Musacchio and Lazzarini (2014), using the database employed by Lazzarini et al. (2012).
Brazilian “car wash” corruption scandal

**LAVA JATO**

**DIRECTOR OF FUEL SUPPLY**
*Indicated by PP*
Paulo Roberto Costa

**DIRECTOR OF SERVICES**
*Indicated by PT*
Renato Duque

**INTERNATIONAL DIRECTOR**
*Indicated by PMDB*
Nestor Cerveró

**COMPANIES AWARDED**
Propina

**OPERATOR**
Alberto Youssef
*PP/PMDB*

**OPERATOR**
João Vaccari
*PT*

**OPERATOR**
Fernando Baiano
*PMDB*
Trade liberalization? Brazil never fully liberalized

Figure 13: Brazil – trade liberalization

Still large tariffs vs. MFN and world.
Antitrust in Brazil: Slowly but... surely?

• 1962 Law  Creates agency (CADE)-Weak enforcement b/c ind. Policy

• 1994 Law—enforcement + (vs. privatizations)... no invest. capability

• 1999-2002 focus on cartels (low staff; no teeth; weak on investigations)

• 2003-2011 Partnership w/ federal police + more politicized -more anti-cartel actions. Low fines.

• 2011 Competition Law- Gives Cade more autonomy and “teeth”

• 2014 Cartel enforcement gets strengthened, higher fees

• 2015 bid-rigging enforcement strengthened (Petrobras-Lava Jato)