

***The rule of law, economic development, and modernization of the state in Brazil:  
lessons from existing experience for policy and practice***

Research Proposal to:  
World Bank Office, Brazil (Brasília) and  
UK Department for International Development (DfID/Brasília)

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Today, Brazil faces the twin challenges of rekindling economic growth while, at the same time, stepping up or at least continuing the same pace of reducing poverty and inequality. This proposal focuses on two key means to fulfilling these ambitions: (1) transforming them from tradeoffs—as they often are, or at least perceived as such—into positive-sum strategies and outcomes, and (2) modernizing the institutions of the public sector to better meet these goals in a post-ISI<sup>1</sup> and trade-liberalizing world. These challenges are particularly relevant to the WB’s Brazil-program strategy at a moment when, *first*, it is re-crafting its support to this now-middle-income country that has become a significant player on the international scene, and doing so within the context of the Bank’s reduced relative significance (albeit high in absolute terms) in Brazil’s public investment (including of parastatals) and operating expenditures. *Second*, they lend themselves to lesson-learning evaluation research that builds on the country’s growing number of positive experiences and improving public-sector capacity. I couch the proposed project in terms meant to narrow it down to a set of researchable themes and questions within this larger framework. (I am grateful to John Briscoe and Salo Coslovsky for providing detailed feedback on an earlier draft of this proposal, and other helpful suggestions and examples.)

In choosing the experiences and the style of research, the proposed project’s purpose is to:

- (1) Yield findings of practical interest to the WB/DFID and the Brazilian public sector over a two-year period, with interim discussions with Brazilian actors and WB/DFID staff on emerging impressions, draft papers, and next-step questions throughout the period.
- (2) Identify certain opportunities—sometimes missed—for a public-sector role based on existing experiences and their histories, which often would not require significant increases in resources or radically different ways of doing things—hence could generate significant impacts at the margin for a small investment of resources and time.
- (3) Follow a process throughout that—in addition to field interviewing and data collection—engages with small groups of public-sector managers and “front-line workers,” as well as relevant business and NGO groups, around what they judge to be their better examples of positive-sum outcomes and, equally, of less positive ones—addressing the “why’s?” for these contrasts in outcomes, and the processes of organizational learning by which they identified mistakes (or did not) and corrected them.
- (4) The project would be carried out by myself and a small team of researchers (3-6) over a two-year period. Methodologically (and substantively), it would build and improve upon my prior experience in four similarly applied research projects in Northeast Brazil over a ten-year period starting in 1992, in which I supervised small teams (5-8 each) of MIT graduate students trained by me in coursework and at fieldwork sites—as elaborated further in Section 5 on methodology, which also identifies the research team.

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<sup>1</sup>ISI refers to the import-substituting-industrialization policy regimes that characterized Latin America and many other developing countries around the world, which have been dismantled gradually starting in the 1980s in Latin America, and later for particular countries. Many of the debates about economic development policies have been couched in these terms—ISI and post-ISI. In Brazil, the process started in the 1980s, and many of today’s current economic-development advances had significant roots in that earlier policy regime.

In what follows, I identify four themes together with research questions, implications, and case illustrations. In addition, and for purposes of brevity, I use the term “regional economic development” and the acronym RED (or simply ED) to distinguish my subject from macroeconomic policies and outcomes, which are not treated here. RED outcomes and related policies and actors operate substantially at *subnational* levels (regional, state, micro-regional, and municipal, as well as related central-government actors—the latter being the central-government part of federated structures with strong subnational presence).

There is significant overlap between the themes presented, with almost every one of them present and of relevance in each of the others. They are strongly influenced by markets and civil society—including firms and their associations, nongovernment organizations, and social movements—all of which fall within the study’s analytical lens. At the same time, the proposal’s central focus is the public sector, its modernization, and lessons to be learned from existing experience. Finally, I suggest how and why some currently popular interpretations of existing experiences—including some of the well-known cases noted below—are actually *misreadings* or, at least, incomplete. To help interpret the lessons of such cases more accurately, the proposal identifies some examples of particular cases and institutional actors that would be suitable objects of research attention.

The proposal is organized according to the following set themes and related questions. Several of the themes overlap with each other, and each theme appears in almost all the case examples illustrated in the proposal, as do several of the same institutional actors:

***Section 1: Linkages and spillovers.*** What explains that—when looking across cases of regional economic development—some show significantly greater linkages, spillovers, and employment and/or income-distributing effects? Given that almost no such comparative studies on the Brazilian experience now exist as a basis for informing state-government policies to promote economic growth, how can the findings of such research meet this need?

***Section 2: The intersection between the rule of law and economic development.*** Why do some cases of improved implementation in the rule of law jeopardize competitiveness and economic development, while others co-exist easily with it and even advance it? What does the Brazilian experience show with respect to transforming the so-called zero- or net-negative outcomes to positive-sum outcomes?

***Section 3: Institutionalizing the mediation of conflict.*** What can be learned about experiences and environments in which the generic conflicts between differing interest groups and even different factions within public agencies are successfully mediated?—given the extent to which increasing democratization and decentralization has brought these conflicts more into the open.

***Section 4: Modernizing the state: discretion, commitment, and reform fractions.*** Running across all the themes, why do some public agencies and programs perform better and produce better outcomes, while others working under seemingly similar conditions do not? Why, in some cases, have reform fractions of dedicated civil servants with a strong collective identity as professionals been key in advancing reform and “modernizing” the state and, in other cases, not? In addition, under what circumstances is greater autonomy and discretion of civil servants associated with better performance in some cases and, in others, just the opposite?

Running clearly across these four themes and cited cases are *politics and political-economy* factors. They are often central to outcomes, whether for the worse *or* for the better—but are often not taken into account. When they are, the tendency is to focus on their negative side, and to see them as exogenous and random. When politicians are centrally behind better outcomes, then, why in these cases and not in the others, and what are the patterns that run across them? In turn, how do agency managers and professionals succeed in attracting political support—or even mold existing interest by politicians into forms that help, rather than hinder?

**Section 5** addresses research methodology; **Section 6** lists the research team with bios. **Annex A** summarizes across themes some cases and institutional-actor examples; and **Annex B** briefly summarizes and cuts across the preceding sections with case examples.

A word about references in the text and notes: I cite certain examples from—among others—from the writings of a handful of researchers who participated in my previous research projects, and/or who carried out their doctoral training and research under my supervision at MIT subsequently; I have indicated their names in *italics*; those three who are now participating in the proposed project team are indicated in ***bold italics***. Some of the examples in the text also draw on my own field interviews and writing over the last several years in Brazil, with and without the cited researchers.

## ***1. Linkages and spillovers***

Brazil can now point to various cases of impressive micro-regional economic growth. Some are clusters of small and medium firms, some are driven by a larger “leader” firm or groups of them, and some combine the two. Some of the most broadly acclaimed agricultural cases are those of soya in the Center-West savannahs and regions of some other states, and two Northeastern irrigated fruit-exporting regions in the Petrolina-Juazeiro (PJ) region of Pernambuco and Bahia, and of Mossoró-Açu (MA) in Rio Grande do Norte.<sup>1</sup> Among the other well-known cases of manufacturing clusters are (1) Brazil's two largest footwear producing clusters in the Sinos Valley of Rio Grande do Sul, and Franca in São Paulo state; in the Northeast, Campina-Grande in the state of Paraíba; and (3), the garment clusters of Fortaleza in Ceará, Recife and its *agreste* hinterland in Pernambuco; a thriving garment sector (under-garments) has also appeared in Frexeiras near Petrópolis in Rio de Janeiro state.<sup>3</sup>

Some of this growth has generated significant linkages and spillovers—the stuff of diversified and sustainable economic development—more sustained growth, and more widely distributed income. Some, however, has not. In all these cases, public policy and actors played a significant role—historically and/or currently, directly and indirectly, highly subsidized or more lightly so—sometimes involving minimal forms of support that had significant impact at the margin.

Linkages and spillovers in such cases are, as we know, many-times more significant than the direct ones in terms of increased employment and growth—the stuff of sustainable and diversified development. With some exceptions, there are few grounded studies of these Brazilian experiences and others that look *across* a set of such cases—or within particular ones—with the purpose of comparing the variation in their linkages and spillovers across different types of sectors, sub-regions, and different policy environments—and with an eye toward discerning implications of these patterns for policy and practice.<sup>4</sup> Why, for example, have large firms had more linkage and spillover effects in Ceará's dynamic SME garment cluster, making it one of the largest in Brazil, than has occurred with Pernambuco's Recife-and-*agreste*-based garment cluster?<sup>5</sup>

The current moment is a fruitful one for such an assessment, since there is now a considerable *post*-ISI history of subsidies and other forms of public support for subnational economic development—partly a result of Brazil's increasing fiscal and administrative decentralization. This particular form of support has been carried out increasingly over the last decade by state and municipal governments; on the economic-development side, there are growing attempts to attract outside investment. The most significant form of such support in fiscal terms takes the form of offering tax incentives, subsidization of complementary infrastructure investments, and credit on favorable terms.

The public investments in attracting and keeping outsider firms also merit inquiry on comparative linkage and spillover effects. This is partly because so much confidence is

placed by governments on them as “engines” of local development, and their role as “anchor” or “leader” firms in modernizing the local economy and the organizational culture of local firms—and partly because they have important fiscal impacts on state and local budgets. Under what circumstances and in which kinds of sectors is the impact greater and more broadly distributed? (Because this matter may be of less interest to the World Bank, it is treated in Annex A. The annex identifies a problem of asymmetric information between the parties to these arrangements—namely, the outsider firm and the state government—and a linked collective-action problem across the various states that keeps these policies to attract outside firms from having greater impact than they now do. This is the kind of challenge that merits support for comparative evaluation research at the *supra*-state level that can improve fiscal and ED policy in this major area of state government policy, since it would facilitate the sharing of information among public-sector technicians across states in a way that avoids the collective-action problem and its politics. It is a relatively minor endeavor, and could lead to significantly increased linkage and spillover effects.)

## ***2. The intersection between the rule of law and economic development***

As part of the strengthening of Brazil’s institutions of governance over the last decades, certain regulatory actors have played an increasing role in enforcing the rule of law, including in areas directly affecting economic development—environmental and labor standards, uses of land and land conflicts, collection of taxes and exemptions from them, claims to land, as well as claims and counter-claims around these issues with respect to infrastructure, energy, and other development projects. The regulatory actors of most significance for WB concerns about economic, as well as social, development are: the *Ministério Público* (MP) and its state-level offices and lawyer-prosecutors; government institutes like IBAMA and the *Ministério do Meio-Ambiente* (including environmental-inspection services at the state level) to which it belongs; and INCRA (land) and the *Ministério de Desenvolvimento Agrário* (MDA) to which it belongs; also, the *Ministério do Trabalho* and the state labor-inspection services of the Ministry of labor and tax-enforcement officers of the finance ministry.<sup>6</sup>

Nongovernment organizations and other civil-society actors often interact with these agencies—even making informal alliances with them in some cases, and fiercely criticizing them in others. Similarly, business and public actors concerned about re-kindling Brazil’s growth complain about the undermining effect of over-zealousness by enforcement agencies. Adding to this contrasting mix, polls show that the Brazilian public ranks the MP as the most trusted public institution in Brazil.<sup>7</sup> These contrasting portrayals, together with the variation in outcomes across different regions and states, beg for comparative inquiry.

Most important for anchoring a comparative study of these contrasting views and outcomes, these have sometimes transformed potentially zero- or negative-sum outcomes

into positive-sum ones. In these cases, in other words, that have not only improved the rule of law and protected the legal rights of citizens, but they have also contributed to making economic development more sustainable *without* jeopardizing competitiveness. This is partly because of the quality and process of upgrading by firms and across firm clusters with which the regulatory actions were associated their actions were associated; they were associated, also, with increased access by firms to more demanding markets—a particularly important reason for analyzing such a set of cases. Similarly, in such instances, formalization has become more attractive and financially viable to informal-sector firms because the mode of enforcement is combined with help in how to comply, which sets these firms on a path toward upgrading.

The proposed research, then, seeks to understand why some regulatory actions have had these positive-sum outcomes for economic development *and* for improving the rule of law, and others have not. This will also throw light on how to improve the business climate in a way that is consistent with concerns about modern standards, and protecting citizens and public goods like the environment. Without such an understanding, the twinned goals of increasing economic development *and* increasing the reach of the law are unnecessarily compromised.

### ***3. Institutionalizing the mediation of conflict***

Economic development routinely generates tensions and conflict between various interest groups. Countries that develop and open their trade successfully, as we know, have usually done better at institutionalizing the processes of mediating such conflicts of interest (Rodrik). Some of the most important and enduring conflicts generated by ED are those between (1) firms and workers, (2) landowners and tenants, or squatters with *de-facto* rights, (3) users of infrastructure projects and those negatively affected by them, and (4) least noted but central to RED outcomes, the conflicts of interest between various sub-sectors along the supply-chain of a firm cluster (input producers, for example, and input buyers).

In identifying this last type of conflict and its growth-crippling effects, Hubert Schmitz' research is almost unique in the recent development literature on value chains and clusters—as illustrated through his case study of Brazil's largest footwear-exporting cluster in the Sinos Valley of Rio Grande do Sul, which caused the country to become the world's largest footwear exporter in the mid-1990s. Schmitz shows how these sub-sectors were unable to take the collective action that would have been necessary to overcome a major crisis—the tidal wave of cheap Chinese footwear arriving in the Brazilian and international market. Remarkably for the larger point here about the importance of institutionalized processes of conflict mediation, the federation of subsector associations—usually leery of federal-government involvement—appealed to the federal government to mediate. The government asked, instead, that the federated associations go back and reach a consensus among themselves *first* about what to ask for, and then come back for help. They couldn't.

Generically different interests across clusters of firms in the same value chain, then, can inhibit early signs of robust growth to the extent that they hinder the collective action among cluster sub-sectors that is often central to overcoming market crises that typically face clusters, or simply reducing certain obstacles to upgrading and accessing outside markets, which often cannot be resolved by individual firm action.

Brazil's recent history of democratization, decentralization, and support for civil society and demand-making on government has increased the importance of strengthening institutions to mediate disputes. (Similarly, with respect to the emphasis placed by WB, other donors, and many Brazilians themselves on service-delivery approaches that facilitate demand-driven pressures for accountability.) In recent years, Brazil has paid serious attention to building capacity to mediate conflicts and other forms of disputation—although not necessarily calling it that, and not specific to ED-type cases. About five years ago, among other things, the federal government passed a law requiring that the government certify certain universities and other organizations to develop training in this area.

Certain public agencies are themselves taking initiatives in mediating conflicts, whether or not this is their responsibility. The *Ministério Público* (MP), for example, has mediated various conflicts at the local level in the past few years (and is proud of it), some in the ED area. A few examples involve attempts to reduce child labor in the footwear cluster of Franca and the sugar-producing region of Ribeirão-Preto, both in the state of São Paulo; and to reduce serious industrial river pollution caused by the thriving garment and jeans-washing cluster of Toritama in Pernambuco.<sup>8</sup> The Franca case actually illustrates one of those positive cases where enforcement actually helps competitiveness: the complying firms received a child-labor-free seal that helped them compete in domestic and foreign consumer markets concerned about these matters.

In some important agricultural and manufacturing clusters, in turn, Brazil's formal institutions for managing the generic conflict of interest between firms and workers in some cases have been able to contribute to positive-sum outcomes to conflicts between labor and firms. One major set of examples is the institutionalization of mechanisms to mediate labor-capital disputes in Brazil's successful fruit-exporting clusters in the Petrolina-Juazeiro and Mossoró regions of Northeast Brazil,<sup>9</sup> a part of the PJ story that almost never appears in the writings on that case (with the exception of *Damiani*). These developments left in place local institutions, rules-of-the-game, and improved worker protections under existing law that did *not* jeopardize the cluster's competitiveness. Indeed, they were intertwined with *growing* competitiveness of the cluster in international markets, in that firms needed permanent and "better" workers to meet the demands of global buyers—not for labor-friendly fruit—but for better quality, reliability in meeting contract dates, and year-round availability. "Better" and permanent workers could not be found, however, and would not accept the temporary work and the absence of fringe benefits and other protections that typified the sector before the ratcheting up of buyer demands. A revisiting of the PJ case and any others like it with these questions in mind would provide a better understanding of the path to these positive-sum outcomes.



On the ED side, little research attention has been paid to these conflict-mediating institutions or, at least, to understanding why there has been more progress in some cases while conflict continues to fester and stymie economic development in others. Indeed, we ourselves stumbled only accidentally on the MP prosecutors (and MMA inspectors) during field visits to some clusters with the purpose of finding out why some clusters did better than others and why. As with other students of clusters and local economic development, we typically interviewed mainly firms, firm associations, politicians, and government only in economic-development agencies—like the *Secretária de Indústria e Comércio*, small-and-medium firm assistance agencies (SEBRAE), the training entities for workers and firm-owners in industry (SENAI) and retail (SENAC), the agricultural-research and -extension agencies, the development banks.

The relative lack of attention paid to the importance of mediating conflicting interests in furthering economic growth at the regional level may be explained, in part, by the interest in institutional forms that rely on or assume an underlying *harmony* of interests—whether as a basis for public-private partnerships, or decentralizing decisionmaking to “the community.” At the same time, however, recognizing the enduring nature of generic conflicts is also required, and the building of institutional approaches to dealing with them. Much is to be learned from the lessons of these positive-sum outcomes of conflict mediation, then, and the institutional architecture that facilitates them.

#### ***4. Modernizing the state: discretion, commitment, and reform fractions***

In the sectors mentioned in this proposal, the histories of successful outcomes in public-sector reforms often involve sustained initiatives by public-sector professionals and para-professionals: from the elite prosecutor-lawyers of the *Ministério Público*, for example, through the water-and-sanitation and environmental engineers, agronomists (*engenheiros agrônomos*), to agricultural-extension agents, bank-lending officers, and on down through local-level forest workers, health agents and similar para-professionals. Also included, obviously, are: professionals like inspectors, lawyers, and prosecutors in the civil *regulatory* sphere—environmental, forest, land-title regularization, land-reform, and labor protections (such as child labor, workplace health-and-safety, and other protective labor regulations).

This study would look across a set of positive cases with matching negative cases, as described in the methodology section. Brazil’s central government’s extensive federated network of subnational offices provides an excellent comparative framework for carrying out such a study. A few examples of relevance to the proposed research are the *Ministério Público*, IBAMA and the *Ministério do Meio Ambiente* of which it is a part, and INCRA and the *Ministério de Desenvolvimento Agrário* of which it is a part. Their federated structures, operating under uniform regulations and procedures, together with the same kinds of professionals (prosecutors, environmental and labor inspectors, lawyers, agricultural and business extensionists, etc.)—represent parameters within which outcomes

vary strikingly across states and within states across *municípios* or micro-regions—as well as by type of activity, and the way professionals exercise their discretion.

Histories of progress in certain reforms often reveal that fractions of dedicated civil servants have played an important role through the years in discussing among themselves how to improve the service, experimenting collectively and learning from mistakes, and networking with other actors in this process. Equally important, their success often lies in attracting—with technically strong proposals—the fancy of politicians with power. Such ready-to-go proposals, backed by a collective history of expertise and implementation experience, hold out the promise to new mayors and governors for getting a running start on bold initiatives once they take office.

To cite one of many examples, in the last phases of the 1996 gubernatorial campaign in Ceará, the then-PMDB candidate for governor in Ceará—Tasso Jereissati—made his choice for *Secretário de Saúde Público* after seeing him for the first time on local television, presenting an impressive proposal for a bold new approach to preventive-health in the state’s interior, where infant-mortality rates were among the highest in Brazil. Within a few years, the state and its governor became famous throughout Brazil for the new program’s dramatic achievements in reducing the state’s infant-mortality rates, among other improvements. Partly through the governor’s “marketing” of this success, the program became famous both inside and outside Brazil; it earned prestigious international awards, and was adopted by the central government for replication throughout the country. The new *Secretário* had been a long-standing member of a network of a reform-fraction public-health physicians.

The germination periods of successful programs, in turn, usually include a combination of strong starts, subsequent setbacks and returns to the *status quo ante*, and then re-takings of the earlier pace and advance—adding up to a long upward trajectory. In Brazil, there are many examples, such as that of the public-health physicians and of nurses with respect to health reforms, and the sanitary engineers with respect to water-and-sewerage reforms (the *condomínial* system), agricultural engineers and agricultural-extensionists dedicated to small-farm agriculture, and many others. If there is continuity and increasing improvement, it is often sustained in one form or another by these fractions and their group identity as professionals or para-professionals. In turn, it is the *collective* nature of the identity—as distinct from individual incentives—that elicits dedication to the job and commitment to the client.

Even when newly-elected governments bring in different political parties and new top staff—displacing previously-installed reform fractions from key positions—the shared past experience of the previous government’s professionals lives on in another form. Because the new governors or mayors are looking for ready-to-go initiatives that are technically viable and politically promising, they often call back some of the previous-government’s best technicians with remarkable ease. Frequently, the latter seem to pop up elsewhere after such changes in government—in other agencies of the same government (sometimes

requested by and seconded to other agencies more interested in their experience and reform agenda); or they become private consultants, even to the very government that formally displaced them and their initiatives. Among the various examples of the seconding of serious professionals from one agency to another is the current federal government's seconding of a fraction of top INCRA lawyers to IBAMA.

With respect to new opposition-party governments taking over and letting go of existing top professionals associated with the previous government—who then turn up as consultants to the new government—Minas Gerais' acclaimed reform and decentralization of public education is an excellent example. The 20-year trajectory leading up to Minas Gerais' successful education reform is a marked example of continuity lurking behind discontinuity, as well as of new governments relying on professionals of previous and even opposition governments. Of the considerable literature on this case, one study in particular discovers and traces this continuity-within-discontinuity (Carlos Rocha's 2005 *Dados* article, based on a USP dissertation.)

Another example of such continuing threads is the recruitment by new municipal governments of ex-*Secretários* from other *municípios* who had made their mark as designers and managers of successful programs there—often in governments of a party of the opposition to that of the now-recruiting government. One example from Ceará was the serious efforts made by a PMDB mayor to recruit a previous *PT Secretário de Saúde* from a small *município* (Icapuí), which had become widely known for the awards it received and hence widely marketed by the *PT* as a *PT* success story. This kind of recruitment occurs across states as well, with a new governor recruiting a recently out-of-office government of another state—often quite far away. Ceará's governor, again, recruited Parana's ex-*Secretário de Educação*, drawn by his record of serious endeavor in this area.

The backing-and-forthing between different sectors and agencies results in a kind of blurred boundary between the public and private (profit and nonprofit) sectors. We know more about the negative side of such blurring, however, than its positive side—including its threads of continuity in the process of experimenting, learning from mistakes, and adapting programs accordingly.

***Street-level bureaucrats, and continuity behind discontinuity.*** Some of the above observations may seem obvious because they are central to the literature of the sociology of organizations, and grounded in empirical work inside—and across—such organizations, both public and private. The studies of “street-level” bureaucrats (SLBs) and “front-line workers” (FLWs) is particularly relevant to the matter of reform fractions, because SLB bureaucracies like those noted above face the problem of how to elicit dedication and commitment from civil servants and other workers who—because their job is out of view of a supervisor—have considerable autonomy and, hence, discretion over how to carry out the job. The relative autonomy of SLBs, and the discretion that it allows, pose an important research challenge. On the one hand, the literature—and various other

observers—point to discretion as leading to better performance in some cases and, in others, to just the *opposite*, in the form of corruption and other forms of self-interested behavior, or overly aggressive actions in enforcing the law.

The sociology of organizations and its emphasis on collective identities of workers has a long history of grounded research in large public and private organizations. It long preceded the focus of the development literature and donors on governance and capacity-building. It is still rather weakly represented in this latter literature, as well as in the Brazilian research, even in public-administration schools—let alone in poorer countries. (A recent look at libraries and university bookstores in São Paulo found little analysis of this nature on public agencies, with the possible exception of a few master's and doctoral theses.)

With some exceptions, more recent studies in the development field around service-delivery and governance tend to use the analytic lens of public and rational choice. While an important contribution, these frameworks point mainly to *individual* incentives (and disincentives) to worker performance—like pay for performance and other salary matters, and disincentives to poor performance and corruption—rather than the way in which the *collective* identities of civil servants contribute to eliciting dedicated behavior and improved performance. An interesting exception is a 2006 WB study comparing performance across two hospitals in Curitiba and São Paulo; the study found that the better performances in one set of cases was explained by the greater discretion and autonomy hospital managers had, in contrast to study's original hypothesis of *individual* incentives in the form of better salary.

Collective identity and reform fractions have remained somewhat in the shadows for other reasons as well. Among them: (1) the tendency to explain better outcomes in terms of a single dynamic leader (or politician)—not inaccurate, but shorter-term and idiosyncratic explanations that are hard to replicate, and also miss the groundwork that preceded them; (2) the fiscal crisis of the state, which led to over-arching pre-occupation by governments and donors with reducing the size of the public-sector and, correspondingly, dealing with the high political costs of doing so; and, (3) the common view of public-sector professionals and their associations and/or unions as mainly blocking reform to protect their own private interests, rather than as also providing an identity and agenda for serving the public good in which they ground their work. (Both negative and positive behaviors of associations and unions, of course, can co-exist—but more attention of macro-reformers and other tends to be focused on the negative side.)

Some reform fractions that are committed to improving their programs sometimes even break away from their professional association or public-sector union to form NGOs that can better serve the public agency that they left through improved technical analysis and experimentation. Or, they simply unite like-minded public professionals in new and smaller organizations. Brazilian examples that come to mind are: the NGO formed by ex-Bank-of-Brazil officers dedicated to microcredit; the new organization just emerging from

the *Forum Brasileiro de Segurança Pública*, composed of progressive police managers and public-safety directors—civil and military, state and municipal—and others to discuss and propose reforms in the sector; a now-nationwide *Associação Juizes para a Democracia*, formed by 37 judges in São Paulo in 1991; a membership-based NGO for reform fractions of prosecutors of the *Ministério Público*; and the cross-agency group of public-sector lawyers, judges, and prosecutors concerned with environmental issues—*Instituto Direito para uma Planeta Verde*.

Some of the many cases like these in Brazil are better known, but others have barely been chronicled for purposes of understanding their dynamics, and learning lessons about how to support them. One exception among others<sup>19</sup>—and one of the best-chronicled cases for our analytical purposes—involves a small group of economists and other social scientists who broke away from a labor-union federation to found an NGO (DIEESE)<sup>19</sup> in São Paulo dedicated to better technical analysis of cost-of-living and other relevant data, which they have provided for many years not only to workers and other workers associations, but to state and municipal governments requesting it.<sup>19</sup> Like DIEESE, some of these reform-minded professional NGOs and associations have come to be partially supported by foreign donors—after demonstrating their seriousness and expertise—such as the northern Europeans (DIEESE) and U.S.-based foundations like Ford (the Brazilian public-safety forum) and others.

***Intra-agency cleavage.*** The notion of “reform fractions” with which this section began does not particularly convey a sense of cleavage within organizations. Reform fractions, however, are not always at the head of the pack, leading their agency or program through the years into its ultimate stature as “model” of the modernized state. At any particular moment in time, that is, they often represent one side of an enduring cleavage within agencies—among different groups of professionals, or within them. Sometimes they are actually quite weak—consigned to inconspicuous places like offices without windows—and sometimes, even overnight, they become strong. I turn now to these cleavages for two reasons. One is that they show how agencies are far from homogeneous in seeing through a successful “model” and then hewing to it. The other is that extraneous as well as internal events can sometimes tip the balance quickly from one side of the cleavage to the other. To understand the sequence of events leading up to the tipping points is to help identify significant opportunities for external support.

Though government agencies are usually portrayed as single actors, they are often themselves hotbeds of internal cleavage about what is the best way to proceed. As the histories of many agencies reveal, these pro- and -con fractions hew to different views on how to design and implement certain policies and programs, based on underlying differences on what causes the “best” kind of development, which priorities should come first, and ideology. Even what constitutes the “correct” technical standard is often contested from within for these reasons. One side may gain ascendancy in some periods, and then decline in others, the balance of influence of either side being easily tipped by

various events—like the appointment of a new agency or department manager, the growing political cost of outside organized protest about a particular policy or program, the election of a new president, governor, or mayor. Otherwise, the two sides co-exist uneasily. Sometimes this paralyzes action, and other times it creates a dynamic tension with positive results.

These intra-organizational cleavages, and which side gets the upper hand and how, are often central to understanding outcomes. Yet such questions are rarely explored in the assessments of successful programs, let alone contrasted to the less successful ones. Instead, evaluations typically focus on the models' design and ingredients at the moment in time when it comes to be considered successful.

Brazil's internationally recognized agricultural-research parastatal, EMBRAPA, provides a typical example of this kind of cleavage. EMBRAPA is well known as one of the important early drivers of Brazil's achievements in developing soya and grains for export in the Center-West region, and in other cases like the much-acclaimed fruit-export success of Petrolina-Juazeiro. The cleavage among EMBRAPA and CODEVASF professionals provides a convenient way of explaining how the positive side of the dynamic can work. Throughout the history, to simplify, disagreement has thrived between those EMBRAPA professionals favoring a model of "modern" commercial growers, and those favoring that of small-farm agriculture, or at least insisting that the latter type of producers and support to them also be included in a program.<sup>19</sup> A similar cleavage marks the history of the equally-powerful parastatal that developed the São Francisco River Valley region, CODEVASF. That parastatal, by the way, was originally modeled on the famous example of the U.S. Tennessee Valley Authority, founded in the 1940s—and TVA's history was similarly rife with internal cleavages, as documented particularly well in Selznick's study.

Another example of cleavage is that, currently, within the *Ministério de Desenvolvimento Agrário* between the two departments—*Crédito Fundário* and *Reordenamento Agrário*, with respect to the question of land distribution. The two different department names are, in a sense, polite ways of distinguishing between those who believe that the best way to redistribute land is through the market (making land credit more accessible to small farmers), and those who believe that more direct forms of state management are required—with a little help from social movements. Cleavages around other central matters can be found in other agencies, like the *Ministério do Meio Ambiente*. The classic cleavage among fractions of engineers in public agencies is well known: how much standards can be "lowered" without compromising professionalism, in order to reduce the unit cost of expanding infrastructure and housing significantly to the poor, whether it be electric power for small-scale irrigators or housing and infrastructure for poor settlements.

This sustained disagreement-*cum*-coexistence within the same organization sometimes fosters a kind of *intra*-organizational technical vigilance by the weaker faction of what the stronger side is doing (and vice-versa).<sup>19</sup> The only way the weaker side has any power over the matter is to hold the other side's feet to the fire in terms of the latter's own standards,

and carrying out things honestly and seriously. In the positive scenario, illustrated in the following subsection, this translates into pressures for accountability from *within* the organization by one side *vis-à-vis* the other and, in some cases, outcomes that are better—whether in technical, economic, and/or distributional terms. Sometimes, this kind of “mistrust” and demands for accountability can be just as important in improving agency performance as the more familiar demands on the organization from *outside*—i.e., from groups of users of its services and those not being served adequately.

***The political-economy of reform fractions.*** The history of CODEVASF’s central role in developing the Petrolina-Juazeiro success story illustrates the sometimes-positive side of the cleavage dynamic. As often happens, it was not the two groups of technicians in this particular case who worked out their differences—which remain in one form or another to this day. The inclusion of both sides of the debate in the CODEVASF design was forged by a politician with vote-getting concerns, and for whom the project to develop the San Francisco River Valley was a major political *coup*, for which he lobbied vigorously. This governor/legislator, from a strong political family with a tradition in the region’s history, declared the solution by *fiat*. He had a highly *desenvolvimentista* vision (in this case, “modern agriculture) and, at the same time, cultivated a large constituency in classical clientelist ways among the numerous small farmers and other poor rural dwellers in the region (“small-farm agriculture.) He insisted, then, that “modern agriculture” and “small-farm agriculture” be included in the program’s design.

The result was a regional success story in PJ that combines a modern and diversified regional agro-export economy shot through with a thriving smaller-farm fruit-growing one—as well as various input-supplying and output-processing enterprises. This contributed to, among other things, to some of the highest growth rates of PJ *municípios* for more than a decade in comparison to the rest of the poor Northeast—and, unusually for the Northeast, a net positive rate of *immigration*, indicating the higher and sustained rates of growth in employment. (In recent years, PJ has stood out less on these indicators in the Northeast, including that measuring inequality.)

Politicians’ preferences and styles, then, can have a direct impact on the fortunes of both of these professional fractions within agencies, sometimes even combining the two approaches to good effect. They are able to realize their visions, however, partly because an agency with strong technical expertise and experience is already in place. That politicians and “politics” have an impact on technically “sound” development policies and programs is not a new observation. But in practice we know more about the negative side of such political “intervention” than about how to make the positive side work better.

This study seeks to understand better the way agencies and their professionals can better harness this kind of political support—rather than only rueing it. It will analyze the patterns that emerge across the cases in terms of political “interference” that helped and that which hindered, with a view toward understanding how professionals can attract the support of

particular politicians to the good and, when necessary, modify project details to elicit their backing.

***Implications for practice.*** I call attention to the subject of reform fractions of public professionals and other civil servants because they often lack support of a technical nature, as well as the resources to network more among themselves and relevant others. In Brazil and elsewhere, dedicated professionals and other civil servants often speak of feeling isolated—let alone not being asked—with respect to their thoughts about how to improve the service they work for. This is particularly the case with those working in the poorer parts of certain states or in less developed states in the country. The isolation, paired with the greater relative technical weakness of local and state governments in poorer regions, assumes greater significance as Brazil modernizes its public sector by decentralizing to state and municipal governments, where professional expertise is already thinner and opportunities to network weaker. In this context, the most sensibly designed programs often morph into something rather mediocre, traditional, and ineffective in practice, no matter how good they look on paper.<sup>22</sup>

The WB has provided numerous opportunities for professionals (and sometimes para-professionals) to attend meetings. Many of these involve learning about other experiences outside the country, or training in how to do certain kinds of analyses like environmental impact statements, and logframe-type spread sheets. Not infrequently, however, the attendees at such meetings and workshops say they would like more opportunities to network on their own terms about their own problems, and to acquire a more sustained informal access to experts in their field that helps them work on problems in an *ad hoc* fashion as they come up—problems that they define, along with support to learn to do the analysis themselves.<sup>22</sup> Public-sector professionals who have been central to cases of improved state performance and adoption of reforms, for example, often point to retreat-type meetings with their co-professionals in government in other parts of the country as having been central to their ability to change the way they do things, partly because of the resulting opportunity to build informal networks within the country, on which they could call at any moment to discuss particular challenges.

## ***5. Methodology***

This project would be carried out by myself and a small team of researchers—starting first with three or four researchers—identified in the next section—and perhaps evolving to five or six over the course of the two-year project. Methodologically, it builds on an approach I have developed in doing my own field research in Brazil and elsewhere over the last 30 years.<sup>22</sup>

The methodology also builds and improves upon my more recent experience during the 1990s and early 2000s in four similarly applied and comparative research projects within



Northeast Brazil, over a ten-year period starting in 1992, during which I supervised teams (six to nine each) of MIT graduate students trained by me at MIT in prior course work and research methodology, and then in the field in Brazil.<sup>22</sup> The first three projects were funded by the state governments of Ceará and Maranhão—partly out of funds for evaluation research in WB projects, though not dedicated to these projects exclusively; the last and Northeast-wide project was funded by the Bank of the Northeast.<sup>22</sup>

My book, *Good Government in the Tropics*, was based on these first two projects; the same with my four or five monographs and publications from the fourth project with the BNB. (On two separate occasions, MIT awarded these research projects and their methodology, for combining research with graduate education to produce outstanding applied research and practical findings.) The current project would not be Northeast-specific, given the additional learning to be gained from a cross-regional perspective—for example, the relevance of lessons learned in the Northeast for the North; or patterns of public performance that run across poorer and richer regions. (I have considerable field-evaluation and other research experience in Brazil outside the Northeast, as well as outside Brazil.)

The methodology involves looking into and across cases through the analysis of existing data and intensive interviewing of actors and clients, focusing at least as much on the build-up of capacity through the years, as on current comparative judgments. Akin to a “natural experiment,” it compares what has worked and what has not across various cases, and identifies patterns running across similar kinds of public agencies, programs, and projects with outcomes that vary remarkably across regions (states, municipalities, micro-regions), types of activity, and types of bureaucracy. My WB/OED evaluation study—the *New-Lessons* study noted earlier is one example of applying such a methodology to WB projects: the same type of project (the Northeast rural-development projects after a ten-year history), within a roughly homogeneous region (the semi-arid and relatively poor Northeast), and the same strong funder and funder presence (WB)—nine similar projects in nine Northeast states.<sup>22</sup> The Ceará-state research that gave rise to *Good Government in the Tropics* used a similar comparative approach—this time looking for patterns across different *sectors* (preventive health, drought relief, agricultural extension, small-business programs) *within* one state, as well as looking within each sector.

The process of case selection and development, and the questions to be asked, will be—as in the previous studies—highly iterative. Our interview and other research questions attempting to understand better outcomes will be forged partly out of a prior understanding of the reasons usually put forward for *less* impressive outcomes. We ask specifically, for example, why a particular problem like corruption or political interference or change in government did *not* occur in a particular case; or, if it *did* occur—as is often the case—why it did *not* prevent improved outcomes. In asking such questions, we often refer to other places—like the neighboring *município* or state—where the problem *did* occur and *was* undermining (either in the same program, same agency, and/or in the neighboring town or state, etc.).

Another interviewing challenge lies in the typical explanations given by those interviewed of positive outcomes. They often give short-term and idiosyncratic explanations, pointing to the presence, for example, of a “dynamic,” “charismatic,” or “visionary” program director or elected leader. In so doing, they focus on the *discontinuity* with previous government, explaining how the new one had to “start from scratch.” Interviewing methodology requires getting beyond this “firewall” in perceptions between the current and past government, by going back in time. We also ask, for this reason, a set of questions about *process*, given that learning from experience is often key to learning lessons from better programs. For example: what did you do in the past that you don’t do now and why? What mistakes were made that you corrected and how were they identified? How did you know that something was not working?

With respect to the focus of questions on local and regional economic development, an analogous methodological challenge relates to the common complaints by business about government presence—whether they concern a too-heavy presence, regulatory or otherwise—or the opposite in terms of desired support, namely, little or no presence. Many analysts of government policy and programs, in turn, often point to a “*too-supportive*” presence in the form of costly subsidies and heavy-handed intervention. In the more nuanced picture, even though subsidization may have been heavy—often generating economically perverse results—it is sometimes the unnoticed “lighter” forms of support that turned out to be key in generating enduring impacts, often long after the heavier policy regime was dismantled. Looking at a longer historical trajectory, finally, does not mean that outside support requires equally long time periods to bear fruit. In many cases, however, the lessons to be learned from the past experience can be easily “dis-embedded” from the broader policy regime under which they occurred.

The methodology is meant to allow each researcher to develop his own set of cases, while at the same time embedding the individual research in the questions running across the larger project and the themes that define it. To this end, the process will involve periodic meetings among the members of the team and myself during the research—in the field and at MIT—to elicit emerging questions, puzzles, impressions, next steps, and patterns. I also selectively accompany each of the researchers in some field interviews—partly for me to understand directly, partly to point out next questions to ask or, afterward, to mention questions that should have been asked following up on a response to a prior question—the common “missed opportunity” in interviewing.

## ***6. Research-team bios :***

As noted in the introduction, I have indicated in ***bold italics*** in the preceding text and notes the names of a set of MIT doctoral researchers whose work I have supervised in Brazil currently or in the past, mostly Brazilian or Spanish Americans—and including the three Brazilian doctoral researchers who will participate in the proposed project. They are in their thirties, highly qualified, and work for or have worked for Brazilian public-sector

institutions and/or universities and other research entities. All write in English and Portuguese, have substantial field-research experience in Brazil, and have produced papers and publications. They are:

### **1. Salo Coslovsky**

MIT/DUSP doctoral student starting fourth year; initiated field research on dissertation on *Ministério Público* (MP) in June—after several weeks of reviewing the literature on the agency and some interviewing. Field research so far in municipality of São Paulo as compared to MP activities in the interior of the state; will probably include Brazil’s North as one comparison case. Prior experience as FAO consultant with *Ministério do Meio-Ambiente* (MMA), particularly the Sustainable Forest Products Department, and particularly in the North/Amazon region; substantial field experience there (particularly Pará and Acre), and participant observation with various stakeholders—lawyers in the MMA, regional offices of various other government agencies in the region (including MP prosecutors), illegal loggers of mahogany, business associations, rural workers’ unions of those working for the loggers, and various other civil-society actors.

While at MIT, he has researched and written three outstanding papers on Brazilian issues, for one of which he earned the MIT-wide Siegel prize for best paper of the year in Science and Technology (about which Brazil’s syndicated journalist and historian Elio Gaspari wrote a laudatory op-ed column in the *Folha de São Paulo*). B.A. from Fundação Getúlio Vargas in São Paulo; M.A. in international relations from Fletcher School at Tufts University in Boston area. His application to the DUSP/MIT Ph.D program ranked him first among the 60 candidates who applied to the International Development Program that year, and he had the highest GRE scores as well. With this ranking, he was awarded the only three-year full fellowship from MIT for that program group. Ph.D specializations: economic development, and organizations/public bureaucracies. Will continue for several months in Brazil carrying out his field research.

### **2. Mansueto Almeida**

MIT/DUSP Ph.D student, now doing dissertation fieldwork under my supervision comparing clusters that improved standards substantially in the environmental and other areas, as part of a process of upgrading and seeking better markets—as vs. similar clusters in the same sector that did not. These cases are of interest because they represent the “positive-sum” outcomes of adopting better standards noted earlier, and in which regulatory enforcement did not jeopardize competitiveness; indeed, regulators in such positive cases actually helped firms learn what they needed to do to comply.

Previous to joining the MIT Ph.D program, he was *técnico* (“researcher”) at the *Ministério da Fazenda* (Pedro Malan recommended him highly when I called him about Almeida’s application to MIT). In 1997, he was selected by IPEA, through a national competition for

a position as *Técnico de Planejamento e Pesquisa* in their Department of Urban Studies and Regional Economics; there, he has carried out research and coordinated studies in the area of regional studies, industrial policy, clusters (including membership in an inter-ministerial group to improve coordination among federal institutions in cluster-support policies and programs). (He took leave from IPEA to pursue his MIT studies from 1998-2002, after which he returned to IPEA.)

M.A. in Economics, USP (1990-1994), Bachelor's in Economics, Federal University of Ceará (1984-1989). Won a national competition for CAPES/Fulbright fellowship for doctoral studies at MIT (1998-2002). For his first-year doctoral-paper, he participated in the MIT/BNB project under my supervision, carrying out three months of intensive fieldwork in Ceará on credit availability—or the lack thereof—from BNB and other banks to small and medium firms in the garment cluster there. Several publications. (Three years ago, he took temporary leave from MIT to return to IPEA, continuing some of the dissertation research he had started, with IPEA's support; within a few months, will take leave from IPEA to fully dedicate himself to field research on the comparison cases he has, and develop two to four new ones.) Doctoral exam fields: Economic Development, Fields of study for that MIT: economic development, public finance/fiscal decentralization.

### **3. Roberto Pires**

MIT/DUSP Ph.D student, starting second year. Fields are public policy, organizations and bureaucracy (with an emphasis on regulatory organizations). B.A. from PUC/Minas Gerais, Political Theory and Public Administration; Master's in Public Administration and Political Science from Fundação João Pinheiro in Minas Gerais, and, before matriculating at MIT, Assistant Professor in Public Administration at FJP (first FJP Master's graduate ever to be hired to teach there).

Among the 12 Ph.D admits to our department, Pires won the only MIT Presidential Fellowship for his first year; subsequently won the CAPES/Fulbright fellowship to complete his study at MIT (one among only three to win a national competition in his area). Substantial comparative field research experience on Brazilian municipalities carrying out participatory budgeting and other democratic innovations (local sectoral councils in health, education, etc.) as part of larger project coordinated by Professors Leonardo Avritzer of PUC/MG/Political Science and Gianpaolo Baiocchi of University of Massachusetts at Amherst. First-year doctoral paper compares New York and Massachusetts state Attorney's General offices with respect to protections of immigrant-worker rights in the workplace (involved substantial field interviewing of the institutional actors in both past and present, and fieldwork at day-labor pickup sites where Brazilian workers gathered).

### ***Summary: cases and institutional-actor examples***

**1. Regional-economic development.** What lessons do Brazil's regional-development advances hold for economic development and exporting that, at the same time, reveal forms of public support and types of economic activities that are more likely to sustain themselves—while, at the same time, spreading their income and employment impacts more widely within the region? Possible experiences run from the agro-export success stories of soya and grains in the Central West and other regions to the fruit-exporting clusters of Petrolina-Juazeiro and Mossoró-Açu in the Northeast and other areas, to the manufacturing clusters and proto-clusters in garments, footwear, furniture, metal-mechanic firms, and others throughout the country that are particularly important to the growth of poor regions, and poor corners in wealthier states. WB interest in efforts of municipal and state governments to improve the business climate so as to attract outside investment also fit here, in terms of results in terms of increased investment and correspondingly increased growth and accompanying broader income and employment effects.

**2. From zero-sum to positive-sum outcomes.** What practical insights does existing experience provide for dealing with and reducing various disputes between civil society and government around infrastructure and related business development—especially with respect to environmental, labor, and land-related concerns? Correspondingly, how can improved public-sector capacity in enforcing environment, land, labor, and other legislation take place without jeopardizing investment and growth? What can be learned from comparative case study about how the often zero-sum tradeoffs between, on the one hand, the development of infrastructure and associated private-sector development and, on the other hand, protecting the environment and the rights of citizens, can be turned into positive-sum outcomes?

These particular questions would focus, in part, on the regulatory institutions involved and the variation in outcomes of their enforcement and program-execution actions—whether positive or negative—across regions, states, municipalities, and types of activities. Three of the most relevant agencies would be the *Ministério Público*, the Ministry of Environment (MMA) and IBAMA, the Ministry of Agrarian of Agrarian Development (MDA) and INCRA, and the Ministry of Labor (including workplace health and safety).

**3. Regions: North, Northeast, etc.** With respect to region-specific research, how—for example—should the greater institutional and development challenges of Brazil's North be faced?—given its low population density, its low state presence outside the largest cities, and its salient combination of natural resources and concerns about the environment and re-arrangement of land-use patterns. How to go beyond a certain tendency to view less-

developed and poorer regions as either requiring *sui generis* institutional approaches because of the “uniqueness” of their problems or—at the opposite end of the spectrum—as requiring the simple extension to the region of extending institutional forms and approaches from other parts of the country?

By now, the North and other regions under development are experiencing growing conflict over environmental, land, and other development issues, increasingly strong social movements and NGOs active in some particular areas, and a growing regulatory and developmental presence of the state. In part, increasing democratization and decentralization have nurtured these developments, including support for civil society by government and outside donors. As a result, there are by now a large-enough set of cases with contrasting outcomes from which to discern some cross-cutting patterns.

### *States and municipalities: attracting outside investment*

One particularly important form of the Brazilian state and local governments' ED policies are the incentives they offer to outside firms to locate plants or even firm headquarters within their boundaries. Over the trade-liberalizing period of the last 15 years, these incentives have become a kind of "implicit" industrial policy in many states, which have dedicated increasing portions of their revenues and other available subsidies—current and future—to attract these outsider firms. The developmental impacts have varied significantly, which would make cross-case comparison of these experiences particularly helpful in distinguishing those approaches and types of investments that better meet the expectations around them with respect to linkages and jobs, not to mention spillover effects.

The experience with such subsidies in Brazil and elsewhere show they sometimes unnecessarily crowd out of budgets support to promising local firms and clusters, not to mention for education and health. (Conversations with *Secretários de Fazenda* in some Brazilian states attest to this, as well as the economic historiography of the U.S. Southern states, early masters in attracting outside investment with fiscal incentives.) Given the strong political appeal to governors and mayors of the outside "anchor" firms as engines of growth and job-creation machines, it is important to understand the conditions under which the expectations about outside investment as a driver of growth, linkages, and spillovers are more likely to be fulfilled.

Although these policies and the competitive "fiscal wars" (*guerras fiscais*) between the states that they engender have been the subject of much analysis and debate, this is less so with respect to a policy challenge and opportunity that is unique to them. Namely, they involve asymmetries of information in the bargaining process that prejudice the state governments (and even cities in some cases) *vis-à-vis* the firms they are trying to attract. These, in turn, are exacerbated by the collective-action problem of states' continual competition with each other to attract firms. State governments are unwilling and uninterested in sharing information with each other about the bargaining process and what concessions firms will agree to—even information of a technical nature. Because the "catch" of a new outsider firm by a state governor is such a conspicuous political event, it is difficult for technical departments to even carry out internal studies comparing outcomes. As a result, state governments often give away more revenue than they need to in order to attract outsider firms.<sup>22</sup>

As it now stands, many state and local governments—at both the political and technical level—do not know how to support outsider firms in a way that increases the probability of greater linkages. They also fear that anything they ask for in their negotiations will scare the prospective firms away other to other states or cities or countries competing for their attention. Significant opportunities are missed by such governments, therefore, to request

particular kinds of forms of “corporate social responsibility” in these negotiations, and to play an intermediating role in increasing the probability that linkages to local supplier or buyer firms will occur. Many of the more commonplace acts of corporate social responsibility now so popular in Brazil and volunteered by outsider firms to government, however, are not of this linkage-maximizing nature—like stand-alone health clinics or schools. Interested outsider firms, however, often view some concessions of the spillover or distributional variety as *minor*; they even welcome some such suggestions to the extent that they improve public relations and brand image in a region, as well as building the firm’s confidence that a government will support them in times of difficulty, not to mention coming through for the firm on its contractual obligations. (With respect to the latter problem, one of Brazil’s leading footwear firms closed a major plant in one Northeast state to move to another.)

In sum, comparing the varied experience of firm incentives and their outcomes across states, sectors, and types of support packages with the outcomes of the investments resulting from such firm incentives would help state and local governments to improve the outcomes of their local-development policies. More specifically, certain kinds of external support at the *supra*-state and *supra*-city level for comparative research and information-sharing among professionals across different cities and states in Brazil, could contribute to reducing the problem of growth-inhibiting asymmetries and the collective-action problem that plague the attempts of governments to learn from and improve upon these growth-promoting experiences. As is, certain opportunities to attract more growth-promoting outside investment are being missed and, as a result, the fisc and other programs it finances are sometimes compromised unnecessarily.



## *Endnotes*

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3. For garments, see *Sylvia Dohnert* for Recife and Fortaleza. For footwear, see Schmitz (Sinos Valley), *Monica Pinhanez* (Campina Grande), and Santanna, and Noronha & Turchi (IPEA)(Franca).

4. Two comparative field studies of economist Paulo Figueiredo of FGV/EBAPE/Rio constitute an exception. He asked, among other questions, why the recent histories of two multinational auto assemblers in the metropolitan region of Curitiba reveal completely opposite results with respect to linkages to local suppliers? In a previous research, similarly, he asked why does the Manaus free-trade zone—blessed with tax exemptions and other subsidies for years—show similarly opposite results with respect to linkages and spillovers emanating out from large outsider firms manufacturing bicycles as *vs.* those manufacturing motorcycles? Superficially, the policy environment within each matched pair of cases seems to be the same—strong fiscal incentives, subsidies, and foregone revenues.

5. For more balanced, empirically grounded renderings of these two cases, see *Sylvia Dohnert's* doctoral paper comparing the Ceará and Recife/*agreste* outcomes.

6. INCRA is the Intitucional Nacional de Colonização e Reforma Agrária. IBAMA is the Brazilian Institute of the Environment and Renewable Natural Resources, which operates throughout Brazil and is the regulatory and other executive presence of the *Ministério de Meio Ambiente* (MMA)—akin to a combination of the U.S. Environmental Protection Agency, Park Service, Forest Service, Fish & Wildlife Service, and perhaps a few others. On the ground, of course, there are often overlapping regulatory responsibilities between these agencies themselves, sometimes involving at least informal cooperation, and sometimes involving disagreement and even conflict, in the form of actions of one of these agencies against another—as sometimes the case as between MP *vs.* IBAMA in particular instances.

7. A 2004 IBOPE showed of the citizen esteem for public institutions shows MP at the top (58%), followed by 48% for the Judiciary, 40% for the Executive, and 35% for the Legislature.

8. Our attention was drawn to the MP and its prosecutors while doing research on clusters in Brazil, and looking for factors explaining their growth or stagnation. Namely, *Salo Coslovsky's* beginning doctoral research and writing on the MP, leading him to the Franca and Ribeirão Preto cases—as part of the MP's role in such cases in general and an analysis of the ministry as a “street-level bureaucracy.” (Noronha & Turchi's IPEA-sponsored study also analyzed labor conditions in the Franca footwear cluster.) Also, the research and writing of *Mansueto Almeida, Ella Lazarte* (DUSP/MIT Master's Thesis), and Lenita Turchi (IPEA) on the Toritama case in Pernambuco as contrasted to the similar Jaraguá case in Goiás—both quite similar garment clusters with opposite outcomes, especially with respect to similar MP enforcement. (A comparison of contrasting sets of such cases with respect to the role of the MP and other public actors is the subject of a forthcoming dissertation by *Almeida.*)

9. *Damiani* dissertation and LARR article; *Gomes* dissertation on Mossoró-Açu and our joint interviews there; and various e-mails from them in response to my questions about the nature of the

labor mediation that took place.

95. From another part of the world, see the Joshi study of the social-forestry success story in West Bengal. Though it became world-known as a model of forestry-management reform, with many studies of its success, only one identified and chronicled the singular role played by paraprofessional forest workers, organized in the Subordinate Forest Workers' Union (MIT/DUSP dissertation, and 2006 forthcoming article).

96. DIEESE is the Inter-union Department of Statistics and Socioeconomic Studies (*Departamento Intersindical de Estatística e Estudos Socioeconômicos*). Miguel Chaia's 1990s book, based on a Ph.D dissertation at USP, chronicles this 50-year history.

97. During the military government, in fact, DIEESE's analyses led indirectly to a major improvement in the IBGE's methodology of calculating increases in the cost-of-living index and, hence, a significant recuperation of real wage levels, particularly significant for low-wage workers. Even the *Estado de São Paulo's* editorial page at that time praised DIEESE's "more technically accurate" methodology in comparison to the IBGE, and urged the government to substitute this "better" and "fairer" methodology in its cost-of-living calculations, which the government ultimately did.

98. *Setrini*, in the doctoral program at MIT's Political Science Department, notes this same kind of intra-agency fissure in his second-year doctoral research paper on soya development in Brazil, with respect to the agricultural research parastatal, EMBRAPA.

99. I first came to understand this dynamic better through *Damiani's* case of CODEVASF and PJ's development—through conversations with him, based on his doctoral dissertation.

20. A good example is the recent plethora of programs to promote local economic development and involving support for proto-clusters in Brazil (*Arranjos Produtivos Locais—APLs*). Upon arriving in many of these municipal seats in Brazil where a new cluster program is being enacted, one sometimes find not much more than a newly-built *Palácio da Microempresa*, and a standardized program or two, like training. Yet one of the main findings of earlier historical research on clusters in the industrialized countries pointed to a quite different practical lesson about what drives cluster growth—namely, the prime importance of *process* rather than projects. Process meant *customized* problem-solving rather than standardized support and, hence, an iterative process in which bottlenecks are identified—step by step—by local stakeholders.

21. Extensive quotes from interviews with African professional attendees at WB-organized meetings in Africa report a similar kind of longing for a different kind of interaction (as quoted extensively by Michael Goldman from meetings he observed and conversations he had there with those attending, in his Yale University Press book, *Imperial Nature*). I heard similar pleas outside Brazil from a group of directors of African Revenue Authorities at a meeting a few years ago in Sussex organized at the Institute of Development Studies, as part of a DfID-funded research project on the Political Economy of Taxation in Developing Countries—in response to a WB/IMF presentation at the meeting on their new website for African (and other) tax-collection agencies.

22. An example of the type of practical and WB-relevant results from my individual research can be seen in OED's publication in the early 1990s of my *New Lessons from Old Projects: Lessons*

*from the Northeast Brazilian Experience*. The executive summary and Chapter 2, “Reinventing the projects,” are of methodological relevance to the current proposal. Another example, from outside Brazil and the WB, is my *World Development* article, “Whatever Happened to Poverty Alleviation,” based on my field study for the Ford Foundation of lessons to be learned for their programming in the future of their most successful grants in terms of widespread impact in India, Bangladesh, Kenya, and Egypt. This, and a subsequent exercise in interviewing Ford project officers in New York on what worked and what didn’t through the years and why, plus the ensuing report and meetings with staff and management around both exercises—had an impact on Ford’s programming, and the reports were also used as orientation materials for new program officers.

23. I considered only the following types of researchers to participate in the team for this project: (1) advanced doctoral students or post-docs who have participated in my previous Brazil projects, plus those whose training and fieldwork in Brazil I have supervised subsequently; (2) only Brazilians (and other Latin Americans who speak Portuguese, and have lived and carried out field research in Brazil); and (3) those who have a track record of producing well-written papers, providing grounded evidence, data analysis, and findings with practical implications, and who have considerable experience outside academia.

24. A list of the papers and publications by the graduate researchers that resulted from these four projects is available on request. The list of papers and publications for the fourth project with the BNB—project proposal—entitled *Rethinking regional development after trade liberalization* (also available on request)—includes abstracts of all the monographs, theses, and publications, including my own.

25. The starting point of this previous study, of course, was WB *projects*—which would not constitute the starting point of the proposed study. In the three 1990s projects funded by Brazilian state governments, they were interested in casting a broader net over experiences and history in a way that would help them think out future policies and programs within the WB-project context, and more broadly.

26. A doctoral dissertation by *Glauter Rocha* (PUC-Rio Ph.D dissertation in industrial engineering, co-supervised by Tandler) is an exception to the paucity of Brazilian studies on the issue of state-government learning from the incentives’ experience. His study compares learning by three state governments (Bahia, Pernambuco, and Ceará) from more than a decade’s experience with incentive policies. Unusually, in those cases, technical agencies or departments in the three states initiated discussions sharing their experiences, but this never went beyond informal exchanges of technicians who knew each other from regional meetings on various ED subjects. Rocha’s research focused on the learning process and resulting evolution of the policies themselves, rather than on the linkages and spillovers from outsider firms.

The research reported on this dissertation grew out of an MIT project named "The Rule of Law, Economic Development, and the Modernization of the State in Brazil: Lessons from Existing Experience for Policy and Practice", directed by Judith Tandler and funded in large part by the Braslia offices of the U.K.'s Department for International Development (DFID) and the World Bank. On one side, private sector firms, thrust into the global marketplace, started protesting that restrictive labor and environmental regulations limited their ability to compete. On the other side, workers, activists, and concerned citizens responded by pointing out that no one

Modernization and the Russian Economy: Three Hundred Years of Catching Up by Vladimir Mau and Tatiana Drobyshvskaya. 1. The special features of Russian economic development. The backwardness of Russia when compared to the countries of Western Europe was apparent at turn of the 17th and 18th centuries, when, it is generally considered, Russian economic growth began. This reason for all of this was the lack of a coherent policy for modernization which, in turn, meant that Russia's economic policy lacked coherence. Governments tended to concentrate on particular aspects of modernization and ignore or even impede progress elsewhere. ability of development assistance to implant new institutions for the. rule of law. 205. The surge of interest in the relationship between the rule of law and economic growth. is the result of a convergence of developments. both outside and inside the academy. Democracy promotion since the end of the Cold War. has been accompanied by efforts to advance. the rule of law for security and political as. well as economic reasons. The international. opment might contribute to the policy debate. The initial enthusiasm about the gains from. improving legal institutions has been followed. by a wave of skepticism, much of it focused.