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Embedded Neoliberalism: The Public Policy of the Inequality Regime

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I. INTRODUCTION

Referring to the political-economic organization of the post-Bretton Woods agreements, David Harvey (2005) calls it "embedded liberalism". It was a polity framework where "market processes and entrepreneurial and corporate activities were surrounded by a web of social and political constraints and a regulatory environment that sometimes restrained but in other instances led the way in economic and industrial strategy" (Harvey, 2005, p. 11). This polity frame delivered satisfying economic outputs and maintained social tensions relatively under control during the 1950's and 1960's in the advanced capitalist countries, while much of the third world remained on the sidelines of economic, political and social developments.

In following decades, the neoliberal turn transformed the broader setting of politics and policymaking. Led by the US and UK, much of the globalized world engaged in political reforms and a broad reorientation of policy design that sought to turn the state into an entrepreneurial, market-enabling agent. These developments were - and still are - far reaching, with neoliberal reforms taking place across multiple decades and at distant places such as Chile and Iceland, Argentina and Iraq, Mexico and Thailand. The principles of free market capitalism and supply side

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economics were turned into common sense to a point where even traditional social-democratic states and left-leaning governments were swept by the neoliberal tide. Among these, Brazil in the early twenty first century is an especially interesting case, with its paradoxical setup that enabled the parallel developments of integration - and submission - to global financial markets, and of a peculiar form of state bureaucracy that entangled social, labour and minorities participation in the web of financialization that is characteristic of contemporary neoliberal states. Therefore, in this manuscript I will present an overview of this form of "embedded neoliberalism" that was enacted in Brazil, highlighting the policy making cases of worker's pension funds and affirmative action. This effort will provide a broader view on the main theoretical dimensions that I seek to explore: The role of discourse coalitions in policy making, and the claim that overarching "cultural wars" are often framed as economic debates and their outcome can guide policy action in their aftermath. In this effort I also attempt to bridge the literatures of public policy and economics, arguing that mainstream economic discourses influence the policy process in all policy subsystems. Beyond this introduction, the manuscript is composed of: a summary of social processes and policy making cases that consolidated the model of embedded neoliberalism enacted in Brazil; a broader outlook on the cultural and political processes that constitute the complex scenario of contemporary politics, where conventional left-right electoral cleavages have been modified and the lines of traditional political ideologies have been blurred by the all-encompassing influence of the neoliberal rationale; a description of the influence of mainstream economic discourse in the policy process; and the following conclusions.

II. EMBEDDED NEOLIBERALISM: CONQUERING THE CULTURAL WARS

During the decades of successful embedded liberalism in the advanced capitalist countries, Brazil was in its third phase of integration to the global movements of capitalist accumulation. In the 1950's the conditions for accumulation in the centre were diminishing and Latin America was turned into a cherished new market for elite capitalists that looked for new spatial fixes for the crises of over accumulation. Due to its wide territorial dimension and massive

population, Brazil was the paradigmatic case in this movement, which created opportunities for the national economy to gain autonomy by exploring the influx of resources from the centre. However, in 1964 a military coup reoriented the political sphere, and from the late 1960's on and especially in the early 1970's with the collapse of Bretton Woods, the economic sphere was subject to significant transformations as well, with the very early stages of the process that would come to be known as financialization (Paulani, 2012). Since then, accumulation processes have been guided by a financial framework, which is either fully embraced by center-right governments or covertly accepted by their left leaning counterparts. From 2003-2016 Brazil was governed by the Workers' Party ("*Partido dos Trabalhadores*", or "PT"), one of the biggest left-wing parties in the world. This would have been a time of great transformations, restoration of labour and social power, regulation of capital flows and overall retrenchment of neoliberal policies, right?

Wrong. The 2000's were the time of consolidation of Brazil's position in global financialized capitalism, with the PT administrations leading a peculiar form of "embedded neoliberalism", characterized by the inclusion of the national economy in the global market, with mediation by the state (Datz, 2014). In its tenure, PT recognized social movements and minorities' demands in a discursive dimension, with timid advancements in actual policy making, while it failed to produce relevant structural changes in the distributive dimension. The Brazilian case is singled out by Piketty (2020) as a specially interesting one, "(in which we see) a classist party system emerging in the period 1989–2018 with important consequences for redistribution and significant interactions with other parts of the world" (Piketty, 2020, p. 953). Piketty highlights PT's successful efforts in reducing inequality but stresses that this was accomplished fully at the expense of the middle class. Social tensions were kept relatively under control during three Presidential terms (2003-2014), however, with the close results of the 2014 presidential elections, disgruntled elite segments, with the backing of conservative politicians, especially congressmen connected to the evangelical and the agribusiness caucuses, and of a global network of libertarian and neoliberal institutes that supported and financed urban manifestations, started to undermine then-President Dilma Rouseff's administration.

Most analysts will agree that the decisive variable in Brazil's remarkable economic performance in the 2000's was external i.e. the Chinese commodity boom. However, PT's strategic handling of social tensions¹ was fundamental in the domestic front, where

the *Workers' Party* built a close relationship with international capital while upholding its front in identity politics and in policy efforts to tackle inequality and thus managed to maintain its distinctive blend of "embedded neoliberalism". Minorities stakeholders were kept at bay due to the recognition of their political demands, including creation of a Special Secretariat of Racial Equality Policies in the Executive and approval of relevant affirmative action laws in public universities and public tenders, while labour power and the middle class were persuaded into buying into the mantra of the "domestication of capitalism" through "socially responsible investments" backed by workers' pension funds. This was accomplished in a noteworthy process of conquest of ideological struggles, whose results defined the establishment and stabilization of the cultural framework that enabled embedded neoliberalism (Datz, 2014; Grun, 2013; Jardim, 2009).

The idea of "cultural wars" is more prominent in the United States and refers to broad, society-wide ideological disputes over culturally divisive, politically secondary issues (Hartman, 2015). In the US these disputes derived mainly from the polarization of the American multi party system into a strict head-to-head battle between Republican "conservatives" and Democrat "progressives". The term is not as widely applied in Brazil, however, it was utilized in the Economic Sociology field, especially by Grun (2003; 2005; 2010; 2013) in a series of articles where he argued that the stabilization of the hegemony of the financial market in Brazil was built from the conquest of cultural definitions about the role of finances in the daily life of the common citizen. Taking advantage of its organic, close ties to labour and unions, PT conquered the minds of union leaders and other labour representatives in the contest for the definition of the image of financial products and services towards working and middle classes. Most decisively, workers' pension funds were turned into agents of national development as a whole stratum of the population was convinced of the narrative of the "socially responsible" market applications backed by the massive funds of aggregated individual savings of unionized workers. Radical segments of the left and within PT, as well as critic scholars, voiced their concern and disappointment with the Workers' Party deference to the financial establishment (Dagnino, 2004; Paulani, 2008), however the notable results in reducing inequality, the massive popularity of President Lula (2003-2010) and his apparent success in avoiding short-term damage from the global financial crisis of 2008 provided PT with carte blanche to enact its singular blend of redistributive policy making, minorities recognition, financial global insertion and compliance to the interest of political, financial and agrarian elites. The cultural wars were won by convincing the common citizenry of their capacity and responsibility as individual players in finances and

¹ PT's handling of political tensions is a relevant part of this process as well, however it is not in the scope of this manuscript to approach it.

of the role of their aggregated pensions as collective players in national development.

Pension funds were constructed as financiers of large infrastructure governmental projects in enactment of PT's agenda and became participants of the process of "domestication of capitalism". These funds' structure in Brazil took a hybrid form, combining aspects of international corporate governance with characteristics of the public bureaucracy inherited from times that preceded the organization of domestic funds. This structure accommodates a gray area where representatives of the public and private sphere co-exist, and the funds performed a specific role in the cultural wars, underscoring their role in the argumentative struggle over the image of the financial market, in a setting where a political party organically linked to labour and unions navigates in a process that at the same times seeks to insert the national economy in the globalized market and to perform social inclusion through redistributive public policies. This intricate process underpins the resilience and adaptability of neoliberalism, always able to fluidly insert itself into different spatial, temporal, political and geographical settings, giving here, taking there, possibly and conveniently conceding space to recognition initiatives, in accordance to historical and political peculiarities of each locality, but always performing the most relevant prescriptions of its political-economic framework.

Economic Sociology scholars in Brazil have explored the intricacies and overall complexity of this scenario, especially in identifying the role of the pension funds in the national economy and the relevance of this theme to analyses about agency, cultural domination, participation and symbolic power, among others (Datz, 2013; 2014; Jardim, 2009; Magnani, Jardim & Silva, 2020). In this form of developmentalism, pension fund beneficiaries, most often middle class constituency, can afford to feel like agents of national development and simultaneously earn advantages over those fellow countrymen insured by the General Social Security System, a dynamic that greatly contributes to the erosion of the social solidarities that provide the rationality for redistributive public policies. In broader terms, the narrowing of the notion of sameness in contemporary societies is an effective strategy of attacks on the Welfare State, contributing to a general setting of competition among citizens, which is especially destructive in times of economic crises, when redistributive policies become easy targets. Disembedded from the broader debate about the capitalist social-economic order, identity politics becomes a site for a lose-lose game in which minorities, labour and other social movements fight for little pieces of pie, for being able to "lean in" into the capitalist order, without acting as a broader collectivity against the commercial, financial and political elites that draw the rules of the game in their own favor. Such a background

was imposed upon Brazilian policy making in the times of embedded neoliberalism, even in the cases of the necessary but insufficient affirmative action policies enacted by PT. While the pension funds setup was in part a small nod to the middle class in the realm of distribution, affirmative action policies in civil service jobs and in higher education were a great accomplishment for minorities in the realm of recognition. However, to better analyze and attempt to comprehend the role and effectiveness of affirmative action policies towards their stated societal goals, we must pay special attention to the analytical dimensions of distribution and recognition in public policy making.

Affirmative action policies in Brazil were constructed in a long term struggle of the black social movement, which managed for the first time to gain recognition of its historical demands in the Federal Constitution of 1988. However, it was only during the PT administration that ethnic-racial minorities were actually accepted into the government structure, most decisively with creation of the Special Secretariat of Racial Equality Policies in 2003. Starting in the early 2000's, different universities across the country started to create racial quota programs in their entrance systems, which sparked great national controversy. In this first stage of implementation, policies were autonomous and each university adopted its own criteria, all encountering harsh criticism from opponents who stressed three main arguments: criticism to focalized policies, arguing that the better response to inequality would be universal public policies in primary education; defense of the "racial democracy" narrative, arguing that due to the fluidity of racial mixes in Brazil and to the supposedly harmonic integration of different races to society, it would be impossible to identify the target population of affirmative action policies; defense of meritocracy, arguing that universities must be the locus of academic excellence and that granting special entrance criteria for a specific group would be unfair to other groups (Feres Jr., 2004). Eventually, in 2012 a federal law was approved instituting a broader affirmative action policy in all federal public universities for undergraduate application; in 2014, another federal law was approved, implementing affirmative action policy in civil service entrance examinations (i.e. "public tenders").

Both policies encounter significant constraints to their effectiveness in meeting their stated goal of attacking inequality. In the case of undergraduate applications, the law reserves at least 50% of entrances for students from public schools, with a secondary ethnic-racial cut to be defined in accordance to each region's census results, but in most cases the share of the secondary ethnic-racial cut is set at 50% of the initial socioeconomic cut. The policy design and the institutional void in which these policies are to be implemented, with several unregulated procedures and significant discretion at the local level, point to an

encompassing setting where recognition is granted to minorities in generic rhetoric, but specific means to meet their demands are approached in lackluster fashion. The design of the quotas program strategically included among beneficiaries the great mass of white poor that could oppose a racial policy, even though the decades-long struggle for affirmative action was always led by the black social movement. Specific measures to ensure access to the target population were allocated to the local level without regulation, therefore the specification of the policy design is left to each university, potentially constrained by specific local pressures and influences. In the first years of the programme, black students groups identified that the physical presence of black undergraduates remained scarce and upon investigation of public data, several accusations of frauds in the access to the racial quotas were filed to public law agencies. Only after these conflictive events, it became more widespread the institutionalization of hetero-identification committees where knowledgeable third parties perform identification of the racial condition declared by the candidates² (Maciel, Teixeira & Santos, 2019; Nunes, 2018; 2019; Passos, 2019). The activity of these committees and the playing up of controversies arousing from the few cases where racial identification is at the overlap between mixed races are objects of intense debates, often defined by subtle narratives emanating from economic discourse. Meritocracy and individual liberty are preferred themes of affirmative action opponents, including a Law Proposal currently in transit in Congress, which seeks to prohibit hetero-identification in universities.

As for the racial quotas in public tenders, the general outlook is similar. The law reserves at least 20% of entrances in all public tenders for jobs in the Public Administration for black candidates, however, due to the specifications of each hiring procedure, e.g. when different departments are hiring faculty with specific qualifications, both the minimum share of entrances and the several entry barriers along the process continue to restrain access to black applicants. Analyzing data from over three and a half years, totaling over 15,000 vacancies, Mello and Resende (2018) conclude that less than 5% are being allocated to black people. Corroborating this indicative, Batista and Mastrodi (2020) state that the law is timid in promoting access of black people to the ranks of Public Administration and that it remains insufficient against a broad setting of

structural racism and strict meritocracy standards in civil service exams.

III. JUSTIFYING INEQUALITY: THE POLITICS OF THE INEQUALITY REGIME

The case of affirmative action policies in Brazil is especially interesting in light of Piketty's (2020) recent argument about the development of parallel educational cleavages in political conflict across Western democracies. In lieu of the more common narrative that racial and identity cleavages rooted in the 1960's civil rights struggle determined the mass flight of low income³ whites from the ranks of the Democratic Party (DP), Piketty argues that rather an educational cleavage is the more determinant factor, with the DP since the 1950's turning from a strongly egalitarian platform into primarily "serving the interests of the winners in the educational competition" (Piketty, 2020, pp. 833). Piketty (2020) demonstrates that similar turns have occurred across most Western democracies, configuring a large scale reversal of the educational cleavage in politics: political coalitions associated with labour and low income classes in the post-war period became the parties of the highly educated in the late twentieth and early twenty-first centuries. At the same time, political participation among low income classes has dropped significantly, therefore their allegiance has not simply been reversed. Rather, as the interests of the highly educated and of the highly paid and wealthy have converged in social and fiscal policies, lower classes have been excluded from playing a significant role in political conflict. In times of irremediable crises such as in the aftermath of the 2008 financial crisis, their despair and hopelessness is then leveraged into playing up identity politics, which further explores their depoliticization and protects deeper debates about the capitalist order as a whole.

Piketty (2020) also analyzes new dimensions of political conflict in underdeveloped countries (India and Brazil), identifying somewhat different dynamics. In Brazil specifically, the slight majority of the lower classes have continued to vote left in the presidential elections of the most recent democratic era (1989-2018), however we must focus on the broader claim arguing that a similar movement across the Western world, cutting across different places with distinct individual historical contexts, points to a major, relevant historical trend: Left leaning political parties, loosely labeled here as "social-democrat coalitions", have failed to adapt to the demands and interests of their traditional constituencies, the lower income classes. Without political representation, significant shares of these classes -

² Unlike the "one drop rule" in the US, or the relatively more easily identifiable ethnic inheritance that characterizes identitarian issues in Europe, due to the fluidity of racial definitions in Brazil, the target population of racial-based affirmative action policies must be identified according to their standing in social relations. The most relevant variable in this definition is that of phenotype, due to the widely accepted interpretation that racism in Brazil is defined by the presence of visible racial features.

³ In order to avoid oversimplifications, it is worth clarifying that in this manuscript I adopt Piketty's (2020) definition of "low income" class as roughly the bottom 50% of the social hierarchy, including potentially different social groups.

composed in their majority by white working class people - have been duped into supporting national-populist coalitions that exploit ethnic and racial tensions and do not represent their interests in political conflict over decisive issues such as fiscal policy and labour regulation.

The exploitation of identity politics against the failure of contemporary capitalism constitutes the "identitarian trap" in political conflict. While the financialized global capitalist economy erodes the very background foundations - social reproduction, nature and public power - on which the economic order relies on to exist (Fraser, 2015), social-democratic coalitions across the globe have failed to redesign their redistributive thinking in order to meet contemporary challenges of the global economy. Lower class constituencies undermined by financial capitalism are thus left without political representation in the struggle for distribution and their support remains up for grabs in struggles for recognition. It is mostly by playing up nationalistic rhetoric (and variants of it) that right wing parties have gained low income classes support, while even redistributive initiatives such as affirmative action policies in Brazil, enacted by a social-democrat coalition not entirely concerned with promoting structural changes in distribution, come up short to produce relevant structural changes in distribution of resources and opportunities.

The common denominator that binds together the cases of pension fund developmentalism and affirmative action policies in Brazil is the backdrop of an all-encompassing political-economic discourse ruling over the policy process and guiding policy design and implementation against publicized public goals. This is allowed in part because political conflict in the last thirty years approximately has turned from a struggle of classes in the social-democracy era (roughly 1950-1980), to a struggle among elites in the hyper capitalist era (1990-2020) - the left leaning highly educated against the right leaning highly wealthy (Piketty, 2020). The collapse of working class support for left wing parties has been well documented, indicating the failure of social-democrats and their counterparts in continuing to represent those who most substantially filled their ranks in the post-war setting. The educational cleavage underscored by Piketty (2020) is a more comprehensive finding that indicates a general trend, which has been constant and well defined across different localities with distinctively different historical, political and social settings, over a remarkably long timeframe. It is argued here that these trends are coherent with the main claim presented in this manuscript: Besides specific neoliberal *policies*, a neoliberal *approach* to policy making influences policy formulation in all subsystems, independently of the ruling coalition, which, in part, accounts for the flight of underprivileged classes from left-wing parties. The inequality regime does not have to

rely on holding key governmental offices or on being represented by a specific coalition. Its economic discourse rules over democratic politics, which is most clearly represented by the global trend of providing "independence" to national central banks, which frees them from democratic controls, so they can be controlled by the market. The erosion of the traditional right-left ideological disputes in favor of a struggle among elites undermines resistance against this economic status quo.

To be clear: identity issues such as racial conflicts were not determinant causes of the reversal of the educational cleavage. These issues are, however, commonly exploited by political coalitions that endorse conservative rhetoric, in most cases strategically conflating the themes of free market, individual liberty and meritocracy - which are linked in political discourse to coalitions that reject egalitarianism - with nationalistic rhetoric. Piketty (2020) underscores that conservative parties do not necessarily always deny economic support to low income people, as is the case of the Justice Party in Poland or the conservative-nationalist Fidesz party in Hungary, both engaged in "social nativism" i.e. the "identitarian trap", and both having enacted redistributive fiscal and social policies in favor of low income families, unemployed labour and retirees. These national-populist parties are an expression of a relatively new phenomenon, unconnected to the reversal of the educational cleavage that has been ongoing for a much longer time. The unifying theme among those parties' strategies is the exploitation of ethnic tensions for political purposes, very often conflating the political demands of minorities with a "globalist" agenda that supposedly seeks to restrict the freedom and resources of the "common people" - most of them blue-collar, white labour - in favor of a cultural and political "elite" - among them, the highly educated that now constitute the bulk of the electorate of the left wing parties. Therefore, in the eyes of the working class, the perceived contenders that defy the corporate powers of globalization, which account for most of their struggles, are the national-populist parties that exploit social nativism.

The electoral effectiveness of the new national-populist coalitions can be attributed to the basic human need to justify social inequalities. With social-democrat coalitions failing to adapt to the late-twentieth century transformations in the global economy, those masses most affected by these changes were left without representation in political conflict and increasingly pushed to individualism by neoliberal rhetoric. Much of their allegiance has been then gained by national-populist coalitions that drum up cries of a "fight against the system", without engaging in actual efforts to change the status quo imposed by the commercial, financial and political elites. In some cases, Brazil one of the most notorious among them, the national-populist

coalition that emerged victorious from the 2018 Presidential elections included card-carrying neoliberals, however if one examines thoroughly the ideals and motivations of the national-populists engaged in social nativism and cultural struggles above all else, it is evident that they differ substantially from the rational-utilitarian ideology of the neoliberals⁴. Identifying these inner contradictions is key to building a viable political opposition, as well as it is relevant from an academic point of view, as to provide analytical tools to comprehend these political movements and place them under conceptual frames. While the claim of an all-encompassing influence of neoliberalism in policy making might lead to infer that the main argument here implies a sustained hegemony of the neoliberal rationale, I am most concerned with the influence of political-economic discourse on the policy process. Therefore, Piketty's definition of "inequality regime" fits into such reasoning: "a set of discourses and institutional arrangements intended to justify and structure the economic, social, and political inequalities of a given society" (Piketty, 2020, p. 2). Piketty's attention to and inclusion of discourses as a key element of an inequality regime helps drive home the point that political discourse plays a fundamental role in the politics of policy making.

Nancy Fraser (2015; 2017) has developed thorough analyses of contemporary capitalism and its influence on electoral politics, arguing that the current stage of capitalism in its economic dimension - financial capitalism - is destructive towards the background social conditions that sustain capitalism as an institutionalized social order. This fundamental contradiction has contributed to inciting an administration crisis that puts in jeopardy the hegemony of neoliberalism as a rationale, creating a hegemonic void that the political coalitions then attempt to fill. In this case, Fraser (2015) refers to hegemony in the gramscian sense, as in naturalizing a determined set of beliefs and ideas to the point where they are seen as common sense. In this manner, neoliberalism is widely criticized and may be substantially threatened; we are concerned here with the hegemony of neoliberalism as a specific mode of political-economic organization, which remains intact across the globalized world, for the time being⁵.

The rise of national-populist coalitions is a sign of the instability of the current political framework. The observation that these coalitions' romanticize traditional values and defer (most often in discourse only) to working classes victimized by the openness of global

markets, and thus do not fully share rationales with neoliberal theory, coupled with the observation that social-democrat coalitions have failed to adapt their policies and rhetoric to the current historical moment, adds complexity to the scenario. A potential contribution of the policy studies to provide comprehension of this setting could be the proposition of a systematic outlook on the role of economic discourse in the policy process, which could shed light on the influence that the field of economics and the actors emanating from it play on democracy. In the next section, I will attempt to wrap up the main argument of this manuscript, proposing a closer dialogue between economics and the policy studies.

IV. THE INEQUALITY REGIME AND THE POLICY PROCESS

The fields of economics and public policy share some common developments such as Aaron Wildavsky's lifelong work on national budgets, however, even though the policy sciences draw contributions from economics in their multidisciplinary approach, they have been largely developed outside of each other. Economics tends to view public policy as the result of a technical process, most often accruing from cost-benefit analysis. Public policy tends to view economics as a given framework, *after* which policy processes will play out, and whose conceptual and analytical tools are applied in policy analyses but are not questioned in terms of their normative value. In this subsection I will build the claim that the background defined by a certain economic discourse is often embedded in the pre-decisional stages of the policy process, subsequently affecting policy making in all fields.

An early outline of the policy process was the stages approach (de Leon, 1999), which focused on the policy cycle, a sequence of linear stages whose assessment and analysis would enable comprehension of the process. Although its effectiveness at accounting for the intricacies of the policy process has been criticized, and definition of the stages differ, most accounts concur that basic stages are formulation, implementation and evaluation. In a seminal article for the Brazilian public policy field, while acknowledging that these three "major" phases are the common base for the stages approach, Frey (2000) argues in favor of further sophistication, proposing that formulation comprehends different processes of problem definition, agenda setting and specification of alternatives of specific programs. It is in these sub stages that the confluence of broader economic discourse and policy making might occur with most relevant consequences.

The policy cycle is often theoretically connected to a positivist, technocratic orientation to policy analysis, however, if we acknowledge the strengths and weaknesses of the stages approach then we can draw

⁴ For a comprehensive work on the contradictions between the rationales involved in national-populist coalitions, see Brown (2006).

⁵ For a commentary on the possible demise of neoliberalism in face of current events such as the coronavirus pandemic, see Rugitsky (2020).

benefits from the growth of insight that can be accrued from analyses of the distinctive characteristics of each individual stage of the policy process. The cycle is most often depicted as the rough outline in Figure 1, with specification of the formulation stage in Figure 2. Because policy analysis is traditionally confined to a given subsystem, unless the subsystem analyzed is economics itself, inputs from economics are not strongly considered. The main argument proposed here is that the policy process is substantially influenced by economics when problem definition, agenda setting and specification of alternatives are narrowed down to a pre-defined set of policies and alternatives accepted by the financial market.

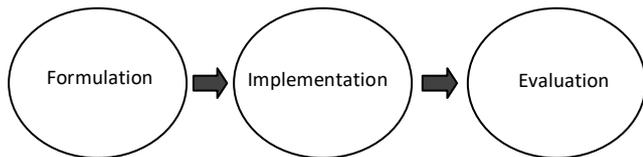


Figure 1: The conventional policy cycle.

One of the main proponents of an approximation between policy analysis and economics was Aaron Wildavsky, whose lifelong work on the study of budgetary process went a long way in shedding new lights on governmental budgets, how they are constructed, and how little of what is written in them is actually implemented in actual policies, thus showcasing an important restraint to rationality in policy making. Other relevant attempts at bridging the fields of economics and public policy have been made in Smith's (2006) and Wolff and Haubrich's (2006) chapters on Moran, Rein and Goodin's Oxford Handbook of Public Policy (2006). Wolff and Haubrich (2006) explore strengths and weaknesses of an economist approach to public policy making, describing common problems in integration of concepts of economics to the study of policy making, such as valuation, commensurability and the intrinsic value problems. Smith (2006) presents and describes conceptual and analytical tools from economics that are fundamental parts of the policy analyst repertoire.

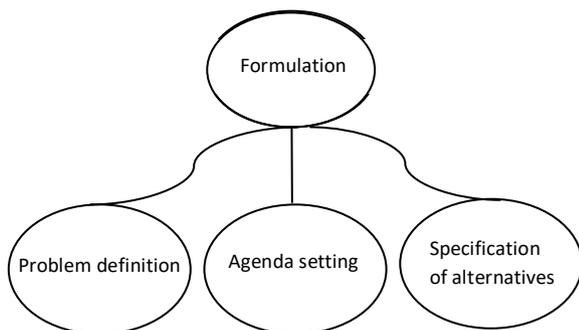


Figure 2: Specification of the formulation stage, with contributions from Frey (2000), Kingdon ([1984]2014) and Stone (1989).

An important constraint to a more thorough integration among these fields is that policy analysis holds an inherent concern with the intangible good of welfare. Application of cost-benefit analysis and variations of it are likely to encounter the problems of valuation, commensurability, and of assigning economic meaning to goods that hold intrinsic value, such as life or nature. The most basic problem is the valuation problem, which is the reduction of important values to societal well-being to a monetary metric. Several efforts have been made to address the issue of accurate estimation of the value of services that are not negotiated in a marketplace, with the "contingent valuation" (CV) approach being the most popular of these. CV techniques usually employ surveys that attempt to measure human preferences and behavior in experimental settings, seeking to identify the hypothetical price of a common good that is not traded as a commodity, however, conventional economic theories hold that these experiments are inherently flawed in trying to replicate market behavior, which can only be assessed with reliability in an actual marketplace (Wolff & Haubrich's, 2006).

If the value of intangible goods and specific economic behavior are unlikely to be accurately measured, the influence of a general economic framework in public policy can easily be felt. In one of the most influential works in the field of public policy, Kingdon ([1984]2014) argued that policy interventions are continuously discussed, over relatively long periods, in a "policy community" where "ideas float around". Different stakeholders such as elected politicians, policy makers, bureaucrats, scientists and scholars, journalists and all kinds of public personalities, all involved in a given policy area, present, discuss, test, combine and recombine their ideas and proposals, until the time when finally a viable policy proposal has been accepted within that community. This is the "policy stream" in Kingdon's Multiple Streams Approach. When events in the streams of perceived public problems and of politics converge, if there is a viable policy proposal developed in the policy stream, then it can be presented to a decision making body and possibly approved as a public policy. Among indicators of survival of a policy proposal within the community, Kingdon highlights the issue of the cost of the policy - whether it is a tolerable cost or not (Kingdon, 2014, pp. 137-138). "One of these tests is a budget constraint. Members of a policy community know that somewhere along the line a proposal must be shown to have a tolerable cost, at least a tolerable cost to the federal budget. So they spend untold hours costing out proposals, paring them down to manageable proportions, and floating the slimmed-down version again. If they cannot come up with a proposal that is financially acceptable, the idea may be dropped. (...) Some proposals never really see

the light of day because of anticipated cost" (Kingdon, 2014, p. 138).

Kingdon (2014) underscores the role of the mainstream thinking among the specialists of a given community and offers practical insight into the obvious relation between these values and the views emanating from them on concepts such as equity and efficiency and on the role of the public sector in providing social services. Writing originally in the mid-1980's, Kingdon underpinned the then-growing influence of economic thinking on the processes of agenda setting, especially a widespread concern with efficiency, as in whether the cost of a program fits into the available budget and whether the benefits accrued from it justify the financial cost. These concerns are obviously tied to and restrained by the political economic framework that orientates the broader inequality regime. Since the late 1970's with movements starting in the capitalist centre, which spilled to the most diverse localities, the hegemonic economic thinking is that arising out of neoliberalism, which, in a very simplified way of putting it, advocates the theory of instrumental rationality, according to which individuals are selfish in nature and thus collective interests cannot be accurately identified. Therefore the state is inherently inefficient at identifying and addressing public needs and thus the most efficient alternative is to distribute resources and opportunities through the market. This rationality obviously has implications towards the justification of the inequality regime, with consequences in the economic polity and in the definitions of the budgets that are constructed within economics and that constrain the processes across all policy communities.

One of the main innovations of Kingdon's Multiple Streams Approach was to acknowledge the role of ambiguity and uncertainty in a process that was supposed to be rational according to mainstream policy analysis, specifically shattering the notion of linearity in the policy process. He did, however, touch on the theme of the stages, in the first pages of his seminal "Agendas, alternatives and public policies" (1984). Outlining concepts and definitions utilized in the book, Kingdon defined public policy making as a "set of processes" (not necessarily a sequence of stages), including agenda setting and specification of alternatives from which a choice is to be made (pp. 2-3). He did not specify the process of problem definition, however his agenda setting approach is comprehensive enough to include what other authors refer to as problem definition, more specifically, Stone (1989), who cites Kingdon (1984) as an example of a study on "the conversion of difficulties into problems" (Stone, 1989, p. 281). Therefore, drawing contributions from different authors, in this manuscript I present a specified look on the formulation stage of the policy process, highlighting the influence of economic discourse (Figure 3).

Problem definition is a fundamental initial movement, when, out of all the issues that could be considered for a public policy, some are recognized as public problems amenable to intervention. This framing process is performed in narratives that highlight selected aspects of perceived reality and make them more salient than others, enticing a particular causal interpretation or a moral evaluation (Stone, 2012). For instance, the issue of inequality is often framed by conservatives as a natural condition emanating out of individual human aptitudes, while others define it as an unacceptable condition caused by the distribution of access to the means of production, among different definitions. In our current inequality regime dominated by a neoliberal political-economic framework, inequality is defined as a market problem. It is recognized as an unwanted condition, however, with the widespread impact of influential books such as "Losing Ground" by Charles Murray (1984) and "Wealth and Poverty" by George Gilder ([1981] 2012), inequality tends to be framed as an unintended consequence of welfare state policies that supposedly engrained in the poor a sense of entitlement to assistance and laziness to search for better alternatives in the marketplace. The storyline incites the causal mechanism of the inadvertent cause, which stresses that unintended consequences of purposeful actions might lead to a perverse effect: Welfare state policies that sought to attack the issue of poverty caused a worsening of the scenario of inequality, because the beneficiaries of these policies become accustomed to gain assistance from the government and lose motivation to act in the market. Inequality is justified by blaming the victims. Under this rationale, social policy initiatives are reduced to a narrowed set where assistance and welfare are restricted and several issues will be denied the status of recognized public problems, either because the issue itself is not considered important (e.g. the issue of homeless people tends to be ignored by most governments) or because there is not a viable solution in sight (e.g. Kingdon ([1984]2014) cites health care in the US as such a case; in other areas the influence is present as well, such as in the case of polluted rivers in underdeveloped localities: because trying to fix the problem is not considered a cost-efficient alternative, governments tend to give up on it).

The way a problem is defined will guide which policy community will address it and the policymaking process within that community will result in a list of subjects that might be considered by decision makers. It is worth underscoring that the definition of the problem will have by then excluded a wide set of possible initiatives that are not considered by the inequality regime. Within the policy community, researchers, congressional staffers, interest groups and several other stakeholders will float their ideas, draft papers, talk to the press, test new themes, discuss with politicians, in

the process that Kingdon (2014) relates to the biological process of the "primeval soup": "Ideas confront one another (much as molecules bumped into one another) and combine with one another in various ways" (p. 117). New proposals are tested and old ones are redrafted. Among the criteria for survival, financial acceptability and budget constraints are crucial. Here I refer to financial acceptability as the congruence of the proposal to the economic framework of the inequality regime. The government is considered inherently inefficient. Budgets are to be reduced at all costs. Indebted countries are shaken down by the financial markets and forced to "structural adjustments" where social policies are the first targets. In this setting, the list of subjects to which the government pays attention is restricted to the narrow set accepted by the market. In this setting, the definition of the problem and the inner works of the policy community converge to create a built-in mechanism where proposals that do not meet budget constraints will never even see the light of the day. Therefore, the governmental agenda will only include subjects that are in line with the economic discourse of the inequality regime.

Finally, when, out of the list of subjects that are considered, specific alternatives will be narrowed down to a possible decision and the final policy design will be defined, policy proposals that are not accepted by the inequality regime will have been long denied. Under specific historical conditions, whether because a radical party rose to power, or because a young democracy is eager for welfare policies, a "rogue" state might approve an unorthodox policy, but the checks and balances of the inequality regime and the wrath of the market are ubiquitous. The threat of the flight of capitals is constant. Exchange and interest rates are affected by global dynamics that cannot be controlled within the jurisdiction of a given democracy. Policy design tends to be defined by cost-benefit analyses, with the conversion of welfare needs into market goods and the concepts of "costs" and "benefits" defined by the market. Unemployment might not be such a high cost, because the market prioritizes "entrepreneurship". Even if welfare policies are considered, governmental outreach to the poor, for instance, is likely to be avoided. In the case of affirmative action policies in Brazil, social pressure apparently avoided the inequality regime across the policy process, however the policy design, the regulatory gaps, and the institutional racism restrain the fulfillment of the publicized goals, while in the case of the pension funds setup, the rationale of the inequality regime defined the unfolding of the whole process. Workers' funds were designed as market tools to enable the erosion of social solidarities, facilitating social security reforms (gradual reforms in social security policy have been made in Brazil since the early 2000's, with a more comprehensive reform being accomplished

in 2019), and to incorporate the ideal of corporate governance in the country.

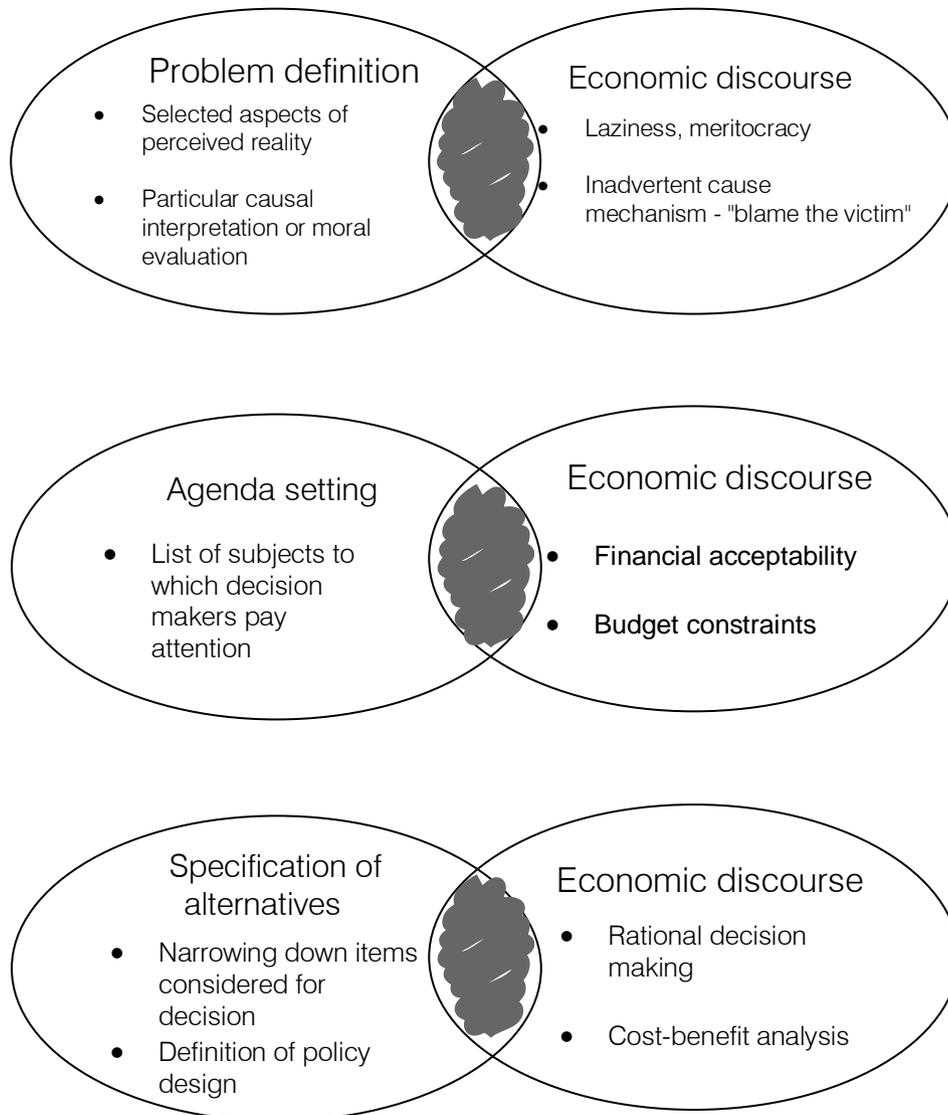


Figure 3: Zooming in on the formulation stage. The scribbled areas indicate the confluence between economic discourse and the policy process.

The role of the financial rationale in the discourse enacted in the definition of the pension funds problem in Brazil is especially remarkable to observe. Former President Lula himself, in his first years in office (2003-2004), engaged in persuading unionists "to embrace a fresh view of the market in the face of contemporary capitalist transformations" (Datz, 2014, p. 498). The narrative portrayed pension funds as enabling agents of national development and sustained that pension funds' investments were linked to "national interest" and offered "dignity to their participants" (Datz, 2014). Previously, in midst of a presidential race where the financial market grew tense with the prospects of former union-leader, "left wing radical" Lula winning, the then-candidate issued an "open letter to Brazilians" – it was actually a message to the market - in which he compromised into following obligations previously

accepted by President Fernando Henrique Cardoso towards financial markets and the IMF. Also during the campaign Lula visited the São Paulo stock market (BOVESPA) and advocated for the "popularization of the market", which was such a symbolic occasion, it was dubbed by the media "the fall of the Berlin Wall". The unifying conduit to these events was Lula and PT's project of appeasing the market, an inherently capital-friendly endeavor that was coloured with drops of social rhetoric that promised to include lower income constituency into the world of finances. It was the "domestication" or "moralization" of capitalism (Jardim, 2009).

The broader analytical backdrop highlighted here is the influence of economic discourse in policy making. Whether it is the definition of workers' pension funds' role in the national economy or the design of

affirmative action policies, a broader political-economic framework is embedded into the policy process and policy alternatives are narrowed to a set of possibilities defined by the outlook of the economic polity. The policy process itself is constrained by the politics of the inequality regime, which mobilizes transcendental themes, freedom and individual liberty above all, in persuading low income and middle classes into supporting policies that benefit the elites only.

V. CONCLUSION

The main theme of this manuscript was the role of an all-encompassing economic discourse in processes of policy making that are not clearly tied to economics at the outset, but that are influenced by definitions from economics. The case of Brazilian “embedded neoliberalism” was highlighted as a relevant example of the influence of a rationale defined by the financial market in contemporary political dynamics where traditional ideological conflicts are blurred and right-left cleavages are modified in favor of an elite-friendly political-economic framework. The processes of definition of this rationale constitute the enactment of “cultural wars” where financial products and services are framed as a favorable daily presence in the lives of the common citizen.

The economic discourse that justifies inequalities is strategically built, inciting causal mechanisms and moral evaluations that move public debates to culturally divisive, politically secondary issues, and away from the limitations of contemporary capitalism. In Brazil specifically, it is worth noting that the enactment of such discourse can be seen as a public policy in itself. In face of ubiquitous inequality and ongoing economic crises that have much to do with the role accepted by different national governments in the global market and with macroeconomic themes such as interest rates and fiscal policy, the main players of the inequality regime – elite politicians, market analysts and the media – often attribute the causes of the crises to conjunctural settings - a supposed failure to organize the national economy in acceptance to the market rationality; and affirm in unison that the solution is to enact “reforms”. Which reforms they talk about is never specified. Since approval of the 1988 Federal Constitution, market-friendly reforms in finances, social security, labour and administrative bureaucracy have been enacted, yet the recurrent crises insist to occur and the national economy fails to grow sustainably. Still, the inequality regime always refers to the much needed “reforms”. It is not a specific reform or a set of reforms that the regime advocates. The discourse in favor of proverbial market-friendly reforms is the public policy in itself.

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