


THE (UN)SEEN IN THE CONTRIBUTIONS TO POLITICAL FUNDING: LESSONS FROM THE 2014 BRAZILIAN PRESIDENTIAL CAMPAIGN FINANCE, CORRUPTION SCANDALS AND NEW DIRECTIONS IN THE ELECTORAL RULES OF THE GAME

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Abstract

This paper combines Public Choice with Austrian Economics perspectives to provide an interpretation of the logic and the consequences of the Brazilian 2014 presidential campaign finance, often related to corruption scandals uncovered by the “Car-Wash Operation” investigation. Section 1 discusses how Public Choice Theory intersections with Austrian Economics provide a richer understanding of patterns of political behavior in the real world. Section 2 analyzes the rules of the Brazilian political game until 2014. Section 3 shows the top corporate contributors donated to all political candidates, regardless of their parties. We found that they already kept close connections with government infrastructure projects and received subsidized credit from the government. Section 4 wraps the overall argument and concludes that some posterior moves to constrain private sector contributions to political candidates are a kind of smokescreen that reduces transparency, while a bigger role of the government in electoral funds might foster corruption and crony relations.

Keywords: Public choice; Brazilian presidential election; campaign finance.

JEL: H1; H48; H80; K16; M48

INTRODUCTION

Brazil is a country with a territory of more than 8.5 million square kilometers and an estimated population of around 209 million inhabitants (IBGE, 2020). It is also a country with a low degree of economic freedom, as pointed by

the indexes of the Fraser Institute (Gwartney et al., 2019) and the Heritage Foundation (Miller, Kim, & Roberts, 2019), whose respective scores are 6.23 and 51.9, placing Brazil in the last quartile, among the least free economies in the world. Such piece of information has two important implications for the present research: 1) presidential campaigns are expensive because they need to cover a large population spread over a vast territory; 2) one of the consequences of low economic freedom is that the government plays a major role in the exchange of property rights.

In this sense, there is a long-standing tradition that regards Brazil as a rent-seeking society with crony relations (Haber, 2002; Lisboa & Latif, 2013; Musacchio & Lazzarini, 2014). Such a portrait of the Brazilian institutional environment sheds extra light on the explanatory power of public choice theory. The latter is a framework that draws on insights of economics to account for “the behavior of individuals concerning to government” (Tullock, Brady, & Seldon, 2002, p. 3). More specifically, it assumes that “people are people” and therefore are actuated by their self-interest. This implies the view that individual voters, politicians, and regulators are just like voters and consumers who exhibit different behavioral outcomes because of the incentives they have under the contexts of public and private choices.

The departure point of this paper is the conjecture that the Brazilian presidential campaign finance in 2014 makes a case for examining the empirical relevance of public choice theory and some of its limitations, such as the knowledge problem and the very coordination of interests between private contributors and the political candidates. Our hunch is that Boettke and Lopez’s (2002) ideas about integrating Public Choice Theory and Austrian Economics can add to our understanding of some patterns of rent-seeking activities and political entrepreneurial moves that promote unintended consequences, such as economic inefficiency and forced transfer of resources (Holcombe, 2002).

More precisely, this article aims to interpret private finance of the election campaign using the theoretical perspectives of Public Choice Theory (henceforth, PCT) and Austrian Economics (AE), studying the case involving the connections between the main donors of the 2014 Brazilian presidential campaign and the corruption scandals involving “Car-Wash” operation. To us, this type of research is worth doing because Brazil’s 2014 presidential campaign finance is accompanied by important corruption scandals involving major private-sector campaign donors, who operated in various sectors, such as financial services, infrastructure, public investment projects, and petroleum. More fundamentally,

what justifies this work is the conviction that patterns of institutionalized rent-seeking in Brazil significantly contribute to its recent crisis.

To accomplish this task, the paper will be structured as follows: Section 1 discusses the research agenda of public choice theory and its intersections with Austrian economics. We go on to claim that, despite the differences between public choice and Austrian political-economic explanations, they are complementary and enable us to provide a richer understanding of the logic and dynamics of political phenomena, including campaign finance and some unintended consequences of electoral processes related to predation and corruption scandals in the real world. Section 2 analyzes the rules of the Brazilian political game until 2014, its specificities and incentives for rent-seeking, predatory relations, and why they motivated changes in the system for funding political candidates and their campaigns. Section 3 provides a descriptive-qualitative research approach to investigate: (a) total amount of private contributions to the presidential candidates; (b) the distribution of private contributions between companies and individual donators; (c) the main entrepreneurial groups with major roles in funding the available candidates and their political parties; (d) the business sectors in which those private groups operate; (e) the main services the private contributors provide to the public sector; (f) some empirical regularities suggesting rent-seeking activities and potential implications in terms of economic inefficiency and promoting government failures. Also, it goes on to discuss the main empirical results and draws some implications about government failures in a rent-seeking society. Section 4 wraps the overall argument up and concludes.

1

INTEGRATING PUBLIC CHOICE THEORY AND AUSTRIAN ECONOMICS TO BETTER UNDERSTAND PATTERNS OF POLITICAL CAMPAIGN FINANCE IN THE REAL WORLD

There is a long-standing (though mistaken) view that democratically elected government officials are there to resolve market failures and to choose what it is in the individual's as well as society's best interests. This idealized view of bureaucrats and politicians underestimate the fact that people are civil servants - just like everyone else- and are driven by their interests

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(Tullock, Brady, & Seldon, 2002). This implies the view that individual voters, politicians, and regulators are just like voters and consumers who exhibit different behavioral outcomes because of the incentives they have under contexts of public and private choices.

In their great book *Government Failure*, Tullock, Brady, and Seldon (2002) examine, critically, the idealized idea of a “government of the people, by the people and for the people” underlying Abraham Lincoln’s famous speech in 1863. To them,

Lincoln would now see government not of, by, and for all the people but of, by, and for some kinds of people. He would see it not as of all the people but as of the political activists. He would see the government not as by the people but as managed by the politicians and their officials. And he would see government not as for the ordinary people but as for the organized in well-run, well-financed, and influential business, professional associations, and trade unions. It is government “of the Busy (political activists), by the Bossy (government managers), for the Bully (lobbying activists)” (Tullock, Brady, & Seldon, 2002, p. X).

Public Choice Theory, one of the theoretical foundations of this paper, comes to challenge this idealized portrait of government and its goals. It draws on methodological individualism and rational choice to uncover the logic of political phenomena. Yet, we go on to claim that, despite some conceptual and theoretical differences, AE and PCT are complementary. Together, they promise to provide a more unified explanation of the problems of collective action and the unintended consequences of political exchanges and government decisions in contemporary democracies that can reward predatory wealth transfers and harm economic efficiency (Boettke & Leeson, 2004; Holcombe, 2015; Ikeda, 2003).

Given the purposes of this essay, we will put forth the idea that the combined lens of PCT and AE allows for a dynamic perspective on political coordination and an explanatory account of competition and entrepreneurship that improves our understanding of patterns of political entrepreneurship underlying the Brazilian institutional environment and provides a broader explanation of how politicians (as well as candidates willing to win political positions through elections) behave and how (and why) the financing of their political campaigns reveal the existing opportunities for political entrepreneurship, crony relations

and efforts to transfer privileges and benefits from some interest groups to others (Holcombe, 2002).

■ 1.1 Public Choice Theory (PCT): explanatory possibilities

In line with PCT, government officials and politicians act as if they were utility-maximizing agents. Given some rules of the game underlying representative democratic systems, the best strategy for a political agent to pursue his (her) self-interest is to vote for policies, and to make protectionist moves among other public measures that benefit named interest groups in exchange for campaign finance and political support. Due to the specificities of majority rules in various democratic countries worldwide, government officials promise to represent all their voter's interests, but hardly deliver them. Political candidates need votes to get elected and succeed, of course. But this is not the whole story. They need financial resources to finance their campaigns, which can only be provided by economically powerful agents and their members of vested groups. Such empirical regularity has a great deal to do with the view of politics as "the gentle art of getting votes from the poor and campaign funds from the rich, by promising to protect each from the other" (Ameringer as cited in Singh, 2005, p. 227). In a very similar fashion, Thomas Sowell (as cited in Kirchinger, 2005, p. 11) advises: "If you have been voting for politicians who promise to give you goodies at someone else's expense, then you have no right to complain when they take your money and give it to someone else, including themselves".

It is important to stress that PCT sheds light on the fact that the electoral process takes place in an environment with highly asymmetric information. This gives rise to the logic of the concentrated benefits (for interest groups that finance politicians' campaigns) and dispersed costs (to the voting masses) and helps us understand the phenomenon of voter's rational ignorance. The latter refers to the fact that voters calculate the costs and benefits of getting informed about political life and conclude that it is not worth wasting time and energy to acquire information and participate in collective decisions. Besides, the incentive structure of individual voters also suggests that voting is not a rational strategy, since their votes tend to make no difference to the outcomes.

In his *Capitalism, Democracy, and Socialism*, Joseph Schumpeter (2003) seemed to anticipate the intersections between Austrian economic ideas and Public Choice Theory. He provided an account of the myths surrounding classical doctrines of democracy and investigated recurrent problems of collective action.

Democracy is a political method, that is to say, a certain type of institutional arrangement for arriving at political — legislative and administrative — decisions and hence incapable of being an end in itself, irrespective of what decisions it will produce under given historical conditions. And this must be the starting point of any attempt at defining it (Schumpeter, 2003, p. 242).

To him, the democratic method was an “institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people’s vote” (Schumpeter, 2003, p. 269). Under such a setting, an individual has the power of choice through politics, a business dealing with votes and politicians’ highly competitive struggle for votes and support (financial help included) of interest groups (Rowley & Schneider, 2004).

Besides, Schumpeter also suggested that the individual voters’ ignorance is a pervasive phenomenon since he/she “expends less disciplined effort on mastering a political problem than he expends on a game of bridge” (2003, pp. 258–62). Schumpeter went on to stress:

the ordinary citizen’s ignorance and lack of judgment in matters of domestic and foreign policy [...] without the initiative that comes from immediate responsibility, ignorance will persist in the face of masses of information however complete and correct (Schumpeter, 2003, pp. 261–262).

As a result, every individual political candidate comes to realize that his or her goal of achieving (and preserving) political power depends on whether he or she gets votes from people and has his or her campaign financed by businesses. Such features of the democratic political environment offer incentives for predatory politics. Interest groups are also aware of the relative advantages of building up personal connections with potential rulers.

This line of reasoning inspires the metaphor of electoral markets, often constrained by the Constitution and electoral law and legislation. From such an economic perspective, systematic elections resemble electoral markets to achieve political support and elect a government. That implies that democracy is a political method or means to make a collective choice.

The traditional economic literature of public choice owes a lot to James Buchanan and Gordon Tullock (1962). They came up with an economic approach

to politics that is built on methodological individualism, the assumption of economic rationality of politicians (they are motivated by their interests), and their view of market equilibrium.

The merit of PCT is to represent public servants' behavior in a less idealized way since they are just like all other individuals. Due to the asymmetric information pervading the political spheres and voters' rational ignorance, PCT predicts the existence of government failures.

In a nutshell, public choice theory helps us understand democracy as a method for political choices. Diversity among political candidates, their speeches and actions can be taken as a function of: a) the political environment, also influenced by previous collective actions and their (unintended) consequences; b) voters' preferences that are more aligned with particular candidates and coalitions; and c) interest groups that are more or less directly active in shaping the electoral process by means of campaign finance that resembles a corporate investment strategy to bind the candidate and interest groups together over time.

Yet, it is important to stress that PCT faces some explanatory constraints resulting from its commitment to (i) an unrealistic criterion of general equilibrium and Pareto optimality to refer to the market as failures; (ii) an oversimplified vision of coordination and competition; (iii) a lack of attention to the various types of knowledge, some of which are local, context and time-dependent; (iv) a mistaken belief that politicians, bureaucrats, among other government officials, can overcome the knowledge problem when making their judgments or decisions and therefore the consequences of their actions are in perfect tune with their intentions.

Given a long story of methodological and theoretical affinities between the Austrian School of Economics and Public Choice Theory, it is worth presenting and discussing some contributions that AE can give to PCT. This article goes on to argue that the Austrian Public Choice Theory seems to be a natural move towards an explanatory economic account of the logic of political interactions (campaign finance, included) and some unintended consequences of interventions.

■ 1.2 Some lessons of Austrian Economics for Public Choice Theory

Indeed, there are some differences between AE and PCT. Sanford Ikeda (2003) emphasizes that AE cannot accept the concept of market failure, since it

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is built on a simple view of the market structure among neoclassical price theorists and their commitment to the Pareto efficiency criterion as a benchmark. Austrian economics will inevitably challenge the static, market structure models of collective action and government behavior. To DiLorenzo (1988), “neoclassical price theory has its limitations, many of which have been investigated by Austrian Economists. These implications have implications for the study of Public Choice” (DiLorenzo, 1988, p. 59).

PCT regards any departure from optimal equilibrium as a result of asymmetric information and information costs. As it is said, the Austrian approach comes to criticize this narrow view of the market. This is because the neoclassical equilibrium analysis neglects the central role the dynamic forces of the market play for coordination patterns in the political arena and prevents us from understanding how exactly individual politicians and businessmen deal with the existing profit opportunities under specific environments.

Furthermore, many patterns of behavior within and outside political settings do not result from equilibrating factors. Unlike PCT’s commitment to the assumption of perfect knowledge, AE draws on the idea of radical ignorance. Additionally, AE provides an interpretation of government failures that differs from PCT.

1.2.1. *The issue of information and knowledge in the political arena*

The Austrian School stresses that knowledge is local and individual rationality need not imply market equilibrium. In his *Economics and Knowledge*, Hayek (1937) stressed that everything would depend on how information is acquired and whether and how price signals can be used to test entrepreneurial opportunities. If we take the Hayekian view of knowledge seriously and endorse his subjectivism and complex account of coordination, we cannot say that democracies bring about efficient outcomes because politicians and interest groups can allocate their resources and behave optimally. Also, we can even challenge the market metaphor for politics because it is based on a simplistic view, in terms of a static account of the nature of the market and competition, that is popular in standard microeconomics and some Industrial Organization studies.

Randall Holcombe (2002) claims that the standard microeconomic metaphor of the market fails to be a good approximation to explain the actual goings-on in politics. This is because real-world politicians seek to explore opportunities

that are not impersonal and non-coercive, since they demand coalitions and strategic use of power.

Austrian economics can be useful to Public Choice Theory to the extent that it inspires a new portrait of economic efficiency that is closer to Adam Smith's than that one shared by Pareto, since institutions can be regarded as efficient if they help people to make a mutually beneficial exchange and to allow individuals to be the agents of their own destiny. At the end of the day, due to the subjectivism involved in human action and our limited knowledge, only individuals themselves can say whether their allocations are efficient or not.

In his *The Pretense of Knowledge*, Hayek (1974) emphasized that there is always a confusion between practical and theoretical knowledge. Politicians and many of us voters can be overconfident about their knowledge regarding the functioning of complex phenomena. To him, theoretical knowledge of complex phenomena can be only abstract, in the sense that it cannot yield detailed predictions, but only pattern predictions of general characteristics of the object studied. As a result, public policies tend to be ineffective and often accompanied by government failures and unintended consequences that call for other stages of government interventions (Ikeda, 1997).

Mises (1949) also realizes that politicians face a knowledge problem. Even if politicians had other regarding preferences and good intentions, they simply could not have all the disperse information to make choices that are optimal Pareto allocations because this is a theoretical benchmark that cannot be pushed too far to understand coordination and equilibration in the real world.

If this is so, unlike PCT, AE does not consider that government failures refer to deviation from Pareto optimality or any criterion that already assumes an equilibrium condition. Austrian economists refer to government failures in terms of interventions that failed to bring their intended consequences. PCT, instead, takes government failures as mistakes resulting from a lack of incentives to deal with information and agency problems under the complex context of collective actions. More importantly, AE does not consider the fact that government interventions can allow for the rational allocation of economic resources.

Furthermore, voters also have a difficult time dealing with the knowledge problem. This is also an important lesson Austrian Economics can teach Public Choice Theory researchers. Boettke and Lopez (2002) present the issue succinctly and precisely:

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Modern democracies are large scale, in which voter constituents face an exacerbated knowledge problem in making collective choices. This increases the base on which to disperse and they persist due to specific forms of large-scale democratic mechanisms that exacerbate knowledge problems (Boettke, & Lopez, 2002, p. 113).

Mises (1998) also stressed that government interventions come associated with failures and other stages of interventions that explain the emergence of special interests trying hard to have their demands satisfied at the expense of other individuals and the (rationally) ignorant voting masses. This portrait of polity is very much in tune with Hayek's ideas about the challenges of public choice. All this leads us to identify points of contact between AE and PCT that enable us to examine more carefully the reasons for institutions to constrain the expanding scope (and power) of government in contemporary democracies.

1.2.2 Austrian Economics sheds light on the pervasiveness of crony relations and entrepreneurship in the political arena

Based on the foundations of PCT, we can predict that politics provides incentives for politicians, even before they get elected, trying hard to optimize their preferences. One common way to pursue the foregoing task is to explore profit opportunities from their connections and (promise to) benefit those who support them to the detriment of others. Due to the empirical regularity of concentrated benefits and disperse costs and some evidence of rational ignorance, politicians and rulers know that their interventions to transfer wealth from an uninformed majority (mass of voters) to a minority (interest groups) can be profitable, though not conducive to economic efficiency.

In his *Road to Serfdom*, Hayek (2001) makes many claims that can add to our study of Public Choice Theory. He was particularly concerned about the consequences of governments that promote interventions that had favored some interest groups at the expense of everyone else. He warns us: “[...] Innumerable interests [...] could show that particular measures would confer immediately and obvious benefits on some, the harm they caused (on others) was much more indirect and difficult to see” (Hayek, 2001, p. 18).

Under such an institutional arrangement, predatory politics does pay off. James Buchanan (1980) uses the term rent-seeking “to describe behavior in institutional settings where individual efforts to maximize value generate

social waste rather than social surplus” (1980, p. 47). Similarly, Lisboa and Latiff (2013) suggested that Brazilian rent-seeking is the process by which certain groups obtain privileges and benefits from government agencies (2013, p. 1). These portraits of rent-seeking shed extra light on Randall Holcombe’s view of crony capitalism as “an economic system in which the profitability of business depends on political connections” that is certainly a by-product of big governments (Holcombe, 2013, p. 542). More recently, Todd Zywicki (2016) provided a very broad interpretation of crony capitalism that also fits well with the Brazilian version. To him,

Crony capitalism today can be seen as the alliance of three powerful interests — big business, big labor, and big government — locked in a symbiotic relationship to create pools of rents for particular industries or firms and to use those pools of rents to pay off powerful political interests, such as labor unions and politicians themselves. Crony capitalism thus rests on an implicit guarantee by the government — it will protect certain politically-connected firms from the rigors of competition, thereby guaranteeing those firms and industries a certain flow of revenues. In (implicit) exchange for this guaranteed flow of revenues, the firm promises to share some of that surplus with specific groups, such as labor unions or favored interest groups (such as environmental groups), and with the politicians themselves through campaign contributions and other means of support. Thus, the firms and their managers and shareholders gain what amounts to a sinecure and protection from the gales of creative destruction, and in exchange, politicians can divert some of this flow of resources to their preferred policies and groups (Zywicki, 2016, p. 8).

It seems to us that the Austrian school of economics enables us to dig deeper into the mechanisms that explain the emergence and persistence of those crony relations. PCT also accommodates the empirical fact that group interests and lobbyists approach politicians and candidates in the campaign to obtain and preserve benefits like regulatory measures and subsidies. Yet, Austrian economic insights highlight that politicians are alert to identify and explore opportunities for profits (Holcombe, 2002). If this is so, it makes sense to suggest that there is room for “political entrepreneurship”.

Austrian economist Israel Kirzner (2015) argued that market entrepreneurs are alert to identify and explore an opportunity for profit. Their role is to challenge the market equilibrium options, to realize potential misallocations, and to

embark on initiatives that are solely dependent on their actions. Of course, this perspective presupposes an institutional setting with decentralized forces that reward bold entrepreneurial conjectures and actions. Market entrepreneurial activities and their voluntary exchanges under competitive settings trigger value-creation processes and contribute (even though unintentionally) to coordination in a world of fragmented knowledge.

Quite analogously, we can appeal to the idea of entrepreneurship to understand the dynamics of coordination in politics. DiLorenzo (1988) and Holcombe (2002) suggest that political entrepreneurship helps us understand interactions that characterize some instances of collective action and what consequences they might carry for the allocation of economic resources.

As entrepreneurs in the economic domain, political entrepreneurs act on opportunities for gains. However, their initiatives depend on collective action and strategic use of their capacity to transfer wealth from one group of uninformed individuals to another group, aware of their demands for privileges. In this case, at the heart of political entrepreneurship lies the wealth redistribution through rent-seeking behavior (DiLorenzo, 1988, p. 6).

One unintended consequence of the foregoing interactions in the public domain is the predatory economic behavior and activation of wealth-destruction mechanisms. It is important to stress that such an Austrian insight into public choice is based on the view that government interventions cannot yield efficient allocations. Rather, government interventions bring about distortions that will activate other political entrepreneurial moves towards predatory behaviors and misallocations.

The lesson to be drawn is that AE improves our understanding of the cooperative interactions between interest groups and politicians willing to buy and sell wealth transfer services. Unlike private entrepreneurs in competitive markets that unintendedly promote wealth creation mechanisms, political entrepreneurs, even in democratic environments, contribute to the consolidation of assignments of property rights that are wealth-destructive and in tune with crony capitalism.

With this in mind, PCT and AE turn out to be complementary approaches to better explain why the complex coordination problem in the political sphere often involves politicians and candidates in the campaign, who try to sell economic privileges to interest groups and at the same time sell to median voters flawed stories that support their specific efforts to benefit some businesses. Our tentative empirical research on the 2014 Brazilian presidential campaign finance has encountered empirical evidence of the aforementioned dynamics.

2

BRAZILIAN ELECTORAL LAWS AND THE RULES OF THE 2014 PRESIDENTIAL CAMPAIGN FINANCE GAME

The Brazilian electoral legal system accommodates a network of laws to regulate political parties (Brazil, 1995) and the elections (Brazil, 1997). It has been recommended since 2014 that political parties can be funded by private as well as public financial resources.

The Electoral Justice is entitled to enforce the rules of the elections game and to guarantee transparency as well as public integrity. For that reason, all political candidates are obliged to report all their expenses and sources of revenues by presenting all invoices, receipts among other documents proving the veracity of the material presented.

It is important to stress that, until 2014, the electoral law allowed corporate campaign donations up to the amount of 2% of the company's gross revenue of the year preceding the election. Campaigns can be also financed by individuals, up to 10% of their gross income reported to fiscal authorities in the year before the election. If companies fail to commit to the requirements of the legal corporate campaign finance, the legal authorities punish them by prohibiting their participation in public offers, legal tenders and government projects during 5 years.

3

AN ASSESSMENT OF THE 2014 PRESIDENTIAL CAMPAIGN FINANCE AND THE CONNECTIONS BETWEEN MAIN DONORS AND CANDIDATES

This section analyzes the reported accounts of the 2014 presidential campaign. It takes into consideration the declared revenue of all candidates running for presidency. To accomplish this task, we draw on public information from the Supreme Electoral Court and its database available online (TSE, 2014). The purpose is to identify all the donors (individuals and companies), the sectors to which they belong and how concentrated their donations are.

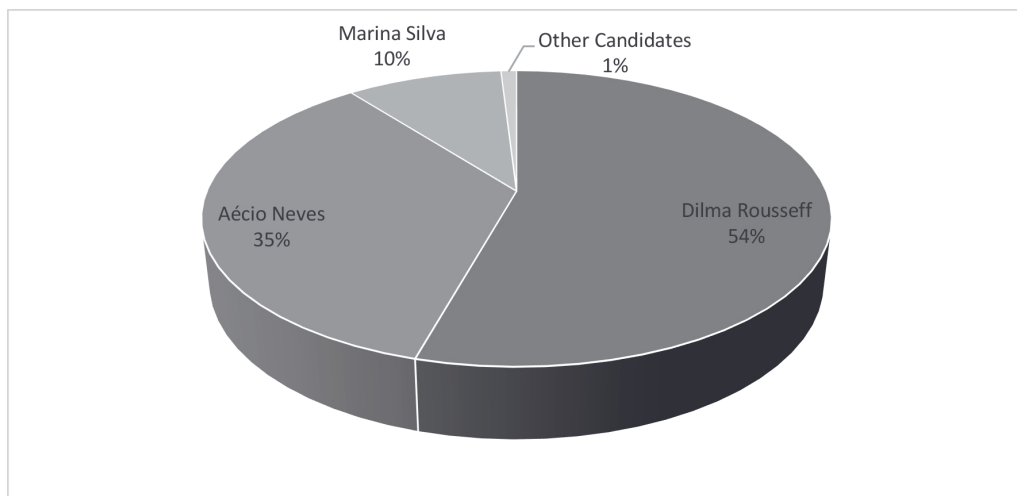
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We go on to embark on an exploratory analysis of the relationship between the main campaign donors of the 2014 presidential electoral process and the federal government (in terms of provided services and potential privileges pursued and achieved). Given that this is an exploratory study, we draw on some public information from the press, pieces of individual candidates' accountability, pieces of information from accounts of the National Bank of Economic Development in Brazil (BNDES, 2020), the Federal Prosecution Service (MPF, 2017), among other sources that provided reliable data.

The first round of the 2014 Brazilian presidential election dealt with 11 candidates. Among all of them, only three received some significant campaign donations: Dilma Rousseff (Worker's Party, PT), Aécio Neves (Social Democracy Party, PSDB), and Marina Silva (Brazilian Socialist Party, PSB). The next pie chart summarizes the percentage of total campaign donations:

Figure 3.1

Distribution of the 2014 presidential campaign donations (% total of 11 candidates with special emphasis to the three most important names)

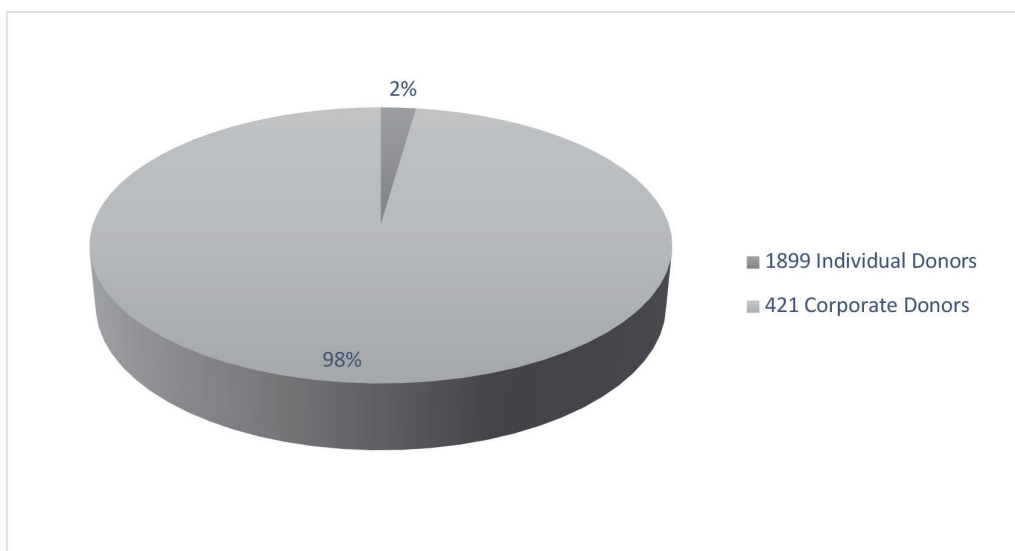


Source: Superior Electoral Court (TSE, 2014).

Reported corporate donations for the 2014 presidential campaign amounted to approximately US\$ 250.4 million. Some companies also donated to political parties rather than individual candidates. It is important to stress that political parties have different sources of income, since campaign finance in Brazil also includes government transfers through a public political party fund and also allows some parties' allocation of their resources. Nevertheless, the main source of campaign finance depended on corporate donations. The next chart highlights the standard:

Figure 3.2

Distribution of campaign finance among individual and corporate donors (% donated value)



Source: Superior Electoral Court (TSE, 2014).

Among all individuals who donated to presidential candidates, only 100 made contributions higher than US\$ 4,255.00. They amounted to 95% of individual donations. The top 20 donors among individuals donated amounts higher than US\$ 95,000.00. It is worth emphasizing that those individuals were businesspersons.

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Concerning corporate campaign finance in Brazil, we identify different companies from the same economic sector of activity (and therefore, different corporate donors) interested in contributing to candidates. Some of them adopt this strategy to deal with electoral regulations. With this in mind, we investigate the economic sectors that contributed more and try to go on assessing what is the economic rationality of their campaign finance and whether this suggests an effort to keep cooperative connections to lower transaction costs of doing business and to obtain future privileges (i.e. a rent-seeking strategy).

After excluding donations directly made to political parties, we found that the remaining 420 companies reported donations to all presidential candidates that amounted to approximately US\$ 250,000,000.00. Figure 3.1 shows the top 20 corporate donors (corresponding to less than 5% of corporate donors) contributed to 64% of the total amount of the donated money. The top 50 corporate donors were responsible for 81% of all donations, whereas the top 100 companies contributed to 91,5% of the donations.

Figure 3.3

The top 20 presidential campaign donors in 2014 (only companies)

COMPANIES	BUSINESS SECTOR	RANKING	DONATION	Accrued %
JBS S/A	MEAT PRODUCTS	1	\$47,667,102.58	19%
CONSTRUTORA ANDRADE GUTIERREZ S/A	CONSTRUCTION, INFRASTRUCTURE AND ENGINEERING	2	\$14,724,428.24	25%
CONSTRUTORA OAS S.A.	CONSTRUCTION, INFRASTRUCTURE AND ENGINEERING	3	\$10,437,725.40	29%
CERVEJARIA PETROPOLIS S/A	BEVERAGE MANUFACTURING	4	\$7,561,063.83	32%
BRADESCO	FINANCIAL SERVICES, INSURANCE AND RELATED SERVICES	5	\$7,122,789.95	35%
ODEBRECHT	CONSTRUCTION, INFRASTRUCTURE AND ENGINEERING	6	\$7,091,746.62	38%
GERDAU AÇOS ESPECIAIS S/A	BASE INDUSTRY	7	\$6,303,077.96	40%
BTG PACTUAL	FINANCIAL SERVICES, INSURANCE AND RELATED SERVICES	8	\$6,289,801.67	43%
SUCOCITRICO CUTRALE LTDA	BEVERAGE MANUFACTURING	9	\$6,084,993.96	45%
AMIL ASSISTENCIA MEDICA INTERNACIONAL S.A.	HEALTH SERVICES	10	\$5,459,258.26	47%
ITAU UNIBANCO S/A	FINANCIAL SERVICES, INSURANCE AND RELATED SERVICES	11	\$5,127,602.25	49%
UTC ENGENHARIA S/A	CONSTRUCTION, INFRASTRUCTURE AND ENGINEERING	12	\$5,046,715.35	51%
CRBS S/A	BEVERAGE MANUFACTURING	13	\$5,015,471.91	53%
VOTORANTIM	BASE INDUSTRY	14	\$4,467,677.49	55%
COSAN LUBRIFICANTES S/A	OIL AND GAS	15	\$4,386,652.90	57%
HYPERMARCAS S/A	HEALTH SERVICES	16	\$4,255,318.84	59%
CONSTRUTORA TRIUNFO S/A	CONSTRUCTION, INFRASTRUCTURE AND ENGINEERING	17	\$3,829,787.23	60%
BRASKEM S/A	OIL AND GAS	18	\$3,446,804.22	62%
TELEMONT ENGENHARIA DE TELECOMUNICACOES S/A	CONSTRUCTION, INFRASTRUCTURE AND ENGINEERING	19	\$3,191,489.36	63%
COMPANHIA BRASILEIRA DE ALUMINIO	BASE INDUSTRY	20	\$2,553,191.49	64%
All other 401 corporate donors			\$90,300,287.46	
TOTAL (except party donations)			\$250,362,986.98	100%

* All amounts were converted to US dollars at the 2014 average rate of BRL\$ 2.35 per US\$ 1.

Source: Superior Electoral Court (TSE, 2014).

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Of Dilma Rousseff's top donors, 20 of them were companies responsible for 71% of total contributions. Among them, 14 also donated to Aécio Neves and they donated an amount that accounted for 48,23% of all donations the candidate received. Among the same top 20 donors to Rousseff's campaign, 10 of them also financed Marina Silva's campaign by an amount corresponding to 36,63% of all the contributions she received. Figure 3.4 somehow suggests that the most important donors also contributed to the two other competitive candidates after contributing to Dilma Rousseff

Figure 3.4

The top 20 companies which financed Dilma Rousseff and also donated to other strong candidates running for the presidency

DONORS (COMPANIES)	DILMA ROUSSEFF	AÉCIO NEVES	MARINA SILVA
JBS S/A	\$31,224,698.69	\$12,953,592.20	\$3,477,780.57
CONSTRUTORA ANDRADE GUTIERREZ S/A	\$ 8,946,808.51	\$ 5,431,251.11	\$ 325,092.03
CONSTRUTORA OAS S.A.	\$ 8,513,191.49	\$ 1,770,407.09	\$ 154,126.83
CERVEJARIA PETROPOLIS S/A	\$ 7,535,531.91		
AMIL ASSISTENCIA MEDICA INTERNACIONAL S.A.	\$ 4,953,173.92	\$ 212,747.74	\$ 293,336.60
BTG PACTUAL	\$ 4,042,553.19	\$ 2,247,248.48	
CONSTRUTORA TRIUNFO S/A	\$ 3,829,787.23		
ODEBRECHT	\$ 3,823,446.49	\$ 3,034,864.21	\$ 233,435.92
CRBS S/A	\$ 3,301,912.58	\$ 1,675,261.46	
BRDESCO	\$ 3,299,901.77	\$ 3,353,154.14	\$ 299,521.28
UTC ENGENHARIA S/A	\$ 3,191,489.36	\$ 1,855,225.99	
TELEMONT ENGENHARIA DE TELECOMUNICACOES S/A	\$ 3,191,489.36		
COMPANHIA BRASILEIRA DE ALUMINIO	\$ 2,553,191.49		
BRASKEM S/A	\$ 2,170,212.77	\$ 1,276,591.46	
GERDAU AÇOS ESPECIAIS S/A	\$ 2,132,978.72	\$ 2,127,565.32	\$2,042,533.91
HYPERMARCAS S/A	\$ 2,127,659.57	\$ 2,127,659.26	
FLORA PRODUTOS DE HIGIENE E LIMPEZA S.A	\$ 2,127,659.57		
COSAN LUBRIFICANTES S/A	\$ 1,706,382.98	\$ 1,623,954.15	\$1,056,315.77
MINERADORA CORUMBAENSE REUNIDA S/A	\$ 1,704,255.32		\$ 207,668.09
ITAU UNIBANCO S/A	\$ 1,702,127.66	\$ 2,553,134.17	\$ 851,063.83

* All amounts were converted to US dollars at the 2014 average rate of BRL\$ 2.35 per US\$ 1.

Source: Superior Electoral Court (TSE, 2014).

It is important to emphasize that, among the top corporate donations, 10 of them contributed to the campaign of the three candidates who were more likely to win the election. Such a strategy seems to suggest that companies try to keep a cooperative relationship with potential government rulers, regardless of who they are and their political parties. Furthermore, it comes as no surprise that this is a pretty safe strategy, given the signals of the institutional environment with constrained economic freedom. Political connections pay off. This is because transaction costs are high and the government can help businesses via future regulations, protectionist schemes, among other privileges. Figure 3.5 provides some details of all companies that donated to the main candidates:

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Figure 3.5

The main donors and how they allocated their campaign finance resources

CORPORATE DONORS	DILMA ROUSSEFF	AÉCIO NEVES	MARINA SILVA	TOTAL OF DONATIONS
JBS S/A	\$31,224,698.69	\$12,953,592.20	\$3,477,780.57	\$47,656,071.46
CONSTRUTORA ANDRADE GUTIERREZ S/A	\$8,946,808.51	\$5,431,251.11	\$325,092.03	\$14,703,151.65
CONSTRUTORA OAS S.A.	\$8,513,191.49	\$1,770,407.09	\$154,126.83	\$10,437,725.40
ODEBRECHT	\$3,823,446.49	\$3,034,864.21	\$233,435.92	\$7,091,746.62
BRASESCO	\$3,299,901.77	\$3,353,154.14	\$299,521.28	\$6,952,577.19
GERDAU AÇOS ESPECIAIS S/A	\$2,132,978.72	\$2,127,565.32	\$2,042,533.91	\$6,303,077.96
SUCOCITRICO CUTRALE LTDA	\$1,276,595.74	\$4,170,100.34	\$638,297.87	\$6,084,993.96
AMIL ASSISTENCIA MEDICA INTERNACIONAL S.A.	\$4,953,173.92	\$212,747.74	\$293,336.60	\$5,459,258.26
ITAU UNIBANCO S/A	\$1,702,127.66	\$2,553,134.17	\$851,063.83	\$5,106,325.66
COSAN LUBRIFICANTES S/A	\$1,706,382.98	\$1,623,954.15	\$1,056,315.77	\$4,386,652.90
COMPANHIA BRASILEIRA DE METALURGIA E MINERAÇÃO	\$768,297.87	\$1,250,292.66	\$419,863.15	\$2,438,453.69
BRF S.A.	\$1,063,829.79	\$852,729.21	\$65,812.60	\$1,982,371.60
SAFRA	\$851,063.83	\$451,548.94	\$194,298.88	\$1,496,911.65
MRV ENGENHARIA E PARTICIPAÇÕES S/A	\$638,297.87	\$425,527.97	\$84,970.06	\$1,148,795.90
INTERTECHNE CONSULTORES S/A	\$319,148.94	\$319,108.66	\$312,920.76	\$951,178.36
LIDER TAXI AÉREO S/A - AIR BRASIL	\$85,106.38	\$425,518.67	\$390,078.49	\$900,703.54
ARCELORMITTAL BRASIL S.A.	\$212,765.96	\$425,515.05	\$212,639.66	\$850,920.67
CENCOSUD BRASIL COMERCIAL LTDA	\$212,765.96	\$212,765.96	\$212,765.96	\$638,297.87
CAVAN PRE-MOLDADO S/A	\$255,319.15	\$255,319.15	\$103,404.26	\$614,042.55
EMBRAER S/A	\$212,765.96	\$215,319.15	\$148,936.17	\$577,021.28
AUSTRALIA EMPREENDIMENTOS IMOBILIARIOS LTDA	\$212,765.96	\$212,759.45	\$105,929.11	\$531,454.51
MULTIPLAN EMPREENDIMENTOS IMOBILIARIOS S/A	\$106,382.98	\$319,134.27	\$101,865.89	\$527,383.14
DALKA DO BRASIL LTDA	\$170,212.77	\$170,193.81	\$170,206.60	\$510,613.17
CURY CONSTRUTORA S/A	\$261,702.13	\$48,811.79	\$193,979.15	\$504,493.07
EUROFARMA LABORATÓRIOS S/A	\$85,106.38	\$85,093.25	\$127,522.23	\$297,721.86
GRANADA INVESTIMENTOS IMOBILIARIOS LTDA	\$85,106.38	\$127,649.60	\$71,859.10	\$284,615.09
VONPAR REFRESCOS S/A	\$102,127.66	\$102,119.79	\$67,130.30	\$271,377.74
EVEN CONSTRUTORA E INCORPORADORA S/A	\$85,106.38	\$85,100.69	\$49,884.45	\$220,091.53

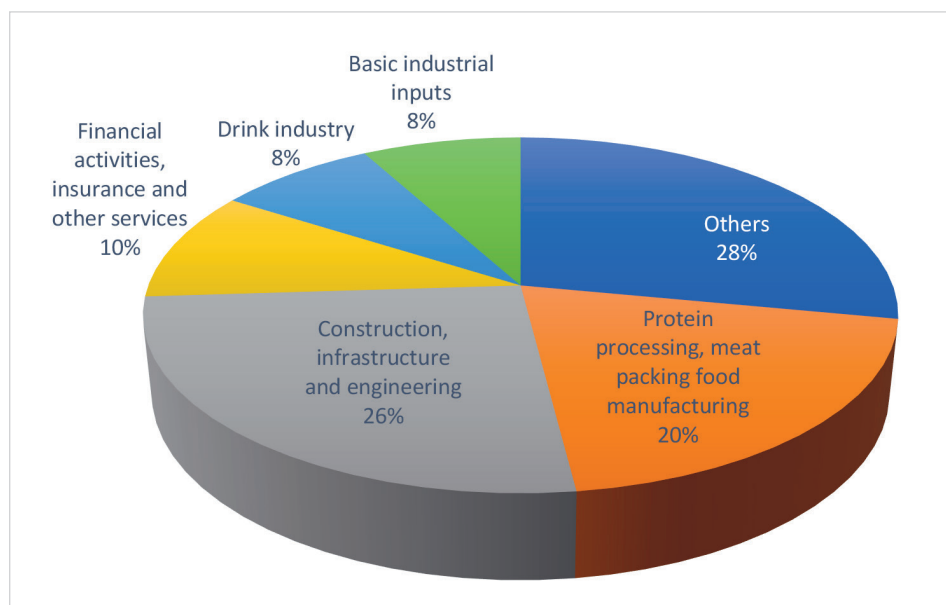
* All amounts were converted to US dollars at the 2014 average rate of BRL\$ 2.35 per US\$ 1.

Source: Superior Electoral Court (TSE, 2014).

The following business sectors were the top donors of the 2014 presidential campaign: 1) construction, infrastructure and engineering; 2) protein processing, meatpacking and food production; 3) financial services and insurance; 4) brewery and drink industry; 5) basic industrial inputs manufacturing. The foregoing sectors donated 72% of all corporate contributions to the 2014 presidential campaign. The next pie chart summarizes:

Figure 3.6

Campaign finance distribution per business sector



Source: Superior Electoral Court (TSE, 2014).

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The main economic sectors that financed Rousseff's presidential campaign are described as follows: 1) construction, infrastructure and engineering; 2) slaughter, protein processing and food; 3) financial activities, insurance and other related services; 4) drinking industry; 5) basic industrial inputs. Such business activities were responsible for almost 75% of the private-sector financial resources that financed Rousseff's campaign. Of the abovementioned 5 sectors, the top 4 also were the main contributors to Neves' and Silva's campaigns.

Provided that the federal government in Brazil plays a non-negligible role in the exchange of property rights, the connections between the government and the big companies are very tight. According to the Federal Government Transparency Portal, 10 out of the 20 top campaign financiers received government payments in 2014 that extrapolated the amount of US\$ 1.36 billion. To illustrate, only the financial and construction sectors received an amount of money that corresponded to 73% of government expenditure.

Additionally, we can go on to stress that some government regulations brought about a large difference between the Brazilian long-term interest rate (the so-called TJLP) and Selic (the base interest rate in Brazil). The TJLP is defined by the National Monetary Committee and it used to serve as a baseline for the loans and credit policies promoted by the National Bank of Economic Development (BNDES) until the end of Rousseff's presidency. The unintended consequence is that TJLP is much lower than the Selic rate (defined by the conditions of the monetary market) and this implies a credit subsidy that BNDES provides do specific projects and companies. Such a scenario yields incentives for companies to embark on initiatives that allow for BNDES credit.

BNDES has public and transparent criteria to provide loans and credit regimes to businesses. Therefore, it is important to be careful with quick conclusions about the connections between companies, playing the role of big political campaign donors, and their access to BNDES funds. Still, given the purposes of this paper, it is worth assessing how much credit the top 20 political campaign donors received from the BNDES. Figure 3.7 presents the top 20 presidential campaign donors in 2014, the amount of BNDES funds they received in the 2011-2014 period and how much larger such subsidized credit are when compared to the campaign donations such companies made

Figure 3.7

Main corporate presidential campaign donors in 2014, BNDES amounts (in US\$) they received between 2011 and 2014 and how large is their access to BNDES funds relative to the amount they gave to campaign finance

COMPANIES IN THE GROUP OF THE TOP 20 PRESIDENTIAL CAMPAIGN DONORS	BNDES (2011-2014)	BNDES loans or credit/donation ratio
JBS S/A	\$222,618,574.51	4.67
CONSTRUTORA ANDRADE GUTIERREZ S/A	\$76,064,815.57	5.17
CONSTRUTORA OAS S.A.	\$41,392,448.31	3.97
CERVEJARIA PETROPOLIS S/A	\$34,654,512.84	4.58
BRADESCO	\$206,851.06	0.03
ODEBRECHT	\$142,671,996.44	20.12
GERDAU AÇOS ESPECIAIS S/A	\$1,003,854,735.90	159.26
BTG PACTUAL	\$0.00	0.00
SUCOCITRICO CUTRALE LTDA	\$30,877,299.20	5.07
AMIL ASSISTENCIA MEDICA INTERNACIONAL S.A.	\$0.00	0.00
ITAU UNIBANCO S/A	\$409,050.21	0.08
UTC ENGENHARIA S/A	\$30,946,044.14	6.13
CRBS S/A	\$0.00	0.00
VOTORANTIM	\$988,697,407.52	221.30
COSAN LUBRIFICANTES S/A	\$101,489.36	0.02
HYPERMARCAS S/A	\$22,621,466.30	5.32
CONSTRUTORA TRIUNFO S/A	\$71,671,274.70	18.71
BRASKEM S/A	\$1,861,455,808.62	540.05
TELEMONT ENGENHARIA DE TELECOMUNICACOES S/A	\$5,757,793.02	1.80
COMPANHIA BRASILEIRA DE ALUMINIO	\$9,005,407.05	3.53

* All amounts were converted to US dollars at the 2014 average rate of BRL\$ 2.35 per US\$ 1.

Source: BNDES (2020).

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Even though conclusions about rent-seeking are clearer, political entrepreneurial suspicious moves and government failures still require further information. The final meeting of the Parliamentary Committee of Inquiry (CPI) to investigate irregular practices involving public servants of the BNDES (president of the BNDES), politicians (Finance Minister and Chief of Staff) and companies (JBS and Odebrecht) during the 2003-2015 period came up with a report last Oct 22th, 2019. It attested that BNDES kept crony relations with private economically powerful groups willing to receive subsidies for the internationalization of their business activities in return for bribery. The Worker's Party (PT) congressmen voted for the end of this version of the report, but they negotiated the removal of the indictment of the ex-presidents Lula da Silva and Dilma Rousseff. The Brazilian online and written press had access to some documents that demanded an indictment of 52 persons, including the ex-president of BNDES (Mr. Coutinho), the ex-Finance Ministers (Mantega and Pallocci), the ex-Chief of Staff (Palocci), and some companies that belong to the group of the most important 2014 presidential campaign donors.

Despite some of its challenges, the anti-corruption investigation called "Lava Jato (Car-Wash Operation)" has been able to uncover features of a complex network of systemic corruption and violations of public integrity (by politicians playing the role of unproductive entrepreneurs) that comprehends individuals from government and market sectors.

Due to plea bargain, black money dealers confessed to the Federal Police and to General Prosecution officers that public servants, as well as businesspersons, demanded their services (transfer money from bribery to shell companies). Further investigation of lots of documents indicated chronic corruption and led to various lawsuits and imprisonment of politically and economically important individuals. The Car-Wash Operation found out that top executives of Petrobras (Brazilian oil company) accepted bribes paid by engineering companies (for instance, Odebrecht, OAS, Galvão Engenharia, among other members of the Brazilian construction cartel) in return for informational privileges and overpriced infrastructure construction projects. Petrobras directors transferred part of the received bribes to political parties and their own shell companies abroad). Due to the foregoing incentive structure and high demand for infrastructure created by big government, the construction companies conquered all of Petrobras' contracts (and its subsidiaries)

It is important to show that the companies implied by the Car-Wash Operation donated 23.2% of the total corporate presidential campaign finance

in 2014. Among the companies involved in the corruption scandals related to the Car-Wash Operation are construction companies, such as Andrade Gutierrez, OAS, Odebrecht, UTC, Queiroz Galvão, Camargo Correia, Galvão, Engevix. Several investment projects and works related to the World Cup are still under suspicion, as well the Nuclear Power Plant of Angra 3, the Belo Monte Plant, the expansion of the COMPERJ Refining and Processing Center, the East-West Railway, the North-South Railway, the Research Center of Petrobras, the Urucu-Manaus Gas Pipeline, Porto Maravilha, the Getúlio Vargas Refinery, the Sertão Canal, the Abreu e Lima Refinery, among others. Several executives of the major Brazilian construction companies were arrested.

The figure below shows some of the amounts of money involved in the works related to the Car-Wash Operation investigations, as well as the difference between the initial and final costs of the projects. Even though some of the changes might have to do with technical requirements and project delays, there is evidence that the engineering companies involved in the Car-Wash investigation charged much more for their works than it was previously expected, since the sum of the differences between the estimated initial and final values has reached almost US\$ 70 billion.

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Figure 3.8

Amounts involved in the works related to the Car-Wash Operation

Project	Estimated initial cost (in millions of US\$)	Estimated final cost (in millions of US\$)	Difference (in millions of US\$)
Corinthians Stadium	348.33	458.77	110.45
Amazônia Stadium	218.77	280.36	61.59
Sertão Canal	194.55	304.57	110.02
CENPES	361.07	434.56	73.49
Mané Garrincha Stadium	316.47	594.71	278.24
North-South Railway	977.02	1,954.03	977.02
Urucu-Manaus Gas Pipeline	509.75	1,486.76	977.02
Maracanã Stadium	254.87	509.75	254.87
Oil Platform P53	1,338.09	1,932.79	594.71
Getúlio Vargas Refinery	3,653.19	4,545.25	892.06
Barra do Riacho Waterway Terminal	206.02	418.42	212.39
Pipelines	108.75	191.37	82.62
Angra 3 Nuclear Power Plant	4,460.29	7,518.78	3,058.49
Belo Monte Plant	2,973.53	12,743.69	9,770.17
Hulls for platform ships	4,630.21	5,055.00	424.79
East-West Railway	1,784.12	2,710.16	926.04
Maravilha Port	3,228.40	3,483.28	254.87
COMPERJ	9,090.50	45,325.07	36,234.57
Abreu Lima Refinery	3,568.23	17,034.07	13,465.84
Total	38,222.16	106,981.40	68,759.24

* All amounts were converted to US dollars at the 2014 average rate of BRL\$ 2.35 per US\$ 1.

Fonte: Folha de São Paulo (2017).

All this highlights the explanatory value of the Public Choice Theory combined with Austrian economic insights. Given the long-standing tradition of big government, interventions that characterize the Brazilian institutional matrix, rent-seeking activities and political entrepreneurial activities turn out to be predictably recurrent phenomena. In response to that, some public authorities tried to sensitize the public opinion (the voting masses, who are often rationally ignorant) through the narrative according to which rent-seeking activities, corruption scandals and poor allocation of economic resources might end with

the approval of an electoral law prohibiting corporate finance of political candidates. In what follows, we explain why we think this regulatory intervention carries unintended negative consequences that might not effectively fight systemic corruption and its sophisticated logic.

FINAL REMARKS

The current paper had shown that the largest contributions to the 2014 presidential campaign were made by private companies rather than individuals. In addition, the participation of the top fifty companies that made the biggest political donations accounted for more than 75% of the total amount all candidates received. Nevertheless, the three main candidates, Dilma Rousseff, Aécio Neves, and Marina Silva received together 96% of all money businesses had directed to funding the 2014 presidential election cycle. We have examined the business sectors and companies that were the largest private donors.

Our study found that some Brazilian economic sectors - construction and engineering; transportation and energy infrastructure; financial services; logistics, oil, and ethanol-related businesses – are politicized and concentrated almost 50% of all private-sector campaign finance. The findings suggest that the private groups who made those large donations - in a world of scarce resources - are willing to “get some privileges”, such as highly subsidized credit programs by BNDES (Brazilian National Bank of Economic Development), the right to appoint or influence public officials that represent their own private interests and to obtain profitable contracts with partly public companies (as Petrobras) or to join their large infrastructure projects. This interpretation gets stronger when it is constated that several major legal donors were also illegal donors, caught in corruption scandals revealed by the “Car-Wash” investigation. All that gives support to our claim that integrating PCT with AE enables us to create new testable conjectures about the Brazilian political market, how exchanges take place, and why the big government may lead to a perverse allocation of resources, a profitable market for selling and buying privileges.

Despite corruption scandals being closely related to illegal political donation schemes, a partial debate has started in Brazil about the dangers of corporate finance of political campaigns. In response to the negative political and economic consequences of corrupt transactions, often involved with political campaign funding, the Brazilian Supreme Court enacted a 2015 Campaign Finance

Reform. The latter prohibited companies from making contributions to political candidates.

However, we remain very skeptical about the effectiveness of such measures. This is because such intervention of the political market brings about unintended negative consequences - it somehow amplifies the knowledge problem, lowers the degree of political transparency and accountability.

Even if Supreme Court judges were driven by good intentions when they decided to forbid corporate campaign finance, they would never have access to all the pieces of information required to regulate the political market in a way to detect and eventually neutralize the complex causal mechanisms underlying crony relations and corruption. On the contrary, some interventions in the political market can be followed by unintended consequences. One example is the 2018 Brazilian presidential election process. Despite the fewer financial resources allocated to fund candidates resulting from the prohibition of corporate donations, there are signs of illegal donations from companies, involving a massive spread of political messages and fake news through social networks (Folha de São Paulo, 2019). Suspicious 2018 presidential campaign donations are still being investigated, but there are already several prosecutions and even a parliamentary committee of inquiry to investigate them. Meanwhile, the current electoral rules concentrated political campaign finance on a public electoral fund. The latter created quotas of 30% for female participation, intending to solve the problem of women under-representation in the political arena. In tune with predictions made by an approach that integrates PCT with AE, the foregoing regulation did not overcome the problem at all. Rather, it gave rise to incentives to the emergence of another political scandal - forged female candidacies as a strategy for the parties to obtain more financial resources from the public electoral fund (Folha de São Paulo, 2020).

The first lesson to be drawn is that campaign finance remains a complex issue to be tackled carefully. Despite the changes in the electoral rules of the game after the 2014 Brazilian presidential election, distortions and political frauds grow new and strong. This sheds extra light on the Misesian wise view that the supply of interventions might create its own demand.

The second lesson is that the Brazilian Supreme court diagnosis, that the expansion of the public campaign finance fund would be an effective strategy to fight political corruption and mitigate the risk of abuse of economic power, is problematic and debatable. The new rules of the game involving the public electoral fund allowed for an increasing amount of money to political parties and their candidates in 2020. To complicate matters, the

rules are such that those parties which received more votes in 2018 will be benefited. As a result, specific political party leaders will have extra advantages to distribute financial resources among their favorite candidates (Folha de São Paulo, 2020). Such a move is also compatible with the Public Choice Theory perspective that politicians do whatever is necessary to achieve and remain in power.

Regarding the reduction of the degree of political transparency and accountability, the mere fact that corporate donations are prohibited does not prevent them from occurring illegally, nor does it end (or even reduce) the influence of economic power in the electoral process, as illustrated, concerning the suspicions of illegal funding for the massive spread of political messages through social networks. However, a smokescreen is created, which prevents us from seeing who donated and to whom. More terribly, it brings the risk of preventing us, in the future, from tracking down the predatory economic relationships between private actors and public authorities.

Last but not least, an issue that is at the root of the problem that led to the scandals involving the promiscuous relationship between politicians and companies that legally and illegally financed political campaigns and culminated in the impeachment of President Dilma Rousseff has not been, so far addressed: the degree of government interference in the Brazilian economy. Currently, the Brazilian tax burden is more than a third of the GDP (IBGE, 2020). Despite this, the nominal deficit of the government of Brazil is around 6% of the GDP and the public debt is about 76% of GDP (Central Bank of Brazil, 2020), and its amortization is more than 20% of the total, each year (National Treasury of Brazil, 2020). The most recent economic freedom indicators are from the *Heritage Foundation* (Miller, Kim, & Roberts, 2019), comprising data from the second half of 2017 and the first half of 2018. The Brazilian score that had reached 63.4 points in 2003 showed a worsening trend, reaching 51.9 points in 2019. These data reveal that the government taxes a lot, spends too much and regulates excessively. When the government's participation in the economy is so high, property rights are significantly exchanged involving the central government, with the expressive presence of exclusive institutions.

Winning a political election and, in particular, for the presidency of the republic, is not cheap, especially when it is necessary to reach an expressive portion of a population greater than 200 million inhabitants spread in a country with continental dimensions. On the other hand, the magnitude of resources and the discretionary power of the elected authorities create strong incentives for companies to seek political connections, to serve their interests. Misallocations

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can inspire rent-seeking and “unproductive political entrepreneurship”. The troubling issue is that, given the institutional matrix with exclusive political institutions, rent-seeking is much more profitable than any other alternative. The most severe unintended consequences refer to constraining economic freedom and future expansion of political freedom, we guess.

To conclude, we suggest that forbidding companies to finance Brazilian political campaigns is an ineffective way to promote democracy, to disincentivize crony relations and to promote integrity. Our hunch is that advances in economic freedom, transparency channels, and mechanisms of checks and balances seem to be a more promising alternative to pursue inclusive institutions that, in turn, create incentives to wealth-creation instead of wealth-transfer destruction mechanisms.

O QUE SE VÊ E O QUE NÃO SE VÊ NO FINANCIAMENTO POLÍTICO: LIÇÕES DO FINANCIAMENTO DA CAMPANHA PRESIDENCIAL DE 2014, ESCÂNDALOS DE CORRUPÇÃO E NOVAS DIREÇÕES NAS REGRAS DO JOGO ELEITORAL

Resumo

O presente trabalho combina as perspectivas da Teoria da Escolha Pública e da Escola Austríaca de Economia para fornecer uma interpretação da lógica e das consequências do financiamento da campanha presidencial de 2014, frequentemente associada aos escândalos de corrupção revelados pelas investigações da Operação Lava Jato. A primeira seção discute como as intersecções entre a Teoria da Escolha Pública com a Escola Austríaca de Economia pode fornecer uma compreensão mais rica dos padrões de comportamento político do mundo real. A segunda seção analisa as regras de financiamento eleitoral que valeram para as eleições de 2014. A terceira seção mostra que os principais financiadores corporativos doaram para todos os principais candidatos, independentemente de seus partidos. Apurou-se, ainda, que tais doadores corporativos já mantinham conexões próximas com projetos governamentais de infraestrutura, além de diversos doadores serem beneficiários de crédito subsidiado do governo. A quarta seção amarra a argumentação geral e conclui que alguns dos movimentos posteriores

para limitar as contribuições privadas para o financiamento político acabam funcionando como uma cortina de fumaça que reduz a transparência, enquanto o papel ampliado do financiamento público de campanhas políticas pode fomentar novas formas de corrupção e de relações de compadrio.

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