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Energy governance in Brazil: meeting the international agreements on climate change mitigation

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CHAPTER 1

DRIVING FORCES BEHIND THE ENERGY POLICYMAKING: POWER RELATION STRATEGIES AND BEHAVIORAL ECONOMICS

This chapter introduces several concepts that are helpful tools to explain different phenomena in the political and economic realm. These concepts define a variety of phenomena that prove to be determinant to the current global energy governance and countries' public policies for achieving the international goals on climate change mitigation. This research explores two driving forces behind the energy policymaking: power relations strategies and policymakers' behaviour. A vast body of literature indicates that policies are moulded through power relation strategies historically practised. On the other hand, scholars have found under the umbrella of behavioural economics theory, an innovative approach to analysing how policy choice can be influenced by individuals' behaviour. These approaches have also proven to be a very useful tool to understand the challenges that Brazil faces to comply with international climate agreements.

The first section of this chapter explains the term 'power relations strategies' and its synergy with some concepts of behavioural economics. Sections two to four tackle the following phenomena: monopoly and oligopoly, clientelism, bossism and political capture, crony capitalism and rent-seeking. For the purpose of this research these phenomena are called power relations strategies which are tactics that appear to have considerable influence in the policy-making processes with direct interference in the Brazilian energy sector. The last section describes the behavioural economics theory. Behavioural economics provides empirical evidence that common cognitive limitations affect individual's

decision-making. Therefore, it can be an effective tool to understand policy choices. As behavioural economics comprises many different concepts, a previous selection has been made. The concepts found most useful for this research are the following: hyperbolic discounting and loss aversion; endowment effect and status quo bias; information avoidance; delusion of competence, overconfidence, and planning fallacy. These concepts are explained separately also in the last section of this chapter.

1.1 Power relations strategies

The concept of power relations is used within a range of research fields such as politics, economy, sociology, education, geography, international relations, among others. In the literature it appears as framework of different studies such as feminism, education, social and spatial inequality, pedagogy, violence, poverty, etc. The elucidation of the power relations concept in this research was found in the thoughts of Marx and Foucault. The comprehension of power is the starting point for the considerations of both philosophers on power relations.

The Marxist perspective defines power as capacities grounded in structured social relations which entail enduring relations of reproduced, reciprocal practices (Jessop, 2012). For Marx, a study of a given society should not only focus on its subjects and structure but on its process of *reproduction* as well. “It is in the study of the process of reproduction that Marx analyses the class relationships of exploitation and domination” (Therborn, 1999: 231). In the Foucauldian approach, power is not something that can be owned, but rather something that acts and manifests itself in a certain way; it is more a strategy than a possession. It operates in day-to-day interactions between people and institutions (Bălan, 2010). On this matter, Kelly highlights the following (among others) characteristics in Foucault's view of power: “the relationality of power, meaning that power is always a case of power relations between people, as opposed to a quantum possessed by people

and the strategic nature of power, meaning that it has a dynamic of its own, is intentional” (2012: 37). In both strand of thinking power is regarded as a phenomenon that occurs in all social interactions. These realisations generated the concept of power relations.

Marxists have study power relations through four main approaches (Jessop, 2012). First, they see power relations as manifestations of a specific form of class domination; second, they are interested in the connections between economic, political, and ideological class domination; third, they notice the limitations intrinsic to any exercise of power and, for this reason, continuing struggles are needed to reproduce the conditions for class domination, and therefore in the fourth place, Marxists address questions of strategy and tactics providing empirical analyses of actual strategies intended to reproduce class domination. Jessop states that

the relations among economic, political, and ideological class domination can be considered in terms of the structurally-inscribed selectivity of particular forms of domination and the strategies that help to consolidate (or undermine) these selectivity's. The bias inscribed on the terrain of the state as a site of strategic action can only be understood as a bias relative to specific strategies pursued by specific forces to advance specific interests (ibid.: 10).

In the thoughts of Foucault, “power relations are rooted deep in the social nexus (...) to live in society is to live in such a way that action upon other actions is possible, and in fact ongoing (...). There cannot be a society without power relations (Foucault, 1982: 791). In *The Subject and Power* (1982), Foucault reflects on relations of power and relations of strategy. He calls attention to the word *strategy*, used

to designate the means employed to attain a certain end; it is a question of rationality functioning to arrive at an objective (...) one may call power strategy the totality of the means put into operation to implement power effectively or to maintain it. One may also speak of a strategy proper to power relations insofar as they constitute modes of

action upon possible action, the action of others. One can therefore interpret the mechanisms brought into play in power relations in terms of strategies (1982: 794).

Following the steps of Yu, De Klerk & Hess (2021), González-Ocantos & Oliveros (2019), Patnaik (2015), Hemphill & Wu (2013), who highlight the strategic features of monopolistic and oligopolistic practices, clientelism, bossism, cronyism, rent-seeking, this research will regard these concepts as power relations strategies as they are methods put into force to both gain and maintain power. They make the capture the state possible. In a vicious circle, the captured state reinforces power relations and encourages their use as strategies to maintain state capture.

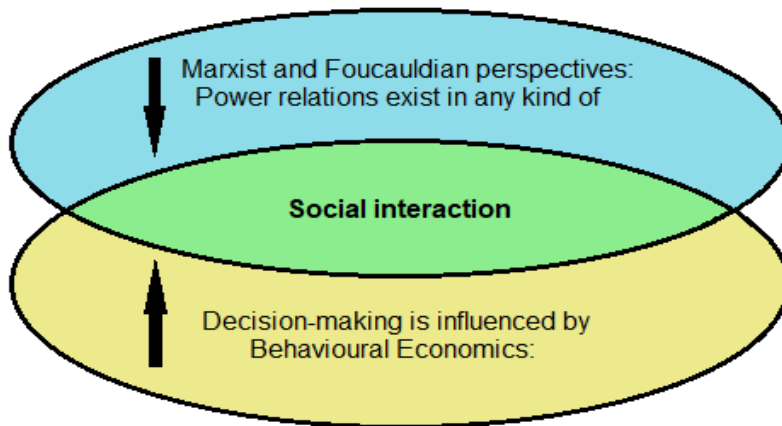
When power relations repeat themselves and form a pattern, they become institutionalized; they become the rules of the game (...). Each time A gets B to do what A wants, A is not only achieving a desired outcome but is also confirming the dispositional arrangements of the game and reinforcing and maintaining the overall system (Eyben, 2005: 23).

Actors participating in this vicious circle remain in power and maintain the status quo. As a result, the possibilities of countries making the necessary changes to meet international agreements to mitigate climate change are limited.

1.1.1 Power relations strategies and behavioural economics: the synergy

Marxist and Foucauldian perspectives agree that power relations occur in any social interaction while behavioural economics highlights that decision makers are influenced by those they interact with (Gsothbauer & Van den Bergh, 2012; Samson, 2020; Wilson, 2020). Social interactions of any kind impact people's behaviour. When it comes to power relations the chance of behaviour change is even bigger as they often implicate actions upon other actions, domination, or both. The sociologist Noel P. Gist describes social interactions as “the reciprocal influence human

beings exert on each other through inter stimulation and response” (1950: 363). Social interaction is the intersection between power relations and behavioural economics, as shown in the diagram below.



Source: own production.

Power relations happens in social interactions at the same time that social interactions influence decision-making. Conclusively, it is fair to say that power relations influence decision-making.

Wilson (2020) states that behavioural economics avail of psychological insights to understanding economic decision-making. These insights diverge from conventional economic models grounded on rationality and reveal how human psychological tendencies affect economic life and may lead to imperfect rational choices. Furthermore, the author highlights: “social psychology shows how collective group dynamics and social contexts influence economic decisions. These insights have applications not only for individuals, but also for effective policy design and implementation” (ibid.: 4). Behavioural economics highlights the influence that social interactions have on decision-making. Furthermore, it draws attention to the effect of personal experience, emotional factors, preconception, and habits on people's judgments and choices.

In Neoclassical economics the concept of the *homo economicus* imply that humans use their consistent rationality when making decisions in order to maximize their benefits and utility. Contradicting this assumption, the term Bounded rationality coined by Herbert Simon (1982) suggests that people make decisions regardless their rational capability. Behavioural economics has in Simon's idea one of its pillars and further highlights the irrational aspects of decisions-making processes. "Research findings in behavioural economics make clear that economic decision-makers are often far removed from the rational *homo economicus*" (Berggren, 2012: 2). Behavioural economics reveals a variety of human idiosyncrasies identified as behavioural and cognitive deviations which shape individuals' judgment and choice. One of these deviations is people's inclination to make predictions and reach conclusions by using mental shortcuts known as heuristics (Samson, 2018). Heuristics, also known as rule of thumb, are used by general people to facilitate decisions-making. Although helpful, they can lead to cognitive biases (Kahneman & Tversky, 1996). Cognitive biases are "subconscious mental processes that impair rational thought-processes and ultimately lead to "irrational" choices (MacCann, 2006: 1468). Heuristics and cognitive biases are correlated and the use of one may be accompanied by the use of the other. According to Berggren, "decision-makers are characterized by cognitive limitations and biases, and they are affected or afflicted by such things as imperfect self-control, framing effects, choice bracketing, information and choice overload and a poor grasp of probability calculations" (2012: 2).

Examples of cognitive biases are hyperbolic discounting, loss aversion, endowment effect, status quo bias, delusion of competence, overconfidence (Lin, 2011; Samson, 2018).

Emmerling & Rooders (2020) stress that subconscious biases can seriously damage our individual ability to make good judgement, with us being unaware of it. Furthermore, group decision-making is even more complex, as biases can be intensified by the interaction between group members. In power relations, actors interact to pursue their rational

personal goals at the same time their biased behaviour may lead them to disadvantageous decision-making.

Power relations are built and nurtured by individuals or groups that wish to gain or retain power. Maintaining power is directly related to the maintenance of the status quo. According to Mosse, power relations strategies result in “uneven accumulation of political capital, in the form of symbolic or cultural capital, prestige, honour, or popularity. Political capital allows certain groups in society privileged access to public resources” (2005: 53). Furthermore, the author states that political capital favours the accumulation of economic resources and the reproduction of class structures. It has also an effect on individual behaviour. People’s behaviour is conditioned by long-lasting inclinations (cognitive and behavioural) derived from historical pressure and tends to reproduce the existing conditions, that is, maintain the status-quo.

On the matter of the Brazilian energy governance, a vast literature (Rufin, 2012; Armijo & Rhodes, 2017; Fortes do Rego, 2017; Desposato, 2002) shows that power relations strategies, are historically employed. These strategies are a great hindrance for the creation and implementation of public policies to stimulate the energy transitions needed to comply with the international agreements on the reduction of CO₂ emissions.

Behavioural economists argue that individuals are biased in favour of the status quo (Samson, 2018; Lin, 2011; Kahneman, Knetsch & Thaler, 1991). Gsottbauer & Van den Bergh (2012) explain that behavioural economics brings forth empirical evidence that decision-making in negotiation-like situations is affected by systematic cognitive biases and social interaction. In their study they “examine the impact of bounded rationality and social preferences on bargaining in international climate negotiations and illustrate how particular deviations from full rationality affect the incentives to cooperate” (ibid.: 225). Wilson (2020) in her study contextualizing behavioural economics, highlights how issues of anchoring, hyperbolic discounting, and information avoidance have

hindered adequate action on environmental and climate issues. The author claims that behavioural economics presents suitable insights to comprehend the causes and policy solutions to these issues.

This research found in the combination of the concept of power relations strategies and behavioural economics a valuable tool to analyse the extent to what the Brazilian government will be able to contribute with the international efforts to mitigate the effects of climate change. The next four sections will detail the following power relations strategies: monopoly and oligopoly; clientelism; bossism and political capture; crony capitalism and rent-seeking. These strategies appear in the literature as the most influential in the phenomenon and therefore are the most significant for answering the research question. Subsequently, behaviour economy theory will be addressed, detailing the seven concepts – hyperbolic discount, loss aversion, endowment effect, status quo bias, information avoidance, delusion of competence, overconfidence and planning fallacy – best related to the phenomenon and most noteworthy for the analyses of the subject of this thesis.

1.2 Monopoly and oligopoly: control in the hands of few

The access control to any kind of resources that are valuable for the collectivity is considered a monopoly. These resources can be products, services, technologies, knowledge, and power, to name a few. The monopoly of these goods is valued because it reduces production costs and increase income and, it guarantees income stability, decreasing risk (Medina and Stokes, 2007). In economics, a monopoly is a market structure where a single seller supplies a specific good or service and can charge any desired price because consumers have no other firm to buy from. According to Velásquez (2013), monopolistic markets violate capitalist justice as they make a high profit by charging more for goods and services than they are worth. Monopolist enterprises have abnormal earnings by curtailing output which leads to a price increasing above a

competitive level. Consequently, a transfer of income from consumers to monopolists take place (Dunne, 1995; Oxfam, 2014). This system also hinders aspirant competitors due to high standard entry barriers, which keep them from bringing new and more efficient products to the market. This kind of unethical practices also happens when it comes to an oligopolistic market. The conduct of exclusive dealing arrangements, price-fixing, bid-rigging, market allocation, among others, are ordinary. Oligopoly is a more frequent practice and occurs when two or more firms merge to compete in the same trade. By joining forces, firms' managers can set prices and limit competition in the same way monopolistic firms do. "When a few large players are recognised as dominant powers in a single antitrust-defined market, we call this oligopoly and are very aware of potential tacit collusion, the stickiness of prices, retardation of innovation, and enhancement of entry barriers" (Ayal, 2013: 229). Antitrust is the name given to the collection of laws regulating businesses conduct and promote fair market competition favouring consumers. It is also known as competition law.

Public discontent with monopolistic practices has been expressed since the 19th century. The American businessperson John D. Rockefeller formed a trust in the oil industry in 1882, resulting in limited competition and price control. To limit monopolies' expansion, John Sherman, a lawyer and senator from Ohio, proposed the Sherman Antitrust Act. This law passed by Congress in 1890 and is the first legal measure against anti-competitive business and capital accumulation. "In the marketplace, it is antitrust that governs competition ensuring the existence of many small players and preventing the large from skewing the playing field to their advantage" (Ayal, 2013: 238).

According to Ayal, economic power was initially the core of antitrust law. Over time, the attention of competition policies has shifted to market power, narrowing the focus to markets analyses and their influence on price and output. "This unitary focus blinds us to the effects of economic power, which have to do with social and political realms" (2013: 222).

Large enterprises have a strong influence on politics and affect social justice. When officials regulate on behalf of incumbent firms to the detriment of the state or its citizens, it indicates the capture of policymaking. Elevated levels of wealth and corruption are often related to capturing power and politics by entrepreneurial elites exploiting inefficient antitrust regulations (Oxfam, 2014; 2018; Beke, 2018).

Political capture is often associated with politicians requiring funds to get elected (and re-elected), thus becoming beholden to businesses which helped finance their campaigns (...) businesses requiring political support will be willing to pay for it, and governmental regulation has become an essential input to almost every large business (Ayal, 2013: 225).

Policymaking captured by entrepreneurial elites aligned with neoliberal ideas underpins the economic forces responsible for diminishing the working class's power to the advantage of the well-paid and wealth holders (Oxfam, 2018).

Deficient regulatory policies are convenient for non-competitive transactions. In such environments, elites take advantage of ineffective and unskilled antitrust authorities in order to guarantee benefits for their business (Oxfam, 2014). When the market grows freely, it may turn into long-term oligopolies in a particular market and economy-wide corporation. This kind of association often becomes dominant and protected by the state (Ayal, 2013). Consequently, smaller companies must face unfair competition. Consumers will eventually pay a higher price for goods and services controlled by monopolies, oligopolies, and well-connected people inside government (Oxfam, 2017).

Antitrust law prohibits market competitors from charging an agreed price for goods and services instead of competing against each other. This practice called price-fixing cuts down competition and limits options for consumers and other businesses. Another non-competitive tactic is parallel pricing which, according to Devlin (2007), has similar

economic consequences as explicit price-fixing. Hemphill & Wu (2013) state that there has been an extensive debate among academics and jurists whether and when parallel pricing practices configure antitrust law infringement. On the other hand, the authors argue that parallel exclusion¹ – which is a systematic anti-competitive strategy used by firms to prevent newcomers – has been neglected. “Parallel exclusion deserves much greater attention, for its anti-competitive forms have much greater social consequences than parallel pricing due to their potential to influence not just prices, but also the pace of innovation” (Hemphill & Wu, 2013: 1185). In other words, in the attempt to circumvent antitrust law, the parallel exclusion is more effective than parallel pricing. With the price increase, new entrepreneurship may still find a gap in the market, whereas parallel exclusion favours both unreasonable prices and delay innovation. The latter has a significant impact on long-run economic growth.

Monopolies and oligopolies use structures and capital resources to wield political influence, thereby blocking and shaping regulation to increase profit (Dunne, 1995; Machado, 2015; Ovodenko, 2016). Ovodenko (2016) does not deny the harmful effects of monopolistic and oligopolistic practices for the market. However, the author emphasises that conglomerates have been more rigorously regulated than competitive industries and forced to follow higher rates standards and rules regarding global environmental governance. Furthermore, the author states that “oligopolistic businesses tend to have the resources and market power to reduce environmental pollution more cost-effectively than do businesses in competitive markets” (2016: 111). Regardless of their political influence, oligopolies are frequently required to start and sustain market changes to achieve environmental goals globally (Ovodenko, 2016).

¹ Theoretically it happens as follows: “each firm either deals or refuses to deal with a new entrant; or either engages or does not engage in tying or exclusive dealing” (Hemphill & Wu, 2013: 1223). These practices may alternate depending on the direction the exclusion is more likely to occur.

It seems logical that some non-competitive markets can bring a positive outcome for society or part of it. However, the social costs of monopolies and oligopolies are more often highlighted in the literature. Non-competitive businesses harm not only the economy but also democracy. When large enterprises are entangled and control several important markets simultaneously, competition is restrained in economic and democratic matters. In such an environment, inequality increase, low productivity, technological delay, rent-seeking, corruption do not go unnoticed. Opposingly,

democracy and competition entail maintaining the interaction of many small players rather than few large ones. The idea of 'one person, one vote' governs democracy, along with a court system ensuring that no large player (the majority) can use its power to exploit the small (minority) (Ayal, 2013: 238).

In January 2018, Oxfam international published 'Reward work, not wealth', an article on global inequality. According to this study, extreme inequality stems from monopoly power. Oxfam had already warned about the harm caused by non-competitive businesses. "Without competition, firms are free to charge exorbitant prices, which cause consumers to lose (...) goods become more expensive, and if incomes do not rise, inequality worsens" (Oxfam, 2014: 15).

According to Schmitz (2012), studies from the 1960s onward have shown that monopolies lead to a welfare loss. In the United States, government protection mechanisms such as tariffs, quotas, work rules "led to incentives to form monopolies, and then to actual monopolies, and then these monopolies led to large welfare losses" (Schmitz, 2012: 3). The author states that research results demonstrate that outputs are smaller under monopoly than under competition, indicating low productivity. "To produce a given level of production, a monopolist needs more energy, capital, and other inputs than a competitive industry would need" (Schmitz, 2012: 4).

When a small group of large firms dominate the market by employing oligopolistic practices, retardation of innovation may happen (Ayal, 2013). More specifically, parallel exclusion conducted by allied enterprises significantly affects society since it influences innovation's pace. According to Hemphill & Wu (2013), parallel exclusion harms innovation by slowing or blocking the introduction of *higher-quality* and *lower-cost* alternatives. These statements reinforce the results of some historical studies that demonstrate the way monopoly retards innovation (Schmitz, 2012).

Dunne (1995) states that rent-seeking occurs when a monopoly possibility emerges, and resources are invested to earn it. On the other hand, a 'rent protection' reaction may occur since competitors tend to fund initiatives to avoid the rise of a monopolistic market. According to the author, in both cases, resources are used inefficiently, causing social loss. Society would be better off if the resources expended to earn or avoid monopoly were invested in the production to benefit the population.

According to Machado (2015), monopolies and oligopolies are one of the reasons behind structural corruption. Powerful private enterprises can influence public policy to establish trusts. Using lobby strategies, firms may favour or bribe top-level officials who will cooperate with a chosen company facilitating a monopoly on the market (Dunne, 1995; Beke, 2018; Oxfam, 2018). "Privatisation deals, natural resources given away below fair value, corrupt public procurement, tax exemptions and loopholes are ways in which well-connected private interests can enrich themselves at the expense of the public" (Oxfam, 2018: 11):

Economic power held by large firms or conglomerates affects not merely economic indicators or state regulation efficiency. It affects popular belief in the system itself, the underlying fabric that binds us together and instils citizens' cooperation and enthusiasm to trust that innovation and investment, both material and spiritual, will be rewarded individually and collectively. When citizens lose their belief in

society's normative underpinnings, they become cynical and see the economic and social status as achievable only by and through the market's most prominent players. Citizens suffer directly because morality and belief in the justice of purpose are very much of each individual's welfare. And indirectly, because if individuals lose hope of reaping their just rewards, they cease sowing. They limit investment in their human capital and aim for short-term, opportunistic profiteering or downright rent-seeking. When all the good places at the table are taken, the less well-off either sulk at their seats or plan a revolution—neither being a favourable prospect for society (Ayal, 2013: 232).

According to Schmitz (2012), there have been examples of monopoly decrease by new technologies employed in history. In industrial markets where technological progress is necessary, entrants' exclusion is the "supreme evil" that antitrust laws should concentrate on (Hemphill & Wu, 2013). Ayal points out that "antitrust is not merely an economic statute, but symbolises democratic ideals as well, that none may accumulate sufficient power to force others into commercial submission" (2013: 229).

Beke (2013) stated that nurturing economic and political competition to reduce monopoly and oligopolies can effectively diminish corruption opportunities and incentives. To summarise, competition and innovation need to be fostered in order to prevent social loss.

1.3 Clientelism: the mutually beneficial trade of public resources

Clientelism is commonly defined as the concession of benefits for political support (Avelino Filho, 2004; Graham, 1999; Keefer, 2007; Armijo & Rhodes, 2017; Bobonis, Gertler, González-Navarro & Nichter, 2017). Clientelism occurs in the form of vote-buying strategies in which candidates hand out goods or services, exceptionally at the time of the campaign, but also after the election, when they reward political support

by giving jobs or contracts, even to non-qualified people. Another common practice is the intervention in state bureaucracy to favour allies to the detriment of others outside the support circle. Armijo & Rhodes argue that an “institutional environment that pushes toward clientelism may also encourage outright corruption: the direct exchange of bribes, kickbacks, and contributions to public officials by private actors seeking special treatment” (2017: 241). Clientelism implies a reciprocal relationship between patrons and clients. Although clientelistic politics occurs nowadays in many countries worldwide, clientelism is not a practice of modern societies. In fact, it was already observed in ancient Rome (Sousa, 2008).

Clientelism is often confused with Feudalism, a medieval decentralised political and military system in which people would work and fight for their lord in exchange for land and protection. Despite the similarities between feudalism and clientelism, the relation of patron-client is not feudal, but it is a feudal heritage (Kettering, 1988). In traditional agrarian societies, patrons and clients’ relationship is fundamentally unequal since the patron provides clients with primary livelihoods assets. In contrast, clients reciprocate with economics and social benefit such as part of the harvest, rent, labour, respect, loyalty, and political support in the form of vote (Mason, 1986). This form of clientelistic relations, known as old clientelism, persist in modern democracies worldwide and has been absorbed into electoral politics (Hopkin, 2006a).

Socio-economic improvement changed the traditional agrarian rural scenario into a more urbanised and industrial one which originated a new kind of collaboration between empowered resource owners (patrons) and impoverished or low-status citizens (clients). The modern political sphere became dominated by organised parties which have taken the role of the patron. On the other hand, a more educated population with improved livelihood expected more effective material gains in exchange for their political support. In contemporary societies, the political boss, party leader and their brokers are the new patrons.

The clients, who abdicate their autonomy as citizens or are kept from acquiring such capacity are willing to exchange votes and political support for any kind of benefit, often means of subsistence, construction materials, jobs, career improvements even when the clients are not qualified for the job.

Furthermore, patrons have exclusive allocation control, and resources are generally scarce, yet clients are willing to trade their vote for potential benefit (Sousa, 2008). "In this new, 'mass party' clientelism, patrons have to 'buy' votes by distributing concrete excludable benefits and favours to individual voters or groups of voters" (Hopkin, 2006b: 3).

The study of clientelism after the Second World War is divided into two waves (Stokes, 2011). The first one was fundamentally anthropological and influenced by sociology and anthropology and secondarily by Sociology and indifferent to political regimes. The second wave was inspired by economics and primarily focused on clientelism under democracy. After a less productive period, the literature on clientelism has been increasing since 2007 and offers a range of different interpretations.

According to Sousa (2008), clientelism is an ancient political phenomenon that applies a voluntary compliance to domination. It permits access to state apparatus and resources as well as to political power. For the author, the practice of clientelism is reciprocal but uneven due to the unequal power relations. However, with the expansion of democracy from the late 1980s onwards, patron-client relations became more symmetrical. According to Hopkin, this renewed form of clientelistic linkages is different from the old ones because:

There is less deference and dependency from clients, who feels increasingly free to use their vote as a commodity and exchange for whatever maximises its utility. As a result of this less hierarchical and personalised context, the new clientelism is more conducive to fluidity

and change in electoral behaviour, opening up possibilities of greater competition and elite turnover (2006a: para. 6).

Stokes (2011) refers to clientelism as a method of electoral mobilisation in which material goods are handed out in exchange for votes, and the question “did you (will you) support me?” defines the allocation of resources. Kitschelt (2011) states that clientelism is primarily seen as an isolated action; however, it frequently indicates a longstanding relationship that starts before the elections and goes on during term of office and for many electoral campaigns.

Clientelism has a broad scope. It embraces a variety of methods used to improve electoral support. Citizen-politician linkages appear in the literature under different labels, e.g., pork barrel, patronage, vote-buying, et cetera. Nichter & Peress (2017) refer to such methods as clientelistic strategies. According to Brinkerhoff & Goldsmith (2002), the ‘slang’ pork-barrel spending is a form of clientelism in which legislators allocate public resources to projects that benefit their district or region as a pay-off for political support. A patron-client relationship entails a mutual exchange of favours. According to Kettering (1988), *patronage* is the practice in which patron use resources he possesses or control to benefit his clients, while *clientage* is the retribution and loyalty of a client to his patron in return for granted benefits. Medina & Stokes (2007) distinguish clientelism and patronage, respectively, as *an economic monopoly*, when patrons control resources independently from elections’ outcomes and *political monopoly* when patrons have control over goods because of his ruling position. Stokes considers patronage and vote-buying subclasses of clientelism:

Patronage is distinct from the broader category of clientelism. In clientelism, the more powerful political actor may or may not hold public office, and therefore may or may not be able to credibly promise to secure public resources (...). In patronage, the patron holds public office and distributes state resources (2011: 4).

Regarding vote-buying, Stokes (2011) suggests that it is limited to the trade of one's vote for material benefits or protection, whereas clientelism in a more extensive scope includes the client's vote and his/her effort to gain for the patron the support of others. Other similar strategies are *turnout buying*, in which a reward is used to stimulate electoral participation of nonvoting supporters; *abstention buying*, when voters are rewarded for not taking part in the voting day and *broker mediation*, a strategy of party leaders to reach voters by using brokers who can deliver rewards more quickly.

Nichter & Peress (2017) state that researchers continuously portray clientelism as a top-down process, which is a phenomenon under elite control. The authors argue that tactics such as vote-buying or turnout buying described in the literature as elite's targeting strategies are, in fact, political machines responding to citizen's demand. Request fulfilling is the term introduced by Nichter & Peress to explain why political parties provide benefits to voters. "Citizens frequently request help from machines during campaigns and may threaten to cast votes for competitors if their requests are unfulfilled. When citizens initiate clientelistic exchanges, (...) machines predominantly fulfil the requests of voting supporters" (2017: 1088). The authors affirm that bottom-up requests of this kind crucially impact clientelism. Bobonis et al. (2017) also tackle citizens' significant participation in clientelism and emphasises that this demand-side perspective has not been investigated by most research on clientelism. In the same study, Bobonis et al. argue that economic vulnerability induces citizens to engage in clientelism. Robinson and Verdier had already made this claim:

Under a natural condition, clientelism is relatively essential in countries with inferior technology and high inequality. Intuitively, at low-income levels, the political allegiance of clients is cheaper to buy with employment offers, and this makes clientelistic redistribution more attractive as a way of gaining support. This effect operates when aggregate productivity is low or, for given productivity and average income level, when inequality increases (2013: 263).

Bobonis et al. not only agree with his peers but also states that diminishing economic disadvantage is an effective strategy to fight clientelism. In their words: “Reduced vulnerability decreases requests among frequent interactors not only during the election campaign but also during the year after the election (...). Reduced vulnerability dampens citizens’ participation in clientelism” (2017: 3).

According to Keefer, clientelistic practices happen because voters do not believe in politicians’ real intentions of providing public goods, neither in the short- or long term. “Clientelism is most likely precisely when political competitors cannot make credible policy promises to voters” (2007: 813). In this scenario, candidates running for office use clientelistic practices themselves or appeal to patrons who have credibility with their subordinates to win votes. In exchange for this influence, candidates favour patrons with social and economic benefits. In “non-credible political settings”, a frequently used practice is to “rely on patrons whose clients trust them but not the candidates” (ibid.: 806). The author argues that when candidates count on patrons to gain credibility, they save their own resources and that such strategy may cause the politicians to lose the freedom of promising public goods to improve voting results as patrons want to fulfil only their clients’ need. Furthermore, patrons often retain a portion of the benefits promised during the campaign as retribution for endorsing the candidate. “When politicians are not credible, patron-client relationships are transported to the political realm, generating high targeted spending, high rent-seeking, and low levels of non-targeted good provision” (ibid.: 820).

Most relevant research on clientelism focus on the reciprocal patron/client relationship and, between them, the broker mediation, which has incremented the clientelistic phenomenon in its expansion across different political settings. As stated by Kitschelt, “clientelistic relationships may encompass a diffuse and unpredictable process of mutual giving and take between clients and their patrons, often assisted, and mediated by a layer of ‘brokers’ who organise and manage

clientelistic relations” (2011: para. 2). Traditionally clientelism is perceived as a pyramid-shaped interdependence or as named by Stokes (2007), a ‘vertical dyadic alliance’, with the suppliers at the top, brokers in the middle, and clients at the base. Guerguina & Volintiru (2017) argue that this pyramid framing of clientelism is not accurate because it relies on the assumption that political patrons control public resources and distribute them to their voters (clients) in order to subsist in office. According to the authors, this assumption fails because merely political support is insufficient in exchange for substantial favours such as public contracts. Secondly, not only parties in office that have access to state resources make use of clientelistic tactics. Also, non-ruling parties engage in clientelism.

Guerguina & Volintiru (2017) state that with the spread of democracy in the second half of the 20th century in many countries, clientelism has evolved into a complex, multi-layered and multidirectional phenomenon. In their studies on a new model of clientelism, the authors suggest that a more accurate perception of clientelism should acknowledge that the phenomenon is as a compound of vertical and horizontal linkages. “The vertical linkage between political parties and electorate is complemented by a horizontal nexus between parties and private contributors (...) resources are no longer used in relationship with the electorate, but with private campaign donors” (Guerguina & Volintiru, 2017: 116). Most democracies offer public financing for electoral campaigns. However, parties reach to private contributors to enlarge their resources as elections costs are high. Wealthy individuals and private companies provide external means of financing in exchange for privileged access to government procurement. This aligned relation between politicians and private companies guarantee liquidity for both sides. For the former, their permanence in power and wealth accumulation. For the latter, the maintenance of their business activities.

Gerring, Bond, Barndt & Moreno (2005) claim that less democratic countries experience economic growth behindhand. Even though

clientelism is not a phenomenon that happens exclusively in developing countries, there are much higher chances for it to occur in the developing world than in preeminent democracies (Stokes, 2011). According to Keefer (2007), the most valid reason for young democracies' weak performance is politicians' lack of credibility, which leads to a prevalent reliance on clientelism. "The inability of political competitors to make credible promises to citizens leads them to prefer clientelistic policies: to underprovide non-targeted goods, to over provide targeted transfers to narrow groups of voters, and to engage in excessive rent-seeking" (Keefer, 2007: 804). In sum, less democratic countries tend to have extreme poverty rates. The poorer the country, the greater the use of clientelistic practices. Younger democracies perform poorly because of politicians' lack of credibility. When politicians are unable to gain the voters' trust, they turn to clientelistic tactics, which creates a vicious circle because "when officials focus their resources and attention on sustaining clientelistic networks, public-service provision and popular well-being suffer" (Mello & Spektor, 2018: 124).

Stokes (2011) points out the paradox of clientelism: The patron-client relation is unequal and at the same time voluntary and exploitative from the client perspective. Nevertheless, clientelism persists. Why would one from the disadvantaged side keep the relationship going? According to the author, the norm of reciprocity is the "cement" that holds patron and client hand in hand. "Under clientelism, superior members of dyads reinforce the norm of reciprocity by giving their inferiors ceremonial gifts, which, like spontaneous and useful gifts, (presumably) create a sense of obligation that the gift must be reciprocated" (Stokes, 2011: 5).

The consequences of this "universal moral norm of reciprocity" (Gouldner, 1960 in Stokes, 2011: 5) within political settings has contributed for the increase of vulnerable populations, especially in developing countries. Clientelism harms democratic politics, retard economic development, and restrain electoral competition. Bobonis et al. (2017) state that vulnerability is the determining factor of clientelism

and that political clientelism is often regarded as a threat to democratic accountability and representation. In the words of Kitschelt, “clientelism involves reciprocity and voluntarism but also exploitation and domination” (2000: 849). In a vicious circle, the exploitation and domination of vulnerable people maintain economic elites in power, and that is why clientelistic practices continue being used.

A country in which clientelistic relations dictate the allocation of its resources subsists under governance that favours economic elites and limits the means for developing its people. “The major risk lies in the misuse of these resources to influence specific political decisions. Earlier studies identified the existence of a causal relationship between campaign contributions and policy outcomes” (Guerguina & Volentiru, 2017: 20). Often policymaking oriented by the economic elite results in more target than public policies. Under-provision of public goods, especially education, not only maintains but also increases vulnerable populations. On this matter, Bobonis et al. suggest that the reduction of vulnerability diminishes clientelistic relations, which is possible with “centrally mandated insurance mechanisms” (2017: 30). In other words, the increase of governmental mechanisms of social insurance improves the livelihood of the general population, which reduces the necessity of handouts to fulfil personal needs. Such a scenario would represent the end of clientelism in developing countries.

1.4 Bossism and political capture: oligarchical governance

Before entering the content to which the term bossism refers, it is necessary to determine the meaning of this concept. The definition of bossism is not clear when translated to Brazilian Portuguese, a determinant language used in this research since Brazil is its case study.

According to *The Columbia Encyclopedia*, bossism, in US history, is a “system of political control centring about a single powerful figure (the boss) and a complex organisation of lesser figures (the machine) bound together by reciprocity in promoting financial and social self-interest”.² In the literature review, bossism appears related to clientelism, to patronage –concepts that have formerly been defined– and to the Spanish-American *caciquismo*. Roniger & Güneş-Ayata (1994) describes political bossism followed by the word *caciquismo* within brackets in an effort to translate the former. Zaluar (1994) argues that the clientelism in Brazil comes close to American bossism. Referring to the local existence of oligarchic and personalised structures of power, Carvalho (1997) mentions *mandonismo*,³ a term used mainly in Brazil. The author suggests that this concept is remarkably close to *caciquismo* in Spanish-American literature and argues that “*mandonismo* is not a system, it is a characteristic of traditional politics” (Carvalho, 1997: para. 7). In order to characterise clientelism, Bahia (2003) uses the term *bossism*, as a loanword from the original English word bossism and does not translate it as *mandonismo*.

Due to the variety of definitions to the term bossism that appears in the literature, it is essential to say that, in this study, bossism is considered to be the same as the Brazilian *mandonismo* and vice-versa. For this research, *mandonismo* will be translated – and use throughout this thesis – as bossism, and that is, a way of doing politics in which oligarchic power uses its wealth to capture policymaking and influence policy outcomes for self-interest and as a wealth defence strategy.

² *The Columbia Electronic Encyclopedia*, <https://www.infoplease.com/encyclopedia/social-sciences-and-the-law/political-science-and-government/political-science-terms-and-concepts/bossism>

³ “Mandonismo means “tendency to, habit or desire to rule in any circumstance, especially with abuse and arrogance” (Houaiss Dictionary) and, according to the dictionary, is a word used mainly in Brazil. Mandonismo was formed from the association of the suffix -ismo to the radical mandon, from where it derived mand (ão). A term that risks not being forgotten these times”. <https://ciberduvidas.iscte-iul.pt/aberturas/mandonismo-uma-palavra-fenix-usos-de-alguma-coisa-foi-e-a-aceitabilidade-de-tao-unico/2386>

Even though bossism appears in US political life in the mid-19th century,⁴ it is far from being an old practice. Scholars point to the manifestation of bossism in nowadays politics in different countries such as Indonesia (Amin, 2013), The Philippines (Quimpo, 2009; Kreuzer, 2012) and Brazil (Araujo, 2003; Morais, 2016). In various countries, practices like bossism are described in the literature as oligarchic power, elite domination, and political dynasty.

Historically, economic resources have continuously been accumulated. Consequently, economic elites emerge and retain political power (McDonald, 2017). Those who gain power by wealth accumulation form a grouping known as an oligarchy. When oligarchies capture public decision-making processes, bossism manifests itself. The word oligarchy may be a reminder of an aged and useless term to describe prevailing democracies. On the contrary though, oligarchic power has been proved to be at the centre of current decision-making processes. The term oligarchy portrays accurately nowadays politics of both “rule by the rich” (Menotti, 2011; Arlen, 2016) and “rule for only the few, and not for the many” (López García, 2017).

Oligarchs are members of society who possess enormous wealth and use it to shape public policies according to their private interest. Wealthy people have the advantages required to avoid institutional regulation (Arlen, 2016). According to Winters (2011), the American ‘ultra-rich’ have had the financial means and skilled associates at their disposal to accomplish a tax burden shift toward the less fortunate citizens.

Oligarchic power harms democracy. Concurrently, democratic polities represent a threat to oligarchy. An example of the former is “the growing discredit of basic democratic institutions, like political parties, legislatures and the judiciary” (López García, 2017: para. 9). The author

⁴ *The Columbia Electronic Encyclopedia*, <https://www.infoplease.com/encyclopedia/social-sciences-and-the-law/political-science-and-government/political-science-terms-and-concepts/bossism>

states that in Latin American, almost 80 per cent of the people show discontent with democracy and believe that government is strongly influenced by the wealthy. Furthermore, The US policy of “reduced taxes on the ultra-rich (...) have strained the government’s capacity to maintain infrastructure, provide relief to children and the poor, and assist the elderly” (Winters, 2011: para. 2). On the other hand, throughout history, massive wealth concentration has encountered resistance from different society segments. “The unique political challenge for oligarchs, and the basis of oligarchy, is defending against these threats” (Winters, 2013: 4). Winters affirms that “Oligarchy should be understood as the politics of wealth defence” (2011: para. 8). This kind of ‘by wealth for the wealthy’ modus operandi has been an established practice in Latin America “where politics is defined by weak states and the omnipresence of oligarchs who infiltrate state and political institutions to protect their wealth” (López García, 2017: para. 1). Not surprisingly, Latin America is the world’s most unequal region. According to Arlen, excessive wealth concentration “may exacerbate unjust inequalities, while also undermining the fair value of political liberties and fair equality of opportunity. Oligarchic harm can certainly be magnified under conditions of distributive injustice or structural exploitation” (2016: 8).

Literature review on oligarchy⁵ indicates that Jeffrey Winters (2011) has significantly contributed to understanding the oligarchy continuity within democracy. Pearce argues that “there is a long history of debate on how to conceptualise the concentration of power and wealth in the hands of the ‘few’” (2018: 9). In this regard, the author emphasises that Winters (2011) presented convincing arguments for using the term oligarchy instead of elite for the exact reason that it stresses wealth as the primary source of power. However, Pearce goes further and adopt the term ‘oligarchic elites’, which holds Winters’ emphasis on wealth and preserves power and status, inherent aspects of elites in its classic

⁵ Arlen (2010), Gilens & Pace (2014), Mayville (2014), Rhoden (2015), Zeng (2015), Babajan (2018), Pearce (2018).

definition. According to Babajan (2018), Winters' interpretation of an oligarch is precise because it considers that oligarchs also hold an elite form of power such as organisational, mobilizational, political, et cetera. Nevertheless, elite members are not oligarchs if they do not have a massive wealth at their disposal. The latter keeps high-level agents such as managers, bureaucrats outside the oligarchic circle, even though such players are considered an essential instrument to the oligarchy. Rhoden describes elite as "people who have the power to effect change that average citizens or subjects cannot" (2015: 5) and further analyses how this concept differ from the definition of an oligarch. The author also relies on Winters's studies when enumerating six power sources for the elite, namely, 1) formal political right, 2) official position, 3) coercion, 4) mobilisation, 5) ideology and the last one, 6) material resource, which he borrows from Winters (2011). Elites may use each one of these power sources to influence policy outcomes on their behalf. However, "when one speaks of oligarchs contra elites, the discussion is not about one's political rights, official position, personal coercive ability, skill at mobilisation, or ideology, but instead about how a great inequality of wealth is utilised as political power" (Rhoden, 2015: 6).

According to an Oxfam rapport published in 2015, elites are at the centre of political capture, also known as "hijacking democracy" (Oxfam, 2015). This phenomenon occurs when elites dominate democratic institutions in order to guarantee that public-sector decision-making meets their interests. Hence, the government no longer works for the general population but small privileged groups. Political capture is a common phenomenon in young democracies with major negative effects since it enhances elite power, undermines the public sector, and increases inequality. Latin America is currently facing these adversities. Despite the democratisation of de jure political institutions in countries such as Brazil, Bolivia and Colombia, local economic elites are able to wield de facto political power and use their material resources to influence political and regulatory forces (Acemoglu & Robinson, 2006; Oxfam, 2015). Elite influence on the public domain is not only a feature of less

strong economies. In the US, despite its democratic elections system, economic elites and business representatives use a range of instruments such as foundations, think-tanks, media, lobbyists campaign financing, et cetera to impact policymaking. At the same time, the ordinary population and their associations may influence it a little or not at all (Domhoff, 2013; Gilens & Page, 2014).

Zeng (2015) stresses that the division between oligarchy and democracy is the absence of accountability towards the general population. The author describes oligarchy as a “political system” in which critical political agreements are made by a small leading body of either unelected or unaccountable members. Another power restraint strategy common in “pseudo-democracies” (Babajan, 2018) is “political dynasty”, which is defined by Kenawas as “elected public officials (governor/mayor/regent/ legislator) who have a familial connection with an incumbent at the same, lower, or higher level (district to provincial) based on marital relationship, vertical lineage, or extended family” (2014: 11). In his study, Kenawas investigates the political power monopolisation by political elites, which use their family ties and wealth to support their family members to be elected for public office. By forming a political dynasty, elites seek to maintain and spread their political power and, as a result, defend their wealth.

Oligarchic elites and their wealth defence strategies endanger sustainable global development. “Today’s single biggest threat to our global climate commons is the group of billionaires who profit most from its pollution and, in turn, push government policies that promote more fossil fuels” (Menotti, 2011: 1). According to Macdonald (2017), from the world’s top six companies in revenue, five operate in the oil, gas, and electric sector. Accordingly, the ones controlling these resources possess massive wealth and dominate governments. The author emphasises the need to detach the economy from fossil fuels and its oligarchy in order to achieve a sustainable economy and a de facto democratic governance. His strategy is indeed a pivotal solution to fight climate change; before it

happens, sustainable development goals cannot be achieved. For the sake of future generations, it is necessary a global government for the many. Wealthy political bosses from any economic sector need to be eradicated from the public domain, so does bossism practice.

1.5 Crony capitalism and rent-seeking

In different countries around the world, entrepreneurs increase their wealth by being well-connected in the political sphere. Through their friends in government, they win important contracts and get access to great business opportunities. This practice of using political connections to increase wealth is known as crony capitalism, which has its starting point in rent-seeking: the allocation of financial resources to shape public policies to benefit from it.

In the literature, the term crony capitalism (also known as cronyism) is often described as the practice of appointing friends, associates, and supporters to high-level posts regardless of their qualifications, while rent seeking appears as initiatives to increase one's existing wealth without creating new wealth or benefit for society (Haber, 2002; Aligica & Tarko, 2014; Salter, 2014). The concepts are commonly employed as correlated since the occurrence of one often means the practice of the other. Aligica & Tarko define crony capitalism as an economic system "either directly in connection to rent seeking, or indirectly, as an associated variable" (2014: 158).

Rent seeking is an expression coined by Anne Krueger in 1974 to describe interest groups' activities to obtain government favour. This idea was first developed by the economist Gordon Tullock's in 1967. From his perspective, economic favours, such as subsidies, preferential tariffs, and regulations, are not groundless. On the contrary, they are created based on interest groups' endeavour and their expenditure on political power to enrich themselves (Zywicki, 2016). When public

resources are made available by the government, especially at the federal level, both enterprises and individuals invest a considerable amount of money in order to guarantee their access to those resources. This procedure defines rent-seeking, and its practice often ensures the right to monopoly and means the security of uninterrupted businesses operations. The reliability offered by these transactions does not necessarily indicate wealth increase but rather wealth redistribution (Zywicki, 2016). The operating profits are often kept at the top management level (Sobel & Graefe-Anderson, 2014). Frequent examples of rent-seeking are cartel formation and lobby. In both cases, representatives of interest groups try to persuade officials and politicians to bend or make rules in their favour harming competition and consumers. According to Zywicki (2016), rent seeking is the 'engine' of crony capitalism.

The term 'crony capitalism' was coined by George M. Taber, a *Time's* business editor who wrote the headline "A case of crony capitalism" for a story written by John DeMott on the Philippines's economy. The article, published on April 21, 1980, described the countries' economic stagnation and corruption domination under Ferdinand Marcos' presidency: "It was a weird distortion of the free market that benefited a few and kept the masses in poverty. The cronies got rich, and the poor stayed poor" (Taber, 2015, para 4).

According to Zywicki (2016), the wording crony capitalism is misleadingly used to translate the phenomenon because it is the antithesis of capitalism, and the term 'corporatism' would be more precise to describe "an economic system of a symbiotic relationship between big government, big business, and big labour, aligned in a cooperative enterprise" (Zywicki, 2016: 78).

In a free market system, economic competitors seek to make a profit by fulfilling customers' wishes in a meritocratic logic, which means that the winners will be the ones who meet best the consumers' needs.

Opposingly, a system in which crony capitalism prevails, a lucrative and successful business is ensured by friendly relations between economic agents and the government (Sobel & Graefe-Anderson, 2014; Fortes do Rego, 2017; Zywicki, 2016; Koziuk, Dluhopolskyi, Farion & Dluhopolska, 2018). As stated by Salter (2014), crony capitalism is a two-way activity in which not only enterprises seek benefits from their close ties with politicians by influencing policy-making processes in their favour, but also government officials use private companies' support to their campaign to win or stay in power.

In his studies on how rent-seeking and crony capitalism occur, Zywicki (2016) states that rent-seeking occurs in three different forms as follows: 1) Direct rent-seeking, which happens when advantages such as tariff, subsidy, licenses, et cetera, are given to interest groups at the expenses of less-connected competitors. 2) Indirect rent-seeking takes place through the ratification of apparently impartial laws or regulations that benefit certain people to the detriment of others. 3) Rent extraction occurs when politicians receive a contribution from firms and industries by threatening to withdraw benefits or to break deals already settled. Furthermore, the author suggests that both direct and indirect rent-seeking cause a 'rent-sharing' effect which means that economic rents originated from the rent-seeking activity is split among employees. The knowledge that protectionist legislation generates rent that is shared with workers encourages the workers to facilitate such regulations.

It sometimes can be challenging to determine whether a particular action constitutes rent-seeking or rent extraction (...) for purposes of understanding the dynamics of crony capitalism; however, it matters little whether a particular action is best understood as rent-seeking, rent extraction, or some combination thereof. What matters most fundamentally is that private industry and the government become so intertwined that the economic success of firms or industries —indeed, their very survival— depends on remaining in the good graces of political actors and, quite frequently, that political grace can be given or withheld in a largely arbitrary fashion (Zywicki, 2016: 90).

Crony capitalism occurs when enterprises, regulatory agencies, and government officials conduct business-friendly policy-making processes and investments, according to private interests. Salter describes crony capitalism as:

a special type of moneymaking that economists call 'rent-seeking. Rent seekers pursue privileged advantages that typically show up as targeted exemptions from legislation, advantageous rules by regulatory agencies, direct subsidies, preferential tariffs, tax breaks, and preferred access to credit, and protection from prosecution (2014: 8).

Haber (2002) argues that governments driven by crony capitalism and rent-seeking make many economic policies that benefit holders of financial capital, primarily by offering them a higher return rate in order to persuade them to invest, which would not be the case without such privileges. In Haber's own words, "crony capitalism not only permits rent-seeking, but it also requires rents to be earned and distributed. Once rent-seeking becomes a fundamental part of economic life, however, rent-seeking above and beyond the minimum needed to induce investment will almost inevitably occur" (2002: 15). In that case, the issue is that a high level of rent-seeking is not only bad for economic growth (Krueger, 2002), but it also allows the establishment of monopolies and oligopolies formation in industries sector that should be open to perfect competition or industries that would not exist otherwise. Cronyism also hinders well-skilled entrepreneurs who have financial capital but no political connections (Haber, 2002). In the same study, Haber highlights also three crucial pitfalls of crony capitalism from the perspective of economic growth and distribution, namely: resources misallocation, short-term investments⁶ and unequal income distribution.⁷ The latter contributes to the rise of poverty levels.

⁶ Government turnover may interrupt deals with interest groups favouring short-term transactions.

⁷ Rents provided to a certain group often come from society in general. When an industry can charge freely for its products or services, a transfer of income from consumers to entrepreneurs will occur.

According to Oxfam (2018), approximately two-thirds of the world's billionaires' wealth originates not from hard work and merit as it is believed but from crony capitalism, monopolism, and inheritance. In fact, these phenomena are directly linked with the increase in inequality around the world. Furthermore, crony capitalism has a negative effect on society because of its unfairness and because it reduces government revenue and restrains the productive use of public resources (Committee for Economic Development, 2015; Oxfam, 2017).

Another major harm caused by crony capitalism is the reduction of innovation (Salter, 2014; Committee for Economic Development, 2015; Koziuk et al., 2018). A case study on crony sectors and ecologization in Ukraine by Koziuk et al. (2018) evaluates how industries driven by crony capitalism can be a barrier to sustainable development.

Around the world, crony-business does not consider ecologization⁸ as a priority of social activity at all. This situation is understandable since the interests of crony business, and environmental movements are quite the opposite, and the rent-orientation of the economy deforms and preserves social and economic development, reduces the innovation and competitiveness (...) It is also possible to foresee that the oligarch, who builds their wealth from the crony sector,⁹ will block environmental initiatives and changes in environmental legislation, which will cause more severe sanctions for violations and limit the construction of environmentally hazardous facilities (Koziuk et al., 2018: 123).

Aligica & Tarko (2014) present a framework on crony capitalism analysing it from three different aspects, namely: (1) Microeconomic, referring to the basic economics of crony relations and rent-seeking, (2)

⁸ "Ecologization essence can be defined as the implementation of an ecological approach to people's lives, which is conducive to the formation of a new worldview, according to which humans must evaluate their activities to how actions are harmonised with the laws of nature" (Koziuk et al., 2018: 116).

⁹ Industries that depend a great deal on public policy, such as mining, oil and gas, infrastructure provision.

institutional and social, related to the distinct shape of institutions, policies, and processes in their context, and (3) ideological, which deserves more our attention because of its significance to the current research. The ideological aspect analysed by Aligica & Tarko alludes to “the ideas, rhetoric, beliefs, doctrines and other forms of legitimisation and justification of the specific policies and institutions” (2014: 157). According to the authors, the ideological environment in which crony capitalism operates has its particular legitimating rhetoric: “the rhetoric of “pragmatism” and “middle of the road” moderation, and, when more sophisticated, with a programmatic rejection of classical ideologies and public philosophies” (Aligica & Tarko 2014: 170). Furthermore, the authors point out that this phenomenon is relatively new and became stronger after the Eastern Bloc collapse, which has contributed to scepticism towards the state and the market. The ‘loss of faith in politics and in economic organisations’ has created a fertile terrain for populism.

Crony capitalism has been noticed in distinct parts of the world, both in developed and developing countries, and it is not a new phenomenon. American crony capitalism emerged in the 1930s under the Roosevelt presidency and his new deal strategies to recover from the great depression. Since then, it has been progressively growing with aggravation due to the financial crises in 2008 (Zywicki, 2016). The Philippines has been suffering from crony relations since the 1980s and its economy is “still stuck in a morass of crony capitalism” (Taber, 2015, para 5). Most Latin American countries are unhappy with ‘usual politics’, that is, crony capitalism’s predominance (Shifter, 2011). In Brazil, with the economic reforms of the 1990s, conducted through privatisation processes, especially in strategic development areas – such as telecommunications, energy, and mining – power accumulation was intensified as a select small group had access to the share capital of some former state-owned companies (Fortes do Rego, 2017). Other countries such as Ukraine, Russia, Hong Kong, Singapore, Mexico, among many others, have their economies and politics driven by crony capitalism and

rent-seeking, which gives a sign that this trend is not going away anytime soon.

1.6 Behavioural economics: a tool to understand policymaking

Neoclassic economists based on rational choice theory or expected utility theory have used the term *homo economicus* or 'economic man' to represent humans as consistently rational and self-interested creatures that normally have the capability to make the right judgment in order to maximise their benefit or utility (Lin, 2011; Ainslie, 2015; Ávila & Bianchi, 2015; Nery, 2016). In contrast to this assumption, Herbert Simon (1982) proposed the idea of 'bounded rationality', which suggests that decision processes are influenced by our limited thinking capacity, information, and time availability (Samson, 2018). In other words, people make decisions despite their constricted knowledge, feedback, and processing capacity. Moreover, agents are inconsistent when making choices; their preferences change, mostly following the context and peer influence. Bounded rationality indicates that individuals are rational but have cognitive limitations, and therefore, they occasionally deviate from rationality. Bounded rationality is one of the psychological foundations of behavioural economics. Some manifestations of Bounded rationality are the following: *Choice overload*: when faced with too many options, individuals have difficulty in making choices; *Heuristic decision-making*: heuristics are shortcuts to decision making. It is a way of making choices based on practical experience. The choice made may not be the best one but is good enough for immediate goals; *Failure to assess statistical probabilities*: individuals are more likely to be influenced by bright and noticeable information rather than statistically accurate information. Furthermore, bounded rationality stresses that irregularities in choice behaviour may result in poor decision making. Behavioural economics engages in studying these anomalies in choice (Ainslie, 2015).

Behavioural economics challenges the rational aspects of the neoclassic expected utility model and uses psychology and sociology insights to understand individuals' and institutions' decision-making processes (Koch, Nafziger & Nielsen, 2014; Chetty, 2015; Samson, 2016). "While traditional economics assumes that individuals always behave rationally, behavioural economics often stress the 'irrational' aspect of decision making, often referred to as behavioural failure" (Pollitt & Shaorshadze, 2013: 524). "With the rise of behavioural economics, many psychological concepts have been acknowledged by economists and incorporated into economic models" (Feld, Sauermann & De Grip, 2015). Ainslie (2015) highlights that behavioural economics stands on two pillars, namely: behavioural and cognitive.

The behavioural approach arose in the early 1970s from John Kagel and Robin Winkler (1972) studies and their attempt to apply Skinnerian behavioural analysis to economic choices, which included hyperbolic discounting by the psychologist Richard Herrnstein (1967). According to Ainslie (2015), the researchers – he also coined the term behavioural economics – contrasted the assumption of the expected utility theory (EUT) with the premise of hyperbolic discounting. EUT implies that individuals are able to ignore current events and establish preferences that will not change with an increase or a decrease in information level. Oppositely, hyperbolic discounting suggests that preferences are moment related. In other words, humans, prefer a bigger reward when facing a long delay, but they choose a smaller reward in case of a shorter delay. In fact, "subjects will reverse their preferences from a larger, later (LL) reward to a smaller, sooner (SS) alternative as the pair become closer" (Ainslie, 2015: 262).

Simultaneously, separately from behavioural research, Daniel Kahneman and Amos Tversky were discovering regular mistakes that occur regardless of one's cognitive ability. Their research led to a Nobel Prize in economic science in 2002. In their studies, the researchers defined the mind's two modes of thinking: the intuitive, fast, and impulsive system 1

and the slow, rational, and deliberate system 2. According to them, people evaluate actions and their consequences carefully only when they are in the system 2. In most situations, people are in their system 1, in which they rely on simple heuristics and emotions. These findings resulted in the prospect theory created in 1979 and developed in 1992 (Kahneman, 2003). Prospect theory attempt to explain “how cognitive framing affects choices subjects make” (Ainslie, 2015: 264). This cognitive approach also became known as behavioural economics from the 1980’s onward. Kahneman & Tversky suggest that “intuitive predictions and judgments are often mediated by a small number of distinctive mental operations, which we called *judgmental heuristics* (...) these heuristics are often useful, but they sometimes lead to characteristic errors or biases” (1996: 582). Heuristics are cognitive shortcuts, also known as rules of thumb, that individuals employ in order to make decisions more easily. On the other hand, cognitive biases are a kind of mental process of fast and shallow analysis that often leads to error in thinking and irrational choices (Lin, 2011; Samson, 2018). Heuristics and cognitive biases are reciprocally associated. The use of heuristics may lead to cognitive bias and vice-versa.

In contrast to the traditional perspective, behavioural economics argues that people decide based on habits, preconception, simplified practical rules, and personal experiences. It also points to the fact that individuals make decisions quickly and have difficulty reconciling short- and long-term interests. Another claim of this strand of thinking is that people are strongly influenced by emotional factors and the decisions of those they interact with. According to Gauri, “we are all biased. Experts, policymakers, and development professionals are subject to the same biases, rely on mental shortcuts (heuristics), and social and cultural influences as everyone else” (2016: 27).

Behavioural economics provides a range of concepts identified as behavioural and cognitive deviations that determine decision-making

processes. For the purpose of this research, only a few of these concepts will be used. They are the following:

1. Hyperbolic discounting: this concept structures are characterized by high discount rates over short horizons and low discount rates over long horizons (Laibson, 1997). Hyperbolic discounting indicates that people are far-sighted when planning if both costs and benefits occur in the future. However, they make short-sighted decisions if costs and benefits occur in the present (Pollitt and Shaorshadze, 2013). Hyperbolic discounting leads to a preference for small rewards that shortly occur over bigger and later benefits.

2. Loss aversion: individuals are risk-averse when facing possible gains but opposingly risk-seeking if dealing with potential loss. Individuals are inclined to prize losses more than gains. It stems from the fact that “the pain of losing is psychologically about twice as powerful as the pleasure of gaining” (Samson, 2018: 137). In fact, “empirical estimates and that losses are weighted about twice as strongly as gains (...). The disutility of losing \$100 is roughly twice the utility of gaining \$100 (Thaler, Tversky, Kahneman & Schwartz, 1997: 648). A more specific concept within this category is myopic loss aversion, which occurs when agents strongly focus on short term outcomes. This phenomenon is related to narrow framing, which suggest that investors prefer specific investments rather than the ‘big picture’ of a future transaction (Samson, 2018). Myopic loss aversion explain why politicians are short-sighted when making decisions. Their main drive is the possibility of re-election and not society’s best interest (Gsottbauer & Van den Bergh, 2012). According to Cooper (2013), “myopic regulators” devote themselves to policies that can be implemented during their time in office, rather than more efficient alternatives that may reward only after their incumbency.

3. Endowment effect: individuals place extra value on goods they already own or services they already receive, disregarding their value in the market. The endowment effect results in the empiric phenomenon known as the 'offer-asking gap' in which "people will often demand a higher price to sell a good that they possess than they would pay for the same good if they did not possess it at present" (Korobkin, 2002: 1228). Pollitt & Shaorshadze (2013) provide two empiric examples of the endowment effect. According to the authors, people are normally used to their daily routine and habits that they are unwilling to change. Likewise, households stick to the devices they already have and show no desire to replacing them even when a more efficient alternative is available. These behaviours may represent a drawback when it comes to innovation in public policies. When "applied to regulatory decision making, this class of cognitive shortcomings will tend to make policies "sticky" around initial points (...) From this stickiness emerges a path dependency in policy choice where policies adopted in the past have a lingering effect on future policy adoption" (Cooper, 2013: 2).

4. Status quo bias: this bias is evident when individuals rather keep things the way they currently are by avoiding action or by sticking with decisions made before (Samson, 2018). Barbier (2013) highlights the likelihood of most social institutions to be hard to change. In earlier work, Barbier (2011) describes this inflexibility as 'institutional inertia', what North (1990) called 'institutional path dependence'. Lin (2011) states that the status quo bias keeps us from thinking before making choices and hold us inert despite the world's constant changes.

5. Information avoidance: in behavioural economics, information avoidance bear on situations in which individuals choose not to acquire knowledge even when they have free access to it. Even though people can benefit from the ignorance of unpleasant

information, in most cases, information avoidance leads to negative long-term consequences, as it “deprives people of potentially useful information for decision making and feedback for future behaviour. Furthermore, information avoidance can contribute to a polarisation of political opinions and media bias” (Samson, 2018: 136).

6. Delusion of competence: this occurrence involves peoples’ deficiency in reflexive acknowledgement, either socially or pathologically, of their capability to make a decision or to function according to the requirement of a given situation. This feature is also known as the Dunning–Kruger effect, in which low skilled people are overconfident about their cognitive ability while the highly skilled individuals are more accurate in assessing their skills (Feld et al., 2015). The social psychologists David Dunning and Justin Kruger (1999) noticed a divergence between perceived and actual competence, which can elucidate much mistaken decision making.

7. Overconfidence effect and planning fallacy: the overconfidence effect is observed when individuals’ self-confidence is greater than their real performance capability. Feld et al. define overconfidence as “the difference between the self-assessed skill level and the actual skill level” (2015: 6). Overconfidence has been pointed as de cause of a range of destructive events (e.g., strikes, wars, litigation, busyness failure) when stakeholders overestimate their actual ability, performance, level of control, or chance of success (Moore & Healy, 2008). Under the overconfidence effect scope, one could observe the planning fallacy, the case when individuals underestimate the required time to accomplish a task, often disregarding prior experience (Samson, 2018). First introduced by Kahneman & Tversky (1979), the planning fallacy indicates people’s inclination to underestimate the amount of time and resources necessary to finish a project. “This error occurs when forecasters overestimate their ability and underestimate the possible

risk associated with a project. Without proper training, teams of individuals can exacerbate these phenomena causing projects to be based on the team's confidence rather than statistical projections" (Samson, 2018: 141).

In their research on behavioural economics related to climate change, Gsottbauer & Van den Bergh (2012) call to mind that in each stage of the negotiations concerning climate change agreements (preparation, information, and decisions), tasks are fulfilled by individuals. Tasks outcome will always be the result of behaviour and choices of agents working on those tasks regardless the job they hold (politicians, consultants, bureaucrat). According to the authors, "when decisions are more complex, political choices generally deviate from perfect rationality. For example, politicians operate under stress and time constraints causing selective attention and oftentimes make decisions based on imperfect information" (Gsottbauer & Van den Bergh, 2012: 228). The researchers also state that elected officials commonly make decisions based on heuristics; their forecasts are often inaccurate and overoptimistic. In addition, the authors imply that politicians are inclined to be myopic, which means they operate according to election schedule and immediate goals.

Behavioural economics offers empirical grounds for attesting that "decision making in negotiation-like situations is influenced by systematic cognitive biases and social interaction" (Gsottbauer & Van den Bergh, 2012: 225). Since its inception, behavioural economists and other scholars have verified the prevalent cognitive constraint of real-life individuals. "Because of these cognitive limitations, real people – real investors – are inherently not good at assessing risks" (Lin, 2011: 349). Based on the interdisciplinary approach of behavioural law and economics, Lin (2011) proposed a behavioural framework for security risks in which he states that investors are not as rational as assumed by the *homo economicus* model. In fact, the author suggests that, as real people, investors are likewise partially irrational and that "the rationality

of real investors is bounded by biases, heuristics, and other cognitive limitations. Investors are generally too loss averse, overconfident in their skills and over-optimistic about future returns” (Lin, 2011: 336). Based on the authors findings, it is correct to conclude that if real people have deficient rationality and investors belong to the same category of people, investors also have rationality flaws. That means that every individual suffers from limited rationality regardless of their role in society. This logic also includes legislators, politicians, bureaucrats, et cetera.

If one accepts that people systematically err, one must also recognize that any government policy is itself conceived and implemented by people who likely suffer from the same biases (...) Regulators are likely to use heuristics –mental shortcuts– to form what they consider the optimal long-run policy choice. Behavioural economics demonstrates that these shortcuts, although timesaving, may lead to systematically flawed decision making (Cooper, 2013: 1).

The broad literature reviewed in this chapter provides significant instruments for the analysis of Brazil’s current conjuncture regarding the implementation of climate change mitigation and adaptation policies. More specifically, these instruments will be used to analyse policy choices made in the Brazilian energy sector in order to comply with the Paris agreement, which highlights the need to decarbonise the energy industry in order to maintain *global warming* below 2°C. Although international climate change agreements have become more frequent and popular in the last decades, some concepts explained in this section originated even before the nineteenth century, as is the case of bossism and clientelism. These phenomena are strongly related to monopolistic and oligopolistic practices, which are often illegal but still persist. Crony capitalism and rent-seeking are concepts that originated in the 1970s, the same decade when an international committee met for the first time to discuss anthropogenic impacts on the environment. Since then, global warming has become a great concern worldwide. The influence of interest groups in the economy and politics has also grown into a strong obstacle for climate change mitigation. These tactics used by political and

economic oligarchies led to the capture of the Brazilian state at its distinct levels. Simultaneously, studies on individuals' behaviours in decision-making processes have proved to be important tools to analyse policymakers' choices. Behavioural Economics suggests several concepts that can explain why one or another policy is chosen and implemented. This research relates to both traditional power relation strategies and behavioural economics concepts to understand to what extent the Brazilian authorities can successfully meet international climate agreements concerning energy governance in the country.