

# Types of capitalism in Latin America

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On pouvait parler de l'Amérique latine dans son ensemble à l'époque de l'ISI ; il est aujourd'hui impossible de trouver un modèle unique de développement sur ce continent. Les écoles des variétés du capitalisme et de la régulation ont montré qu'il existe une variété de capitalismes dans les pays développés ; cet article défend l'idée que nous assistons en Amérique latine à l'émergence de différents types de capitalisme. Dans au moins trois pays de ce continent nous pouvons observer que les liens de complémentarité entre la structure économique et la conformation socio-politique, l'insertion à l'économie mondiale, le rôle de l'Etat et le rapport salarial (essentiellement le système de relations industrielles et le régime de protection sociale), sont suffisamment forts pour pointer vers des idéaux-types, sans toutefois être totalement consolidés.

Amérique latine, variété du capitalisme, l'État, insertion internationale, syndicats, État-providence, Mexique, Brésil, Argentine, Chili

Although one could have certainly talked about Latin America as a whole during the time of ISI, it is nowadays impossible to find a unique model of development in this continent. This article defends the idea that just like, according to the varieties of capitalism and the French regulation schools, in the developed countries there exist a variety of capitalismes, in Latin America we are also witnessing the development of different types of capitalism. In at least three countries in this continent we have been able to see that the economic structure and the socio-political conformation: the articulation to the world economy, the role of the State and the wage relation -*rapport salarial*- (comprising basically the industrial relations system and the welfare regime) are complementary enough to be able to point towards ideal types although they may not yet be consolidated.

Latin America, Varieties of capitalism, State, Economic Orientation, Unions, Welfare State, Mexico, Brazil, Argentina, Chile

Aunque se podría sin duda haber hablado de América Latina en su conjunto durante el tiempo de la ISI, hoy en día es imposible encontrar un modelo único de desarrollo en este continente. En este artículo se defiende la idea de que al igual que, de acuerdo a las escuelas de las variedades de capitalismo y la de la regulación en los países desarrollados existe una gran variedad de capitalismos, en América Latina también estamos asistiendo al desarrollo de diferentes tipos de capitalismo. En por lo menos tres países de este continente hemos podido ver que la estructura económica y la conformación socio-política: la inserción en la economía mundial, el papel del Estado y la relación salarial (*rapport salarial*-que comprende básicamente el sistema de relaciones industriales y el régimen de bienestar son lo suficientemente complementarios como para apuntar hacia tipos ideales a pesar de que todavía no se han consolidado.

América Latina, variedades de capitalismo, Estado, inserción internacional, sindicatos, Estado de Bienestar, México, Brasil, Argentina, Chile

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The four countries which I discuss in this article went through similar paths until the beginning of the 70', but have diverged since. My main argument is that this shows that although one could have talked about Latin America in general during the time of ISI, it is now impossible to find a unique model of development in this continent. I will defend the idea that, in the same way as there are different types of capitalism in the developed world, in this case we are not dealing with different trajectories that lead to the same end, to one same economy, but that we are witnessing the development of different types of capitalism in Latin America, although they may not yet be consolidated.

I follow the literature that considers the existence of a variety of capitalisms: while some capitalist regimes are more liberal and based on the market (US), others are more coordinated by social actors (Germany, North Europe) (Hall and Soskice, 2001), in others the State has a crucial role (France), and in still others it is the conglomerates of banks and industries that play the main role (Japan and Korea) (Amable, 2005; Boyer, 2005). The literature that discusses Latin America from this perspective considers that the principal element that defines the type of capitalism that exists in this continent is the fact that the societies are heterogeneous and hierarchic (Schneider and Soskice, 2009). This perspective considers that in Latin America there exists a unique type, the hierarchical one; that this characteristic defines the orientation of the economy, the role of the State, the industrial relations and the welfare system that combine into a unique variety that in many senses a deficient variant of the liberal market economy as defined by Hall and Soskice. Although I agree with the consideration that inequality and hierarchy are central features in the case of the Latin American case, I want to prove, nevertheless, that the dimensions that define different types of capitalism are not determined by this characteristic, but that they combine in different manners and configure varieties of capitalism within this great category.

We will formalize the determinants defined by the varieties of capitalism school and that of the regulation school in three different dimensions: the way in which the countries integrate to the world economy: whether they do so based on their internal market or the external market; the relation between the State and the economy: that defines among other things the character with which a country integrates the world economy, whether it does so in a proactive, defensive or merely passive manner<sup>1</sup>; in third place what the regulation school calls the *rapport salarial*, which is defined by the (political, social and economical) relation between the State, the entrepreneurs and the unions; which includes the industrial relations system and the welfare regime<sup>2</sup>.

In at least three countries in Latin America we have been able to see that the economic structure and the socio-political conformation (the orientation of the economy, the role of the State and the wage relation (*rapport salarial*: comprising basically the industrial relations system and the welfare regime) are complementary enough to be able to point towards ideal types although they are may be not yet totally consolidated. We can identify two types of capitalism where the State role is significant, in the first one it is determinant, the State is central in orienting the economy towards the internal market (which does not exclude that exports, especially of commodities, are significant) and orienting an active integration to the world economy, and unions and business organizations are strong, exert pressure on government but are also capable of coordinating their action; which we can call State led inward oriented capitalism (a formalization of the characteristics of the Brazilian economy). There is a capitalism where the State has a subsidiary role, that of regulating and defending national capital, implementing counter-cyclical measures; where the social actors are weak, coordination between unions and capital is almost nonexistent and on the contrary the relationship is conflictual and, where the industrial relations system is dominated by flexibility and the welfare system is residual,

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<sup>1</sup> This will define one of the principal differences between Mexico and Chile, the defensive character of the integration of the second against the passive one of the first; although in fact they are very similar in terms of orientation of the economy and socio-political configuration.

<sup>2</sup> We are not able to include other relevant elements such as the educational and qualification system nor the political system for lack of space.

assistance oriented, which can be called a State regulated external oriented capitalism (a formalization of the characteristics of the Chilean economy). Another type of capitalism, albeit a disarticulated one because the articulation of the productive structure occurs externally, the State intervention is weak, the coordination between unions and capital is almost nonexistent because social actors are weak, the industrial relations system is dominated by flexibility and the welfare system is residual and assistance oriented, is the international subcontracting capitalism (a formalization of the Mexican economy). After the enormous crisis of 2001-2002, Argentina reoriented its economy towards the internal market in a manner very similar to that of Brazil, it is nevertheless not at all certain that it can be called a type of capitalism because its sustainability is absolutely not assured as it depends on changing political situations. We can identify an additional type existing in Latin America, the rentist type, following Boyer, may not be considered as capitalist at all because the political and social relations do not lead to increased investment, innovation, but are rather almost “purely” redistributive; the political and social relationships as well as the economic ones are defined by the existence of resources in the hands of the State that are distributed without any productive goals; this type exists in Venezuela and partly in Ecuador and Bolivia; in fact many of the Latin American countries share this characteristic to some extent, although it is not as central as it is in these latter countries.

## The 1970's, a time of divergence between similar trajectories<sup>3</sup>

Before analyzing the static, synchronic relation between the dimensions defined above, I will analyze the relationship between them diachronically. There is an ample literature on path dependency that we accept but that we consider has to be referred less to institutions than to social actors and the coalitions they have built, in this case to the industrializing coalitions of the four countries we are analyzing in this article. Although most of the literature on Latin America considers that all these countries followed practically the same mode of industrialization by import substitution, had the same problems and failed for more or less the same reasons, there were crucial differences between the countries. As analyzed in a path-breaking article by Marques-Pereira and Théret (2004), Mexico and Brazil followed a similar path of economic development based on very different socio-political conformations, until these latter began determining the economic evolution and started to function in non-complementary ways in Mexico and in more complementary forms in Brazil. In effect, when Latin America faced one of its recurrent balance of payments crises in the seventies, these two countries started to diverge in important ways. Brazil, governed by the military, who based their legitimacy on continuous economic growth, faced the crisis directly and adopted import substitution of intermediary and capital goods in order to reduce its external dependence, while it began opening its political system to solve its legitimacy problems. Mexico's fate was to find vast oil reserves and become an important exporter. This fact together with the huge amounts of external credit the Mexican government acquired, allowed the governments of the PRI to delay the transformation of its import substitution scheme and uphold their inclusive authoritarian political regime throughout the 70's (Marques-Pereira-Théret, 2004).

Even though during this decade the Mexican State also invested and promoted investment in steel and heavy industry, such as railcars and machinery, Mexico discovered huge reserves of oil that

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<sup>3</sup> This section of the article draws abundantly from Bizberg, Ilan and Bruno Théret, 2012.

made it possible to opt the “easy way”. There was also a political rationale for this decision. Mexico arrived to the seventies under the PRI regime, a civilian-authoritarian regime that depended on its control of the popular organizations and its revolutionary legitimacy. It was an inclusionary-authoritarian-corporatist regime in contrast to the military exclusionary regimes of the South Cone. Due to the challenge posed by the student movement in the late 60’s and the labor movement in the early seventies, the regime was more concerned with political stability than with the viability of the economic system (Bizberg, I, 2004). The discovery of oil reserves and the possibility of acquiring debt seemed to be a perfect solution to the dilemma of how to deepen the import substitution model while continuing to redistribute and give concessions to its protected entrepreneurs. Although the Mexican State tried to do both, it basically ended up doing the latter while expanding its oil exporting platform and its debt.

The 1982 crisis put the industrial bases of the Latin American countries again at stake. In the case of Mexico, it disclosed the weakness of the industrial base and the fragility of a redistributive mode based on oil exports and debt. When in 1981 oil prices plunged and the interest rates soared, Mexico suspended payments on its debt and had to recur to the IMF that imposed draconian measures. The financial catastrophe and the recipes of the international financial institution convinced many of the Mexican leaders that the country had to abandon import substitution and orient its economy towards the external market. In the span of one *sexenio*, Mexico radically opened its economy and abandoned industrial policy with practically no social or political opposition. The new export led growth model led to an exceptional expansion of the *maquiladora* industry and the assimilation of other exporting industries to subcontracting, once the government abandoned the idea of enhancing the integration of local production to sectors dominated by foreign capital, thinking that this would happen naturally without industrial policy.

Brazil followed the contrary path. The economic scheme implemented by the military was accelerated growth with no wealth distribution (Hermann, 2005a). This mode of growth reached its limits at the beginning the eighties when the financial international context reversed (Hermann, 2005b). At that moment Brazil had to depend on its own resources in order to confront the disequilibrium created by economic growth under an extremely unequal wealth distribution; the contrary of the fordist economic model that existed in the US and Western Europe during the thirty years following the Second World War. This situation eventually led to rampant hyperinflation as the redistributive conflict could not be controlled in the context of a democratization process where social forces were very active and had no intention of accepting to pay for the adjustment. Although this situation was extremely costly in social terms, especially for the sectors that were not covered by indexation, it functioned as an barrier against de-industrialization caused by liberalizations under external pressure. (Marques-Pereira and Th  ret, 2004) This meant that Brazil could preserve its industrial base and transit to democracy.

In contrast to both of these countries, Chile and Argentina abandoned import substitution in 1973, for the first, and 1978 for the second (Canelo, 2009). The military that ruled Chile from 1973 to 1989 and Argentina from 1976 to 1983 had as their main purpose to extricate popular pressure from politics in order to “depoliticize” the State. The fact that the labor movement in both countries was deeply entrenched in the political system explains in part the virulence of the military as well as the

predominance of political over economic rationale<sup>4</sup>. The Argentinean and Chilean military opened the economy, reduced the weight of the State and limited redistribution. Both of these countries had responded to the balance of payments crisis of the seventies with the imposition of a new economic model (For Argentina: Rapoport, M. 2005, pp. 600-701, for Chile: French Davis, 2008 and Silva, 2007). In both Chile and Argentina, harsh dictatorship extended the liberal economic agenda by crushing the trade unions and imprisoning or killing even the more moderate trade union and political leaders.

A common feature of the various economic systems in Latin America was strong state intervention during the period of import substitution. Mexico and Brazil are probably the two Latin-American countries where the state intervened most in the economy. There were nevertheless crucial differences between both interventions. The Mexican State emerged from a revolution, a fact that led to the establishment of a strong, centralized state both economically and politically. The fact that the Mexican State emerged from a violent revolution that lasted seven years implied that the main task for the new government was to preserve social and political stability. When the Mexican political system stabilized in the 1930s it did so on the basis of a national-popular alliance built upon the working-class and peasant organizations. It thus gave more importance to redistribution for purposes of political control than to economic growth, until the end of the seventies. This fact implied that although growth of the economy was central as a source of legitimacy, redistribution in the context of its national-popular pact was still more significant and complementary to its revolutionary legitimacy (Bizberg, 2004).

In Brazil, with the seizure of power by Vargas in 1930, but especially the establishment of the Estado Novo in 1937, the Brazilian state became a modernizing actor of society and the economy. On the other hand, Brazil experienced continuous regime changes: after Vargas's authoritarian regime, it transited to a democratic one between 1944 and 1964, then to a military regime from 1964 to 1985, and again to a democracy since then. Each new regime had to legitimize itself and economic growth was crucial for this purpose. Thus, while between the thirties and end of the seventies, the Mexican State had as its main issue political stability, and redistribution, it was concerned with price control and a stable exchange rate and was in consequence monetarist with regards to its economic policies, the Brazilian state's main concern was economic growth even at the expense of inflation and devaluation and its economic policy was more structuralist. (Marques-Pereira and Théret, 2004).

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<sup>4</sup> While the Brazilian military had the same purpose of "depoliticizing" the State after the intense union mobilizations that had characterized the Goulart presidency they had overthrown, the unions were not as deeply entrenched in the Brazilian political system as were the *peronistas* in Argentina or the trade unions in the Socialist Party of Chile. The political and repressive measures they took were less radical, so were the economic ones. In addition, in Brazil the military took over before the crisis of the 70's, a moment where there was still no alternative model to import substitution, or when it was still not so hegemonic as it became since the eighties. The Brazilian military thus followed many of the structuralist economic policies that had been in vogue in this country although they considerably reduced redistribution, and especially took away the redistributive mechanisms from the unions. On the other hand, the military, as well as the civilians before and after them, had a conception of their country as a regional and international power that needed a strong economic basis, which meant self-sufficiency in heavy industry, machinery and arms (Sallum, B. 2010). This led the Brazilian military to the deepen industrialization rather than to open the economy.

Because the Mexican State set as its priority distribution rather than economic growth during the seventies, its economic structure and its dependence on oil and debt were stronger, and its situation in 1982 was so fragile that it led it to abandon its role as an actor of development much more radically than did the Brazilian State. On the contrary, Brazil preserved its state action capacity, partly because the military that took power in 1964 had no plans to dismantle it, due to their will to become a regional power.

The Argentine military (1976-1983) sought to destroy unionism, which they considered to exert too much pressure on the State. But unlike their fellow Chilean military they never had the necessary strength to achieve their purpose. The fact that they were not able to reduce the pressure of the unions prevented them not only of consolidating their political regime, but to implement the liberal measures as radically as the government of Pinochet did. It was only under the two *peronista* governments of Menem that Argentina experienced massive privatization and the policies of the Washington Consensus (Boschi and Gaitan, 2008).

## The Synchronic Analysis

### Articulation to the world economy

Both Mexico and Chile share the external orientation of their economies, notwithstanding that Brazil and Argentina are exporting more and more commodities and industrial products, they are fundamentally oriented towards the internal market. Data concerning the weight of exports in both groups of countries confirms this: while in Brazil and Argentina and Chile the aggregate demand is balanced between the external and the internal market, in the case of Mexico the external market is much more significant. The impact of exports on the growth of GDP in Mexico was 58% between 2000 and 2008 and of 67% in the previous decade (1990-2000), for Chile the percentages are 48% and 39%, respectively. In contrast, for Brazil and Argentina the numbers are 27% and 29% respectively between 2000 and 2008. In fact, for this same period, the net effect of the external exchange on the internal demand (exports minus imports) of Mexico is very negative, -18%, much more negative in the case of Chile -52.1, while in Brazil it is negative in a much lesser proportion : -6% and in Argentina it is slightly positive : 0.6%. It is important to mention that while the situation of both Mexico and Chile aggravated during the first decade of the new century with respect to the previous decade, the situation of Brazil and Argentina bettered between both periods. In the nineties the net effect of external exchange on growth in Mexico was -4.4%; in Chile -0.8%, Brazil. -13.7% and -11.8% in Argentina. This is proof of the shift of both Brazil and Argentina towards an activation of the internal market since the beginning of this century that I am defending in this article. (Data from Bensusán and Moreno Brid, 2011)

On the other hand, although Mexico and Chile share the fact that the growth of their economies depend strongly on exports and can be said to be externally led, they export different types of products, while Mexico exports manufactured goods for more than 70%, Chile exports primary and manufactured based on primary goods nearing 90% (data for 2008 from CEPAL, División de Comercio Internacional e Integración). Nevertheless, there is one crucial characteristic of the Mexican economy, we have seen an impressive growth of exports: from 30, 691 million dollars in 1988 to 200,000 million in 2011. Nevertheless, the country's imports increased at the same rate: they went from 28.082 to 196.967 million dollars per year from 1988 to the first semester of 2011. These data

show a disconnect between the exporting platform and the internal production, an extremely poor integration of national production to the export sector which explains the poor growth of the Mexican economy. In fact, the connection of the Mexican exporting base is in the external market, basically the United States; which justify that we qualify the Mexican economy as one of international subcontracting. (Palma, 2005, Dussel Peters, 2006, Ibarra, 2008, Puyana y Romero, 2009)

Although Brazil and Argentina base their economy on the internal market, they are both important exporters of primary goods. Up to 60% of Brazilian exports are primary or manufactures based on primary goods, while in Argentina the proportion is almost 70% (data for 2008 from CEPAL, División de Comercio Internacional e Integración).

These differences are complemented by distinctions that pertain to the character of the integration to the international economy, where the singularities of Brazil, Chile and Mexico appear clearly. This character is highly related to the characteristic of the State we have previously discussed. In the case of Brazil and Argentina (since 2003), the autonomy of the State, State intervention has defined that the integration of this country to the international economy is proactive; this has meant active intervention in the foreign exchange market in order to maintain a competitive exchange rate (Langellier, 2010). In contrast, in the case of Mexico the government has rarely intervened in the exchange rate market, only when the peso suffers an important devaluation, the central bank intervenes selling dollars; this has signified the overvaluation of the Mexican peso in most of the last two decades. Although the Chilean State does not intervene in the economy, it regulates its external economic relations quite efficiently, intervening in the foreign exchange market when it is necessary. During the nineties and until mid 2000 the Chilean State imposed a control (*encaje*) on foreign portfolio investments that limited its unpredictability. Finally, the Chilean State is set in diversifying its external markets by signing free trade agreements with a great number of countries. Although Mexico has also signed a great number of such agreements its diversification has been negligible, the concentration and dependence on the US market is very great; 85% of its exports go to this country. On the other hand, while the Brazilian, Argentinian and Chilean States have intervened and have mechanisms to intervene in a countercyclical manner during the economic crises, the Mexican government has limited its interventions to the maximum. (Bizberg, 2011). Finally, while the States of Brazil and Argentina impose certain restrictions to imports at certain moments, most recently to car imports from Mexico; neither the Mexican nor the Chilean governments do.

All these characteristics determine that we have considered that while Mexico has a dependent or passive integration to the world market, which is complementary to its dependence on foreign investment in a regional and disarticulated logic; that of subcontracting; Brazil has a proactive or offensive logic of integration, which Argentina has adopted since 2003, while Chile's State has a defensive stance to foreign capital and to the fluctuations of the international economy, although it is very liberal and laissez faire in what concerns productive investment. (See Table 1)

**Table 1: Articulation to the international economy**

Dimension	Brazil	Argentina	Chile	Mexico
Orientation	Internalled	Internalled	Externalled	Externalled
Type of production	Commodities and manufactures	Commodities and manufactures	Commodities	Manufactures
Capital control	Short term controls	Disconnected from capital markets	Short term controls	None
Commercial protectionism	Temporary of certain imports	Temporary of certain imports	None	None
Exchange rate administration	Competitive	Competitive	Competitive	Overvalued to control inflation
Character	Offensive/ proactive	Offensive/ proactive	Defensive/ reactive	Passive/ dependent

## State intervention

From the 1970s to the mid-80s in most countries there was a reversal of State intervention. But just as there were significant differences in the characteristics of coalitions and state intervention that supported the model of import substitution and the deepening of this model, there were differences in the timing of reforms and on the depth of the withdrawal of state economic intervention. A crucial difference in this regard relates to the political situation at the time the withdrawal of the State: authoritarian in Mexico and in Chile, , democratic in Brazil and Argentina.

Facing the 1982 crisis, the Mexican State opened the economy to productive as well as to financial capital, privatized its enterprises, abandoned subsidies to industry and to the *ejidos*, decentralized education and health services and shifted its social policy towards assistance (Barba, 2007 and Valencia Lomelí, 2008). It was able to do so without social or political resistance as it had preserved the authoritarian structure of the regime; it had succeeded in only liberalizing the electoral process while continuing to control popular organizations. According to the new market logic, the State was set to become a regulatory instance, nonetheless, the manner in which it proceeded with the privatizations of its enterprises and the way it conceived the retreat from economy weakened its regulatory capacity considerably. This is why the Mexican economic structure is plagued by monopolies and oligopolies that have formed in several areas such as telephone, banking, media, the cement industry, commercial distribution, etc.

The case of Brazil, as I mentioned is very different, the economic structure of this country made the State less fragile during the crisis and led to less pressure to liberalize. On the other hand, the fact that the country democratized before the implementation of neoliberal policies, resulted in social



actors that oppose them; among them the trade unions and the PT; both crucial actors in the democratization process. The presence of a trade union movement backed by a disciplined political party (the Workers' Party) and a very active civil society opposing the Washington Consensus were crucial for this purpose. On the other hand, the fragmented and decentralized political system of Brazil failed to build a political coalition capable of implementing a radical dismantling of the interventionist State. In this manner, resistance and lack of cohesion in the implementation of neoliberal policies have meant that Brazil was the country in Latin America where the State has best preserved its powers in the neoliberal wave of the 1980s and 1990s.

The case of Chile resembles that of Argentina until the beginning of the eighties. Nevertheless, after the economic crisis of 1983-84, the government abandoned the purely monetarist approach that had dominated until that moment, and began to sustain an economy based on the industrialization of commodities (copper, agro-industry - fish, wine, dried fruits-, wood pulp) with a considerable support of the State (Rodrik, 2010). Forest products started to be subsidized under Pinochet, the government financed R&D for the development of the wine industry, while the salmon industry owes much to the support of *Fundación Chile*, a semi-public venture fund. The Pinochet government preserved the copper industry under control of the State (Gaitán and Boschi, 2009, 11). Under the governments of the *Concertación*, in the 90's, the State imposed controls on the entry of capital, in order to reduce the instability of portfolio capital. It also constituted a stabilization fund based on the resources obtained through copper exports, to be used in an anti-cyclical manner in times of crisis. In this way, the Chilean State implemented what some have characterized as an autonomous State with a cooperative relationship with the private sector (Silva, 2007, 79).

It is without any doubt that it was the Argentinian government that proceeded more radically to liberalize during the nineties. The Menem government achieved this with the complicity of part of the *peronist* unions, as the CGT divided upon the question of accepting the measures of Menem in exchange of keeping the control of the *obras sociales* (the health services); the dissidents from the CGT created the CTA, which reunited again with the CGT under Kirchner. This allowed that it be in this country where the withdrawal of the State from the economy went furthest (Boschi and Gaitán, 2008).

This is an important difference between Argentina and Chile; while the military preserved -the ownership of copper and the State company *Codelco*, the Argentinian government privatized the oil company: YPF. Contrary to Argentina, the Mexican state retained some strategic sectors such as electricity and oil, and it has not privatized water or postal services. The fact that the States in Mexico, Brazil and Chile have kept control of strategic economic sectors is not only important in terms of their ability to regulate the economy, but equally for state funding, especially with regard to foreign currency<sup>5</sup>. While in Brazil, Mexico and Chile, the state has the capacity to get foreign exchange from its own exports, Argentina does not. There are nevertheless important differences regarding how each of these countries deal with these resources: while in the case of Mexico PEMEX is mainly used as a source of revenue for the state budget, something that partly explains its low capacity to raise taxes and the "rentist" character of the Mexican State. The resources of copper in the case of Chile are partly saved in a stabilization fund. Brazil found oil reserves much later and in

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<sup>5</sup> This is one of the main reasons why the government of Cristina Kirchner nationalized the oil company in 2012.

much more complex extracting conditions, forcing *Petrobras* to become a very dynamic company, with financial "autarky".

There are also differences between the financial systems of these countries in terms both of State and national ownership. While Brazil retained a higher proportion of banks under state and national control, the Argentinian and Mexican process of denationalization of banks of the 1990s was radical, amounting to 61%. Although Mexico resisted mass privatization of banks until the crisis of 1994-95, thereafter national banks were bought by foreign banks to a 85%. In Brazil, the percentage of banks in foreign hands is only 49% (Boschi and Gaitán, 2008). In addition, the Brazilian federal government continues to have an instrument to promote development unparalleled in Latin America and the world, the BNDES. In fact the BNDES has expanded its operations since the beginning of the 2000s, it handles one fifth of all the finances of the Brazilian private sector and has become the first source of long term financing (Santana, 2011; Hochstetler and Montero, 2012). It is also a significant factor in making credit available during the global crisis as part of an aggressive anti-cyclical policy. From 1999 to 2009 its disbursements as percentage of GDP grew from 3% to an impressive 8.5%; although it has been reduced to 5.5% by 2011 (Hochstetler and Montero, 2012). Nevertheless, although the bank's increased action was intended to convert it in the main actor of a renewed industrial policy of the Brazilian government (about half of its investments are committed to industry), most of its loans are concentrated in a few large companies that have always dominated the Brazilian economy and to which the largest loan are allocated: *Petrobras*, *Vale*, *Electrobras*, etc. (Hochstetler and Montero, 2012).

In contrast the Argentinian BANADES was privatized in the 1980s and the Mexican development banks have dramatically reduced their intervention and limited their character. The Mexican State kept six development banks, the most important being *Bancomext* and *Nacional Financiera (Nafin)*. This latter was created in 1934 and was the most important Mexican bank of the ISI period. Measured in terms of assets, these two are the largest banks in Latin America; nonetheless their impact is reduced as their functions have been radically restricted. *Nafin* has reduced its role since the 1982 crisis, and intensified its withdrawal with the trade and financial opening of the 1990s. Credit operations for productive investment of *Nafin* were reduced by 70% between 1996 and 2004. It gives little credit to businesses and its resources are basically used as warranties for loans offered by commercial banks to small and medium enterprises. *Nafin* has also focused on "*factoraje*": paying the bills owed by suppliers or clients to small and medium enterprises in advance. Finally, it serves as an intermediary for the funds received by the Mexican government and international organizations for different economic and social programs (Manrique Campos, 2007, 111-113).

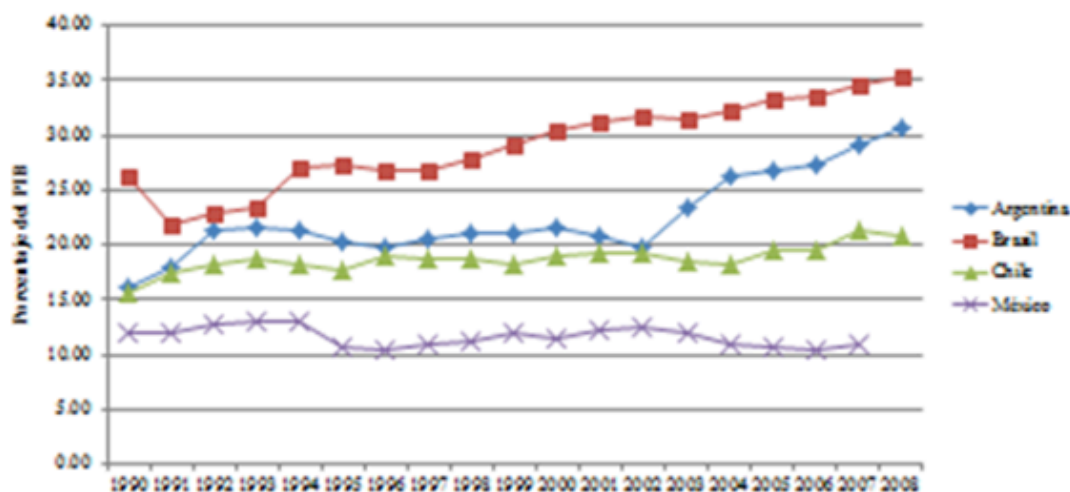
Moreover, in Argentina, Mexico and Chile, the governmental expertise that was consolidated during the years of public intervention in the economy was dismantled and the liberal reforms have been implemented by governmental staff that did not have an alternative project of the role of the State in a globalized economy. In Mexico, for example, the so called technocrats expelled the functionaries of the period of import substitution of all departments. In Argentina, the reforms were implemented through presidential decrees, in Mexico and Chile by authoritarian governments, without counterweight from social organizations or a developmental bureaucracy. In the case of Brazil, gradualism and relatively delayed reforms allowed it to preserve the core of technical and bureaucratic expertise, which was considerable, especially in the economic Ministries and in the development Bank, the BNDES (Evans, 1995:61 and Sikkink, 1988). Even when these functionaries

were converted into agents of privatization, they succeeded in protecting some of the institutions because they had a totalizing vision of state action. They either promoted less radical reforms and privatizations, or advanced with a more integrated perspective of what remained in the hands of the State and with the country's economic structure (Boschi and Gaitán, 2008).

Nonetheless, the situation has changed dramatically in Argentina after the 2001-2002 crisis. The government of Kirchner (2003-2007) and then that of Fernandez (2007-2011), have in many respects retraced the path; enhancing the intervention of the State in the economy. It has adopted a policy of managing its exchange rate so that the peso does not overvalue and reverse the limited process of re-industrialization that began after the 2001-2002 crisis, when the peso was strongly devalued and the country was cut from external loans and imports were drastically reduced (Wylde, 2010). The State has imposed, albeit at some moments in a very un-political manner, taxes on exports of agricultural products. It renationalized the pension funds that were based on capitalization and reestablished the pay as you go system in 2008.

The tax pressure is one of the clearest and most eloquent indicators of the capacity of intervention of the State on the economy. In figure 1 we can clearly see the difference between two groups of countries: Brazil - Argentina and Mexico – Chile. The fact that the taxing pressure of Chile has been increasing (5% in 20 years) while Mexico has stagnated (and in fact reduced) is an indicator of a relative change in the liberal paradigm that this country has achieved, while Mexico hasn't.

**Figure 1. Tax Pressure (including social security contributions). %/PIB**



Source: Elaborated with data from Becarria, Luis y Salvador Marconi, (editors), *Anuario estadístico de América Latina y el Caribe 2009*, Santiago, Naciones Unidas, 2010.

**Table 2: State Intervention**

Dimension	Brazil	Argentina	Chile	Mexico
<b>Productive Investment</b>	BNDES: 6% to 8% GDP per year	Limited	Limited	NAFIN: 2.5% of GDP per year
<b>Countercyclical policy</b>	Strong	Strong	Strong	Pro-cyclical
<b>Central Bank independence</b>	No	No	Yes	Yes
<b>Regulation</b>	High	High	Limited	Captured State
<b>Industrial policy</b>	Yes-limited	Yes-limited	None	None
<b>Tolerance of moderate inflation</b>	Yes	Yes	No	No
<b>Fiscal pressure</b>	High	High	Low	Low
<b>Character</b>	Neo-developmentist	Neo-developmentist	Liberal/subsidiary	Liberal/Minimal

## Unions, industrial relations and welfare regimes

Industrial and labor relations and welfare policies are crucial to define the diversities of capitalism (Hall and Soskice, 2001; Becker, 2011). In the more coherent types they are complementary to the other dimensions (Boyer, 2005, Amable, 2005, Bizberg and Théret, 2011, Bizberg, 2011) and their features to a large extent determine their character. While in liberal capitalism a residual welfare State and a weak labor organization are complementary to the manufacturing of products based on radical innovation which require flexibility of the labor market, in the Statist and corporatist-European capitalisms welfare and industrial relations are very extended, dependent on the labor situation of the individuals and that of the specific economic sectors, conditions complementary to manufacturing based on incremental innovation and high qualification. In the social-democratic capitalism, industrial relations are both centralized but flexible, while the welfare regime is universal and generous; thus complementary to competitiveness and innovations based on solving social and economic problems. (Boyer, 2005, 529-32). What is absolutely clear is that coordination between the State and labor as in Germany or coordination between actors as in the social democratic countries of Northern Europe, as well as a more generous and decommodifying (Esping Andersen, 1990) welfare State depend on the strength of social actors, and in the first place labor. The strength and autonomy of labor are crucial to understand both the character of the industrial relations and of the welfare regime.

In the case of the countries of Latin America, labor and welfare policy either contribute to the economic orientation led by the internal market through a wage led growth (Brazil and Argentina) or merely compensate market faults in a market-oriented economy based on foreign capital (Mexico and Chile). And, in return, the situation of labor in each country is dependent on its relation with democratization and the implementation of liberal measures in recent history. In the case of both Brazil and Argentina, what explains the presence and strength of labor in both countries is the central role labor played in the transitions to democracy in both countries and the relation of the present governments to labor: the PT in the case of Brazil and the *peronista* government of Kirchner and Fernández de Kirchner in Argentina. In the case of Mexico and Chile, although labor was significant at some point of democratization, it was effectively demobilized by the incumbent PRI governments in the case of Mexico in the late seventies and of the Chilean political opposition to the military government in the wake of the referendum they won against Pinochet at the end of the eighties.

The periodicity of the political and the economic transition was also of central importance. In the case of Brazil and Argentina, liberalization of the economy occurred after democratization, which determined that it be less radical (although in the case of Argentina it was radicalized during the *peronista* government of Menem with the support of part of the labor movement) and less offensive against labor organization and the welfare regime. In the case of both Mexico and Chile, liberalization of the economy and thus flexibilisation of the industrial relations system, weakening of unions and dismantling of the welfare State was accomplished without any resistance of the social and political opposition because undergone under the authoritarian government; that is before the democratization process.

Mexico and Chile are the two countries where industrial relations have been deregulated more radically. Negotiations in both countries occur at the local level, by enterprise and the labor movement is at present very atomized. In Chile unions were traditionally more powerful at the political level, through the Socialist Party, and collective negotiations took place at the branch level. In the labor law of 1979 what was achieved through harsh repression during the first years of the dictatorship was given legal form. The law imposed the prohibition of political party involvement in union affairs, banned strikes and shifted collective negotiations from the branch to the local-plant level. The law also imposed very flexible industrial relations; where workers could be fired without any reason and with a minimal compensation and where employers could substitute striking workers. Although after democratization the number of unions has increased considerably, they are smaller and union rates are relatively low: 15.3% (Zapata, 1992 and Barrera, 1994) .

In the case of Mexico, the corporatist relationship that existed since the thirties has almost completely disappeared. In contrast to Chile, where deregulation of the industrial relations was achieved with the disappearance or murder of hundreds of union leaders and a change in legislation, in Mexico it was accomplished under practically the same law; in many cases by circumventing it. During the eighties and nineties the internal relations of the enterprises were radically flexibilized; while in the past, contracting a worker was achieved through the union, at the present time it is rather the employers who have this right, mostly without any negotiation. The changes in the productive process and the organization of labor are now decided almost exclusively by the employers. While some of the workers in the most strategic and dynamic sectors (oil, education, health, telephone, automobile) still have the protection of unions, in the vast majority of the workplaces (*maquiladora* industries, construction, commerce, services, small and medium

enterprises, the spare part auto-industry) there are no unions or they only exist on paper (called protection unions). The fact that the legislation has not changed in Mexico has been a constant complaint on the part of the business sector that fear a change of the conditions if a leftist party comes into power. Nevertheless, this situation has allowed the technocratic PRI and *panista* governments (since 2000) to continue imposing State control over unions through a series of mechanisms: negotiation with the traditional unions that continue being “loyal” to government in exchange of privileges, the faculty of the Ministry of Labor to register unions, declare strikes legal or illegal and set salaries, as well as the approval of direct control of the unions by the employers through “protection” unions. The continued control of the labor unions by way of the instruments (but devoid of the corporatist relation of exchange) of the corporatist arrangement was totally functional to this purpose (Bensusan, 2008). In fact, Mexico’s union density descended from around 20% in the seventies to 10.3 % in 2002 (Lawrence and Ishikawa, 2005, 157).

In Argentina, because trade unionism was more social as it controlled the health and pension benefits, and negotiated the general conditions of the workers at the branch level, and was less rooted in the particular plants, flexibility was implemented without much legislative change. In the 1990s, the Menem government tried to impose local level negotiations and wage increases linked to growth in productivity by decree. He also tried to “privatize” health services, the so called *Obras sociales* administered by the unions. Although flexibility passed, neither negotiations at the local level nor privatization of the health service went too far, partly due to negotiations between the main union confederation, the *peronista* CGT, that accepted flexibility (and other measures such as privatization of public enterprises) in exchange for preserving their control of the *Obras Sociales*. The unions were successful in resisting both the intent to decentralize union negotiations and to remove the *obras sociales* from the unions (Munck, 2004, 11). The fact that the Menem government had to negotiate with the unions paradoxically led to a very radical privatization program but concurrently to the preservation of the force of the unions, that have been re-activated in the present Kirchner and Fernandez governments (Etchemendy and Collier, 2007); in comparative terms the Argentinian labor organizations have been relatively well preserved, at around 37% of union density, the highest in Latin America. Nevertheless, the support given by unions to the Menem government did result in the division of the *peronista* union and a decrease of the proportion of the active working class that it organizes (Palomino, 2000).

With the arrival to the presidency of Nestor Kirchner in 2003, social and labor policies changed radically with respect to the Menem and Alfonsín years. The Argentinian government reaffirmed its alliance with the *peronist* unions, it named a renowned labor lawyer at the head of the Ministry of labor, that contrary to what was current during the Menem years began promoting branch level industrial negotiations rather than by enterprise (Palomino and Trajtemberg, 2006, 49). In addition, union action and increased inspection by the Ministry of Labor led to a substantial increase of registered labor in contrast to the previous tendency to subcontracting and informalization; the coverage of collective bargaining went from 1.6 million workers in 2003 to 3.5 million in 2006. The government also raised minimum salaries and worked to reduce the gap between low and high salaries and increased the resources of the pension funds; all of this a result of higher salaries and of a larger extension of coverage (Ibid., 52-5) According to some analysts, since the year 2003, and again with measures such as the renationalization of the pension funds in 2008 in the midst of the more recent crisis, there occurred a turning point where the ancient socio-economic mode based on the external market, labor flexibilization and welfare system privatization was abandoned, in favor of

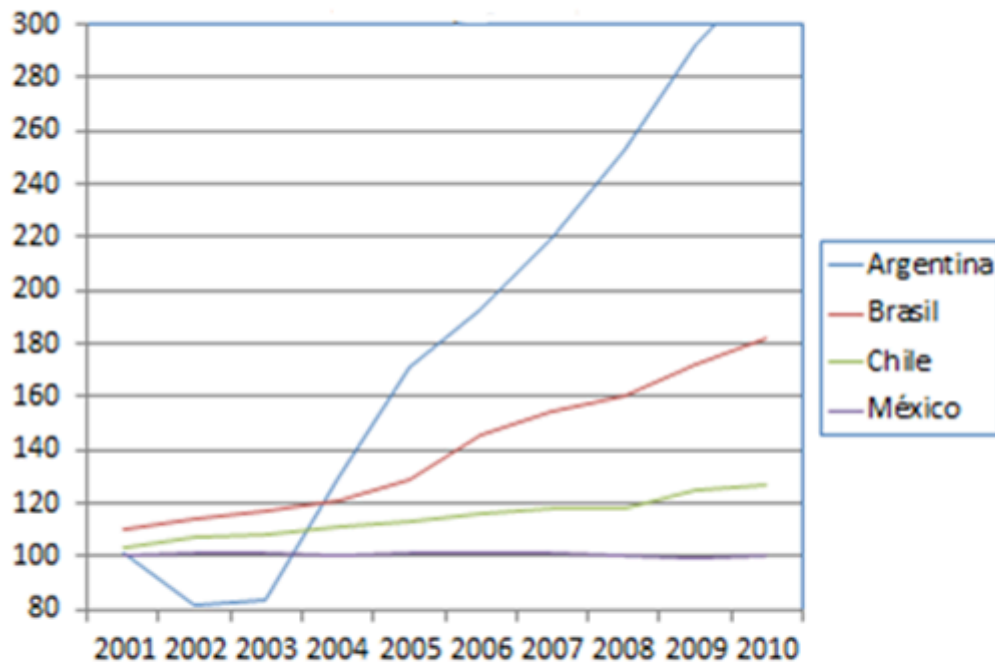
a development mode that pretends to equilibrate the external and the internal market and that articulates economic and social policies in order to develop the latter (Novick, Lengyel, Sarabia, 2009, 272).

Although, as in the rest of the continent, industrial relations have been flexibilized in Brazil, unionism has managed to retain an important degree of autonomy and capacity of action. This is partly due to the fact that the labor movement in Brazil was both a central actor in the democratization process and in the discussions leading to the writing of the 1988 Constitution, but also because it never lost its character as an interlocutor with the successive governments, even with the more liberal ones. During the presidency of Cardoso, the government promoted negotiations between employers and labor (the tripartite *Cámaras sectoriais*) in order to set conditions for the modernization and increased production in several branches of the economy. More recently, under the presidency of the PT with Lula, a party with ample trade union bases, the government has implemented a number of negotiating institutions: labor participated in the negotiations of the labor law and in the tripartite Social-Economic Council. Since the eighties, unions have managed to impose local representation, through delegates, in some of the largest companies. They also managed to unionize previously non-organized sectors such as the peasants (Bizberg, 2004). In fact, although it is true that unions are smaller, the total number of unions has increased considerably; trade union density is quite high in comparison with that of the rest of Latin America, 17.3% in 2001 (Lawrence and Ishikawa, 2005, 157).

What is crucial in this discussion regarding labor policy is that in Brazil and Argentina there is a relative coordination/pressure on the part of an active labor union movement that is complementary to an internal market oriented economy, while in the case of Mexico and Chile labor weakness, low union density and atomization are complementary to an economy based on external competitiveness: in the case of Chile this implies decentralized negotiations that insure wage increases by enterprise that depend on local conditions and that do not go beyond productivity, (Miotti, Quenan and Torija, 2012), in Mexico an economy based on wage repression in order to attract foreign capital in a subcontracting scheme.

This can be clearly seen in the contrasting manner in which real minimum salary has been evolving in each of these countries (Figure 2). During the last four years there has been a significant increase of minimum salaries in Brazil and Argentina that not only served to close the gap between the best and worst paid workers and reduce inequality, but as an economic policy tending to expand the internal market. One has to consider that minimum wage increases impact pensions, unemployment benefits, contributions, etc., as many of these are calculated on this basis. In February 2009 the minimum salary in Brazil was almost double that of 2000 in constant terms (ILO, 2009). In contrast, in both Chile and Mexico minimum salaries have been held under control, with the important difference that in Chile they are constantly above inflation, while in Mexico in many years there has been a loss of purchasing power.

**Figure 2. Evolution of Real minimum salary base year: 2000.**



Source: Elaborated with data from ILO, Panorama Laboral 2011, Lima: OIT / Oficina Regional para América Latina y el Caribe, 2011. 144 p.

Another component of industrial relations that affects growth of the internal market is labor inspection and collective negotiations; both have an impact on the formalization of the labor market and the level of wages. Whereas in Mexico there has been no advances in this respect, informalization has been growing as well as the “protection” unions that do not hold collective negotiations; the effect on salaries, both minimum as well as average has been negative. Chile has been a success in formalization of workers; the informal sector had been reduced to around 22% as a result of economic growth and work inspection, rather than collective bargaining, while the other three countries are around 45% in 2003 (Quenan and Velut, 2011: 52); although some authors consider that it has been done at the expense of lowering considerably the conditions of formal jobs (Bensusan, 2008). In the cases of both Brazil and Argentina (since 2004) there has been a very consistent effort in both respects, as a result there has been an important expansion of formalization of employment (ILO, 2009, Dedecca, 2010, Bensusan, 2010).

Welfare policy is the result of a social contract between labor and the State and/or employers, which has a short term impact on the economy through pensions, unemployment compensations, health investment and expenditure, and a medium and long term impact through productivity growth. Brazil and Argentina (since 2003) have been expanding their welfare regime, while in both Chile and Mexico it has shifted towards assistance.

It has been in Chile where the welfare regime has been most profoundly modified; in fact, it is the only country where we can consider the old system to have been dismantled. Under Pinochet the



inclusive pension system was privatized; it was totally converted into a capitalization scheme. The military also partly privatized health and reoriented social policy towards a focalized assistance scheme. The pension system passed from a “pay as you go” to an individual capitalization scheme and health services were decentralized to the municipal level and workers started being obliged to pay for their health insurance. Although the democratic governments accepted the economic model adopted by the dictatorship, as it constituted the base of a consensus that had permitted a smooth transition to democracy, they somewhat modified the labor relations system and adjusted social policies. They nevertheless preserved the liberal character of both the welfare regime and the industrial relations system. They extended health coverage and established safeguards for workers who did not accumulate enough to get a decent pension. The Lagos government instituted a minimum salary pension for those workers that did not arrive to this level through capitalization. On the other hand, as the private ISAPRES only covered 16% of the population and were not treating many of the diseases common to Chileans, the two last governments set up standards to include them and extended public health services to cover 70 % of the population (Mesa-Lago, C., 2009, 13). In the year 2008 the government of Bachelet implemented a Welfare Reform that included the compulsory affiliation to an independent workers health system by 2016<sup>6</sup> and the universalization of a non-contributive pension for the poor. It also flexibilized access of the old to contributive pensions (Mesa-Lago, 2009, 15-6). Although Chile has surely not abandoned its economic model oriented towards the external market and its liberal character, where economic rationality primes over the social one, it has certainly corrected the most unjust elements of the welfare reforms of the dictatorship (Riesco, 2009).

Nevertheless, this coverage of the majority of the population is achieved in quite paradoxical conditions, which show the limits of the reforms of the democratic governments. In fact, the public sector ends up subsidizing the private one: while the private ISAPREs insure mainly the young and higher revenues individuals, 85% of the insured in this system are between 15 and 59 years old, and only 3% are over 60, at the public FONASA 54% of the insured are between 20 and 60 years old and 18% over 60; this obviously means that a significant percentage of those in the ISAPREs are expelled from the system when they grow older and are more prone to be sick (Ministerio de Salud de Chile, 2010: 172). In some cases individuals are so sick that they have to incur in such a costly treatment they cannot afford the copayment in the private sector, so they are obliged to migrate to the public one.

It is also necessary to mention that it has done almost nothing to better the situation of the educational system that led to the first social crisis encountered by the Bachelet presidency and that has literally exploded at present. Something comprehensible when one notes that Chile spends only 0.5% of the PIB in education, one of the lowest in the world, and that university fees represent 41% of per capita GDP, one of the highest in the world (Koschützke, 2012: 20)

The welfare regime in Mexico was closely linked to the needs of the PRI; it was the way in which the State exchanged benefits for control of the social organizations in a corporatist scheme. Since the arrival of the “technocrats” to government and the distancing of the State from these organizations, the Welfare State has been evolving towards a more universal, albeit minimalist scheme. Since the mid 90’s social programs have decidedly shifted to assistance (Valencia Lomelí, 2008). The main

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<sup>6</sup> In contrast, in Mexico the Seguro Popular is voluntary.

social program *Oportunidades* focalizes on the poorest, including at present time 5,800,000 families. It is complemented by the *Seguro Popular*, a decentralized health program run by the local States and financed by them and by the federation. This program pretends to extend health coverage to the whole of the population that is not insured by the traditional public systems (IMSS and ISSSTE), but it has been incapable of inducing the great majority of the informal workers that would have to contribute (an amount that varies according to their resources) in order to affiliate. According to the OCDE, the *Seguro Popular* has enlarged health coverage to close 80% of the population, although, expenditure and health infrastructure has not been increased correspondingly (Bizberg and Martin, 2012). In fact, according to the ECLAC, in the year 2000 there were 0.8 beds and in 2010 0.7 beds per 1000 inhabitants; in Brazil there were 2.5 in 2005, in Argentina 2.1 in 2010 and in Chile 2.3 (ECLAC, 2011). On the other hand the percentage of health expenditure that has to be financed by the patients themselves has been reduced rather marginally from 51.9% to 49% (Reforma; 28/08/12: 2); in contrast to around 32% in Brazil (Becerril-Montekio, 2011).

During the first “technocratic” government (1988-1994), the resources for the assistance programs came from the privatizations of the State enterprises. Since then the government has had to proceed to the dismantling of the corporatist welfare system in order to finance them. It thus transformed the “pay as you go” pension system of the private sector workers into an individual capitalization system in 1995 and that of the public sector workers in 2007, copying a Chilean model that was already being questioned in 1995.

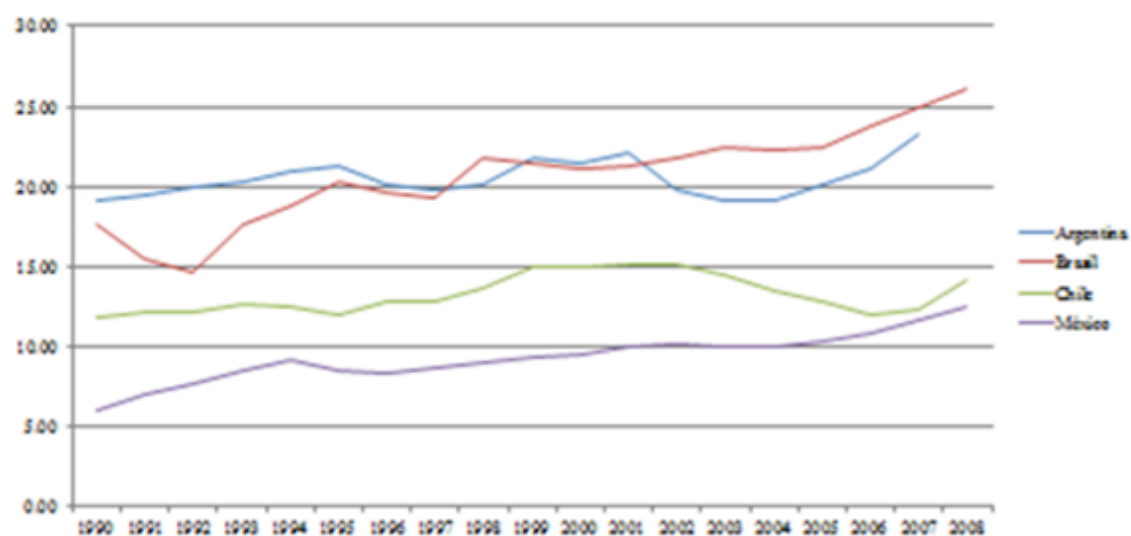
Brazil and Argentina (since 2003) stand in sharp contrast to both of these cases in that the welfare regime was not radically modified, especially the case of Brazil. The fact that labor has been a significant actor in this country and that since the year 2003 the PT, a party that has roots in the trade union movement, notably the CUT, has not only signified that unions have been convened to discuss issues concerning labor and welfare policies, but that their presence and pressure has obliged the government to extend social policy. In fact, not only has Brazil not reduced its welfare regime but it has been advancing towards universalisation in the last decade. The Brazilian regime was centralized by the military in 1967 in order to extort its control from the trade unions. In this way, the welfare regime became less corporatist, thus relatively more universalistic, albeit minimalist and clientelistic. During the nineties, Brazil did not reduce spending in health and education as most other countries in Latin America did (Lautier, B., 2007, 53). It did not abandon the “pay as you go” pension system or even institute a mixed one. In fact, the 1988 Constitution instituted through a process with an active participation of civic organizations, defined as one of its main goals the universalization of the Welfare state, something that has pressed the successive governments to expand social policies. This was especially true in the case of health with the creation of the SUS (*Sistema Unificado de Salud*). This system, based on the model of the British National Health Service, extended the offer of free health services very rapidly: in 2003 79% of the population was using these health services regularly and it financed 57% of the total health acts, 26% were at least partially financed by private plans and 15% by the patient himself. Concerning hospitalization, the SUS financed 68% of the acts and the private plans 24% (Lautier, 2007, 56-7). The most important assistance program, *Bolsa Familia*, was expanded both in terms of resources and coverage, and in 2009 reached almost 50 million people (Dowbor, L., 2009, 194). In addition, non-contributive pensions to the rural workers were expanded: since 1991 12.8 million people get a minimum salary. Another social assistance program, called the BPC (*Benefício de Prestação Continuada*), covers about 2.7 million old or incapacitated individuals over 65 years which live in a home that has a revenue

lower than one fourth of a minimum salary, (Lautier, 2007, 60-2). Finally, Brazil is the first important country in the world to have instituted (in 2004) a basic revenue of citizenship, called *Renda Básica de Cidadania* that was supposed to cover all Brazilians by 2008 and substitute all other assistance programs and minimum pensions, but has not yet been implemented (Lautier, 2007, 54).

In Argentina, both Alfonsín and Menem failed to retrieve the *obras sociales* from the unions and concentrate them in the hands of the State. Although the Menem government did succeed in imposing a private pillar to the pension system and weaken the unions with its economic policies; they managed to preserve the control the *obras sociales*. After the 2001 crisis, they regained force from their position as a crucial ally (together with the unemployed *piquetero* organizations) of the new Kirchner government. With the support of the *peronist* unions, this government implemented policies intended to extend the coverage of health services through the *obras sociales* of the retired workers and reduced the population without health services, reaching a coverage of 59% (Mesa-Lago, C., 2009, 15). Finally, in 2008 the Fernández government renationalized the pension funds that had been partially privatized during the Menem presidency. The government unified the system under a State controlled solidary regime, eliminating the segment of capitalization administered by the AFJP (Administradoras de Fondos de Jubilaciones) (CEPAL, 2010, 8-9).

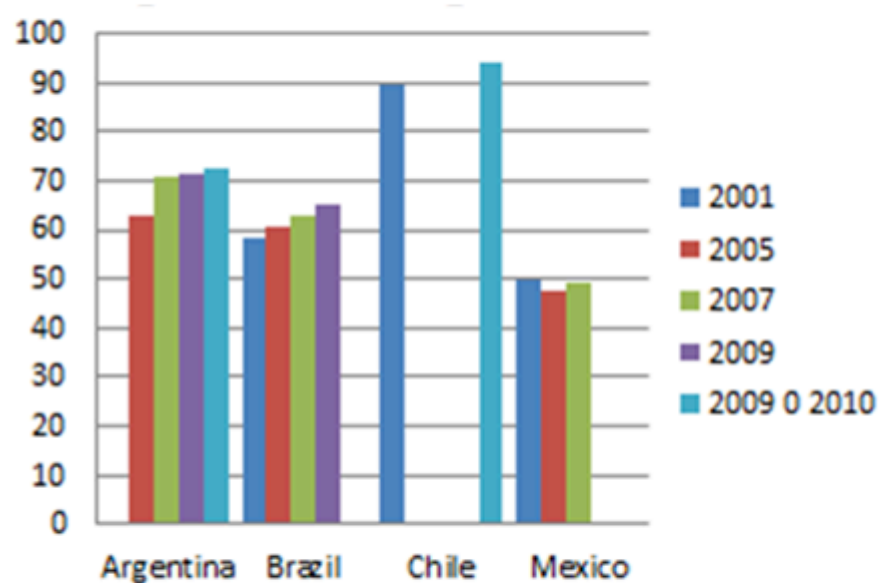
In Figure 3 we compare State expenditure in social programs. We can see how both Brazil and Argentina are on a much higher level than Chile and Mexico. In addition, while in Brazil social expenditure has been continuously growing since the 90's, Mexico started out at an extremely low level and continues spending less than half that of Brazil although it has almost doubled. The effects of these policies are clear in Figure 4, where we can see the different levels of social protection in the four countries. I have explained above the paradoxes of the high coverage of the Chilean case.

**Figure 3. Social expenditure. %/GDP**



Source: CEPAL, Comisión Económica para América Latina y el Caribe División de desarrollo Social. Base de datos sobre gasto social, (DE, 19 de mayo, 2010: <http://websie.eclac.cl/sisgen/ConsultaIntegrada.asp?idAplicacion=1&idTema=6&idioma=>)

**Figure 4. Health and/or social security coverage.  
Percentage of total workers.**



Source: Elaborated with data from ILO, Panorama Laboral 2011, Lima: OIT / Oficina Regional para América Latina y el Caribe, 2011. 144 p.

**Table 3. Industrial relations and welfare system**

<b>Dimension</b>	<b>Brazil</b>	<b>Argentina</b>	<b>Chile</b>	<b>Mexico</b>
<b>Union density, organization and pressure</b>	High	High	Low	Low
<b>State labor coordination</b>	Strong	Strong	Low	Low
<b>Wage policy</b>	Wage led growth	Wage led growth	Link between Productivity and wages	Wage repression
<b>Formalization</b>	Strong	Strong	Strong/low requisites	Low
<b>Social policy</b>	Tendency to Universalization/ redistributive	Tendency to Universalization/ redistributive	State coverage subsidiary to private social security/ assistance	Focalized/ Assistance
<b>Character</b>	Internal market growth/ redistributive	Internal market growth	Low salaries and charges	Competitive salaries and charges

## Concluding remarks: Is there a diversity of capitalisms in Latin America?

We have constructed three types of capitalism in Latin America on the basis of an analytical formalization of the orientation of the economy, State-economy relations and the coordination/pressure of the labor movement as defined by the industrial relations system and the welfare State of the four countries we have analyzed in this article. In terms of industrial relations and the welfare regime it is clear that Mexico and Chile have great similarities. In both workers organizations are weak, there is no coordination between them and the State or the entrepreneurs; as a result wage and labor policy are decentralized and tend to be contained. In the case of Mexico this has resulted in outward wage repression leading to low wages that benefit the subcontracting model, while in the case of Chile wages are set in atomized contractual negotiations and end up being closely linked to productivity; the fact that the economy of the latter has grown almost continuously for the last twenty years and that productivity has increased significantly, has resulted in a slow but continuous growth of salaries. Mexico has a restrictive labor policy because the cost of labor is a determinant component of its exports and a crucial element to attract foreign investment in a subcontracting mode. Chile is mostly concerned by the cost of the total product it exports, which

are mainly commodities, with high capital content, something that can be regulated by an exchange rate policy that depends on the regulation of the entry of foreign capital; an area where Chilean governments have excelled since they imposed restrictions on the access of short term capital in the 90's and beginning of the 2000, and that is at present managed through the administration of foreign reserves oriented to maintain a competitive exchange rate. Mexico has a smaller margin in this respect: in the first place exchange rate policies are quite ineffectual when exports depend so highly on imports, in the second place it cannot afford to control foreign investment as it needs it both to equilibrate its trade deficit and to sustain a strong currency in order to attract fresh investments, finally labor is very sensitive to exchange rate hikes. The obvious counter effects of this situation is that the maintaining of an overvalued local currency makes imports cheaper, turns against local producers and is responsible for the slow growth of the Mexican economy (Ibarra, 2008).

In addition to the flexible labor policies described above, a liberal social policy is complementary to the capitalist modes of Mexico and Chile, as they both depend almost totally on the international competitiveness of their economies. In both countries the Welfare regime is almost purely focalized, assistance oriented and led by market logic (in Chile this logic is put to its limits as the State subsidizes a privatized social security and health system); that totally excludes decommodification and redistribution. Policies on wages, labor conditions and social policy are considered almost exclusively as economic costs and depend on a logic defined on the basis of the external competitiveness of both the Chilean and the Mexican economy.

In contrast, in Brazil and Argentina, union density is high, labor is quite autonomous and has considerable power. This situation is due both to their central role in the process of democratization and because the incumbent governments have either allied with them or have chosen them as social partners (Brazil is governed by the PT since 2002 and the Kirchner government in Argentina re-affirmed its alliance with the *peronist* CGT at the wake of the grave economic and political crisis of 2001-2001). The strength of labor and its relation to government in these countries has resulted in a departure from the previous labor and assistance policies and in a tendency to universalize the welfare State. On the other hand, the expansive wage and social policies are complementary to the orientation of the economy towards the internal market.

The presence of a relatively strong labor movement and coordination between unions and the State has in its turn supported a stronger State intervention in the economy; which defines the second characteristic determining different types of capitalism in Latin America. In contrast, in the countries where social actors are weak, the State is also weak; to a great measure this is the result of the fact that the State in most Latin American countries was built upon the social actors, especially labor. While in both Mexico and Chile the State has retreated from intervening in the economy, in Brazil the State actively promotes certain productive activities through its development bank (BNDES) and public policies. After the 2001-2002 crisis, Argentina shifted from a very open economy and a non-intervening State to a model akin to that of Brazil. It is not clear if this model will survive an eventual change of government as it has already done in Brazil (from Cardoso to Lula) due to its dependence on the leadership of its two last presidents in a very de-structured political system (Aziz, A., 2011). Although both State intervention and coordination between the State and labor and the entrepreneurs are far from what exists in the types of capitalism of some of the continental European countries, they are both equally complementary with the general orientation of the economy and of its mode of articulation to the international economy.

Finally, the fact that the economies of Mexico and Chile are led by the external market and accompanied by a retreat of the State while those of Brazil and Argentina are led by the internal market and the active intervention of the State define the character of the articulation to the international economy. Thus while in Brazil and Argentina the State engages policies to preserve the internal market from the fluctuations of the international economy by temporarily controlling short term-portfolio investment, imposing transitory controls on imports and trying to maintain the exchange rate at a level that does not affect its industry (although they do not always succeed), in Mexico the State does not impose any of these limits, both because it is contrary to the economic project of the succeeding governments since the mid 80's and because the rules of NAFTA prohibit them. In Mexico, the international (basically with the United States, although not exclusively) articulation of the productive basis of the Mexican economy requires a labor policy that exerts a restrictive control on salaries and a social policy defined as a safety net; although there are sectors of the economy that have high salaries, the dominant economic mode requires low salaries as it is based on the attraction of foreign investments on productive branches with a high aggregate of labor; thus salaries are more important as an element of competitiveness of an export economy than as a component of the internal market. The only possibility of escaping this situation would be vertical integration of the industry through the incorporation of national providers to the export industry, something that the last four governments have considered would happen spontaneously through the market. We have thus considered that while Brazil (and Argentina) seems to be on a road to consolidate a capitalism that is State oriented and led by the internal market, Mexico has constructed a disarticulated or rather, externally articulated, international subcontracting capitalism.

Although in what respects the external orientation of the economy and its labor and social policies Chile has been following a very similar path that Mexico, in contrast to this latter, the State has applied a number of measures concerning its relation to the international economy, albeit in a defensive rather than in a proactive manner. Although this country has followed an export driven mode of development since the military coup it has diverted at some moments from the purely liberal market economies. During the mid-eighties, after the liberal-monetarist model collapsed, the State began to increase its intervention in the economy. Until the nineties, this economic mode was complemented by a radical liberal-residual social model in both its labor and its welfare policies, epitomized by the total privatization of the pension system, the intent to privatize health services and a very restrictive labor law. Although the democratic governments did not modify the economic mode they have adjusted the labor and social policies in order to make them less unjust without modifying their liberal character. The Chilean democratic governments modified the liberal welfare policies to compensate for the loopholes created by the reforms of the eighties. On the other hand, the Chilean governments have implemented a defensive policy towards the international economy, have at some point regulated the access of speculative capital, imposed measures to maintain a competitive exchange and built a reserve of foreign currency from copper exports in order to implement counter-cyclical policies. Finally, the country has signed numerous free trade agreements in order to diversify its exports and not depend on one or a few countries. In contrast to Brazil that has a proactive policy and is trying to impose its own mode of integration to the international economy, in contrast to the Mexican mode of dependent and passive integration to the international economy and an accrued dependence on one single market, Chile seems to be defending an integration of its economy to the world market that we have called State regulated external led



capitalism<sup>7</sup>. Finally both countries differ in size. Whereas a small country, of 17 million inhabitants can develop exclusively on the basis of exports (like the small European countries), a big country like Mexico, with more that 110 million inhabitants, simply cannot, it is obliged to depend on its internal market for growth. Nonetheless, even Chile will not be able to increase wealth considerably and redistribute it (as the social democratic European countries do) if it does not add value to what it exports and continues exporting natural resources with low value added.

In the case of Argentina, the 2001 devaluation generated a change in the relative prices of its manufacturing sectors that together with the increased external demand for the commodities it exports, have sensibly eased the external foreign currency restrictions it has traditionally faced and promoted import substitution. On the other hand, since 2003, the Kirchner and Fernandez governments have effectively reoriented the social and labor policies both in response to increased social pressure (the *piqueteros* and the *peronista* labor unions) and to their will to stimulate re-industrialization. Although according to some analysts this has marked a significant transformation of the pattern of development, Boyer and others consider that Argentina has not been able to substantially modify its investment and productive structure, its mode of accumulation, which continues to be based on natural resources (Fernandez Bugna and Porta, 2008, 223). Thus, even though the last two governments have been decidedly trying to impose an internal market led growth, Argentina is still struggling between two different capitalist modes, as it has traditionally done.

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<sup>7</sup> The intervention of the State in the case of Chile has lead to important discrepancies. Most authors consider that the State is basically absent in this country, nevertheless I consider, with other authors, Rodrik, 2010, Miotti, E.L., C. Quenan and E. Torija, 2012 and Boyer, 2009 that the State has a stronger presence in Chile that is generally acknowledged.

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