CHAPTER 2

Four Types of Capitalism in Latin America

2.1 Dimensions of the Analysis and Definitions

From what we have discussed in the first chapter of this book, it is clear that we consider that it is possible and useful to construct a typology of the countries of Latin America that transcends a general theory for development, a unique type of capitalism for the whole of Latin America, as well as a particularistic view that considers the uniqueness of each case. In order to construct our typology, we discuss the cases of nine countries of the continent on the basis of six analytical dimensions:

1. **The accumulation regime** is probably the most important concept of the regulation approach. It is defined as the totality of regularities through which the accumulation of capital assures its progression (Boyer 2015: 61). In the first place, every type or form of capitalism is characterized by a specific **mode of accumulation**. This mode includes the productive structure of the country: what the country produces (in the Latin American case commodities or manufactured products), how it produces, and the manner in which it redistributes wealth between profits and wages.

   The manner in which a country's economy grows can be either extensive or intensive: when growth is obtained through the extension of production without a significant change in production techniques, accumulation is extensive. When a permanent transformation of the organization of production and an increase in

I. Bizberg, *Diversity of Capitalisms in Latin America*,
https://doi.org/10.1007/978-3-319-95537-7_2

productivity attained, we are in face of an intensive mode of accumulation. The second feature of the accumulation regime is the mode of consumption; it can be strongly or weakly related to production. It is loosely related when consumption is basically assured by an agricultural sector, characterized by a small mercantile production and rentier relations. It is strongly related to Fordism, when it includes the workers themselves: as the salaried sector grows, the way of life of workers is transformed and is increasingly dependent on the production of the capitalist sector (Boyer 2015: 61–62).

2. **The form of integration to the world economy** is fundamental in order to analyze the peripheral or dependent economies, as they are in one way or another dependent on the international market. Nonetheless, there are differences: they can be very dependent when most of the tradable products that a country produces and exports are determined by international demand, such as commodities, like Peru, Chile, Bolivia, and Venezuela. They can also be radically dependent when it is an economy that produces manufactures that depend on the activity of international companies that use the country as an outsourcing platform, like Mexico (but also of some countries of Central and Eastern Europe; Drahokoupil and Myant 2015; Nölke and Vliegenthart 2009). Finally, they can be dependent on external financial resources and partially on the export of commodities, but have a significant internal market, like Brazil. On the other hand, their relation to the world economy can be more or less passive, defensive, or proactive.
3. **The State** In the institutionalist perspective, the State is not considered to be an actor, or in any case, it is a subsidiary one. It is merely another institution or the arena where the conflict between different social actors occurs. A perspective derived from a conception of an economy that functions based upon a self-regulating market: the State and politics, in general, are contrary to the efficient operation of the market if they intervene decidedly; they are efficient when they deal only with the imperfections of the market. In this perspective, the State is considered as an institution: a more or less solid and coherent one that allows for the correct functioning of the market, ensuring the rule of law: property rights, the enforcing of the contracts, the penalties for non-compliance, etc. (North et al. 2002).

On the other hand, the neo-institutionalist school thinks the State as neutral, when the State is an actor that responds to certain interests. The State is not a pure Weberian bureaucratic institution that responds to formal rules and represents the interests of the society as a whole. The State responds partly to its own interests, and because it is also an arena where social conflicts between the interest of distinct social sectors and classes are represented, it responds to the interest and projects of certain social coalitions that have gained more power inside or upon the State. According to Evans, the State should be defined by its strength (its internal cohesion, its capacity to impose its interests and projects on other actors), its autonomy (both of which define its Weberian character as a rational bureaucracy), and its capacity to act as an embedded State (Evans 1995).

The RT considers the State as an actor, and its role goes far beyond the mere regulatory function and the imposition of the rule of law. In addition, it is not a neutral actor, and it represents certain interests and acts in their favor (Amable 2005). It may be a central actor in a coalition, which can lead a country to develop in one or another direction. It can be a significant actor to insure the development of capitalism as it happened in all the countries that developed after the Second World War (Bresser-Pereira 2017; Evans 1995; Haggard 1990). In addition, these interests are not static, and they can be modified by the pressure of the popular classes or by other entrepreneurial sectors that are not being benefited by its action.

It can, to be sure, renounce to be an actor and become a mere agent of the international forces (Beck 2002); it can be the agent of a specific sector of society, or of a dominant coalition (Poulantzas, Amable, and Boyer); or it can try to compromise between two or more sectors of society and be an incoherent actor (Théret 1995).

4. **Actors and coalitions of actors** give rise to a dominant coalition that lies behind one or another mode of accumulation. After the first wave of industrialization of Great Britain, most countries achieved industrialization by means of a developmentalist alliance between the State and the urban bourgeoisie, in alliance with the middle classes and the workers. At the present time, only if the State is able to build an ample social coalition, consisting of

financial capital, industrialists, middle classes, and workers, it can become a significant actor for the development of capitalism (as in Bismarckian Germany, Japan, Korea, Taiwan, and present-day China) (Bresser-Pereira 2017).

In Latin America, Cardoso and Faletto signaled the importance of this alliance during the period of import substitution. Hall and Soskice, Amable, and Boyer have indicated the prominence of this alliance in all but liberal capitalisms. They all emphasize the relationship between the entrepreneurs, labor and the State, and the position of the traditional agrarian interests, and more recently, the financial sector, as crucial to define the type of capitalism. In the case of peripheral or dependent capitalisms, the presence of foreign capital and multinationals is crucial (Bizberg and Théret 2015; Marques Pereira and Bruno 2015; Schneider 2013).

5. The effect of the action of civil society on the economic regime is mediated by **the political system**. According to Tilly, the political system can be more or less responsive to social pressures. Similarly, for Théret, from the perspective of more or less decentered and more or less federal states, we can infer that some forms of the State are more open to the civil society than others. On the other hand, we can typify different political regimes (in this case, we only take democracies into consideration) whether they are more or less institutionalized, more or less representative, more important for our purpose, if they are more or less determined by the action of civil society.
6. The interaction of the social actors that gives rise to the emergence of a dominant social coalition together with the form of the State and the type of political regime gave rise to different social compromises and to distinct social contracts which express themselves as a **wage relation** (Lechevalier 2011; Valencia Lomelí 2018). The latter is the manner in which the social actors have concurred to organize production and distribute wealth. There may be a social pact that excludes the workers and concentrates wealth—another where wealth is redistributed through salary hikes and social protection system. Fordism is a special compromise, in which the increase in wealth achieved through productivity gains is distributed in order to increase internal demand for the products manufactured by industry.

The wage relation constitutes a **socioeconomic regime** that is constituted by different relations between the labor market and the social protection systems. The wage relation does not refer exclusively to wages, but also to social protection (health, pensions, unemployment insurance, parental leave, etc.). It includes the action of the State, which intervenes actively in all types of economies (even in the most liberal ones, such as that of the USA) with Medicare, national security pensions. Labor markets can be more or less regulated, they may tend to more or less formalization of workers, with stronger or looser requirements for formalization. Wage policy can be expansive or restrictive (Brazil and Argentina versus Mexico), or strictly related to productivity gains. Finally, the social protection system may tend toward universalization (Brazil, Argentina, and Uruguay) or toward assistance (Mexico, Peru, and Chile).

In our previous analyses (Bizberg and Théret 2012; Bizberg 2015) as well as those of Boyer (2014), Théret (2015), Marques Pereira and Murillo (2015), and Fritz and Lavinas (2015), we found significant differences between Mexico and Brazil in their economic and monetary policies, social protection systems, and socioeconomic performance. On this basis, we formalized/stylized two economic types (Bizberg 2015):

1. The first one, a stylization of Mexico, is an ***international outsourcing capitalism*** that shares characteristics with the Central American countries and the Dominican Republic. It is a disarticulated form of capitalism that assembles imported spare parts that come from parent companies situated in the USA or other central countries. The production chain is disconnected from the rest of the national productive structure; there are few, if any, backward national linkages. It produces manufactures, which can be of relatively high technological content; however, as the process is mainly the assembly of spare parts, the aggregate value added is very low. The mode of accumulation is extensive, as productivity gains are low. The country is a platform for the last stage of the production process. It thus depends on low labor costs and high flexibility of the labor market, and the repression of internal demand. The mode of consumption is profit led. The model is totally dependent on the external market and on foreign investment.

The State is weak, and it is an agent of the market, having been more or less dismantled after having adopted the orthodox recipes of neoliberalism. The State has no intent in inducing a developmentalist industrial policy in order to upgrade the industry on the basis of national suppliers to the exporting enterprises; it considers that the market will do the job.
The sociopolitical conformation that favors this type of capitalism is one of the weak social actors, of a dominant coalition made up of financial capital, large domestic and international companies. The State structure is centralized and the political system has very low representativity, is a particracy.

The wage relation is based upon the repression of wages and labor costs, a flexible labor market, and large informal sector. The social protection system, mainly State financed, is basically assistentialist: a safety net that helps out the population that is unable to enter the labor market. In the specific case of Mexico, while the economy suffers from very low productivity growth, some of the exporting industries such as automobile, steel, electronics profit from an ample differential between productivity (at international standards) and wages (high by domestic standard but low by international ones) (Palma 2005). This model has resulted in an increase in poverty and inequality.

2. A second capitalist variety, a stylization of the mode of development that was followed by Brazil from the beginning of the years 2000 up to 2014,[1] is a **neo- or *socio-developmentalist***. This capitalistic form produces both commodities for the external market and manufactures for the internal one. It is a mode of accumulation that is based both on extensive and intensive production of commodities and on the intensive production of some manufactured products, steel, arms, planes, biofuels, among others. It is a capitalist form that depends on the external demand for commodities and the income of financial capital as well as internal market growth (Fig. 2.1).

   The State tries to equilibrate the external dependence of peripheral commodities producing economy, financial capital, and industrial production destined to both the external and the internal

[1] A mode that has its roots in past economic trajectories as we tried to show in an article (Bizberg and Théret 2012).

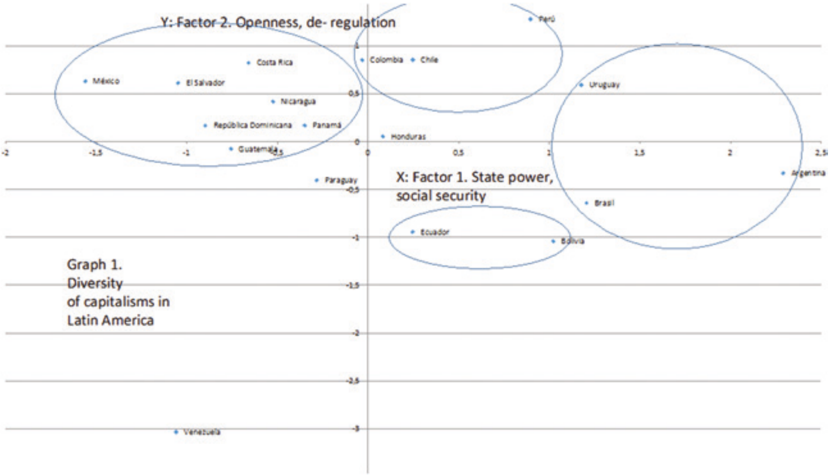

Fig. 2.1 Diversity of capitalisms in Latin America, cluster analysis (*Source* Own elaboration, with the collaboration of Jaime Ramirez Muñoz)

markets. The mode of consumption is also a mediation between capital and popular interests: attraction of foreign investment, support of industry, and increasing wages and a generous social protection system that serves both to popular consumption, the decrease in poverty and the growth of internal demand—a balance between a wage growth and a profit-led model.

The sociopolitical conformation upon which this type of capitalism is based is a strong, dense civil society that exerts pressure on the State to redistribute. The dominant social coalition includes the State arbitrating between the international and national capitals, financial interests, and the popular classes: the poor, the workers, and the low middle classes.

The social pact or the wage relation is characterized by expansive wage policies, incentives for collective negotiations and formalization, and an expanding social protection system oriented to universality. The result is the reduction in poverty, the growth of the vulnerable and middle sectors, and a reduction in inequality.

These two types do not comprise all the countries of Latin America, most notably those that depend almost totally on the production and export of commodities that are rentier economies, like most Andean countries. We thus knew that if we added other countries to the analysis, we would find new types of capitalism. As an auxiliary method to find these other types, we made use of a factorial analysis.[2] Based on the contrast between these two cases, I collected series of data (from the year 2000 to 2014) for all the countries of Latin America. I then chose those series of data that showed a clear difference between these two contrasting cases upon which I developed the first two modes of capitalism and excluded the rest. With these variables, I launched a factor analysis, with which I pretended to define the clusters of countries that were most similar to Brazil and Mexico, and find out if there were other ones that differed from these two. The first two variables (the most significant) of the factorial analysis defined the degree of openness of the economy and the degree of regulation (*y*-axis), and State intervention and social policies (*x*-axis).

This analysis resulted in Fig. 2.1, with four distinct clusters that helped me to define two additional types of capitalism for Latin America.

[2] Based on the qualitative information of two cases from a previous project, and inspired on the method of Harada and Tohyama, 2011, I collected a series of quantitative data on all the countries of Latin America (excluding Cuba and Haiti from the factorial analysis, because of lack of most of the data) and launched a factorial analysis with the information that I considered most significant because it distinguished more clearly my two contrasting cases: Brazil and Mexico. The factorial analysis that I present here does not pretend to be, as, for example, the one done by Combarnous, F. et Rougier, E. (eds.), an ex-ante method to find possible similarities between countries that then have to be explained post-facto, but rather as an auxiliary post-facto method. In this sense, it is an "informed" factorial analysis that emerges from a previous qualitative study where we have already defined the very deep differences that exist between two countries of Latin America: Brazil and Mexico. In fact, the factor analysis serves us to situate the other countries of Latin America with respect to these two countries. From a previous research (Bizberg 2015), I concluded that Brazil and Mexico were two extreme opposite types of capitalism in Latin America. With this qualitative assertion, of the totality of variables I had collected, I chose those where these differences were clearer, excluding the variables where very small differences between these two countries appeared. It is with these variables that I proceeded to elaborate a factorial analysis, with which I pretended to define the clusters of countries that were most similar to Brazil and Mexico, and find out if there were other ones that differed from these two. I used the factorial analysis as a manner of concentrating into two variables (opening/closing

Table 2.1 Matrix of rotated components

	Component			
	1	*2*	*3*	*4*
Exports of goods and services (% of GDP)*				0.831
Total exports (% of GDP)*	0.422	−0.467		0.414
Index of economic freedom**		0.884		
Ease of doing business*		0.869		
Health expenditure, public (% of GDP)*		0.504	0.487	
Total government revenue (w/social contributions (general government)***	0.788		0.482	
Regulation+		0.872		
Labor market regulation+		0.885		
Public expenditure on social security and prevention (% of GDP)***	0.648		0.494	
% Real minimum wage increase (1981–2000)***				0.833
% Real minimum wage increase (2001–2010)***	0.900			
Unionization rate (%)++	0.811			
% Non-formal employment rate*			−0.894	
% Pension coverage rate++			0.898	
% Collective bargaining coverage rate++	0.679		0.504	
Poverty reduction 2006–2012*	0.877			

Source Own elaboration, with the collaboration of Jaime Ramirez Muñoz
Extraction method: Principal Components Analysis
Rotation method: Varimax normalization with Kaiser
*World Bank Databank (2013); **Heritage Foundation (2012); ***CEPALSTAT (2013); +WEF. The Global Competitiveness Report 2013–14; ++ILO, ILOSTAT (2013) and Hayter and Stoevska, 2011, for Argentina and Brazil

of the economy and regulation/deregulation (y-axis); State capacity and social policies (x-axis)) a series of other variables which constitute the factorial that are listed in the table that accompanies the clusters, where the weight of each of the different variables is defined. It is thus an auxiliary method, informed by my previous research. It is auxiliary that supports my previous qualitative analysis of the other countries I consider in the paper and in my present research. It is not a parting point, but an intermediary one that permits me to reinforce my idea that, in addition to the clusters of countries that are similar to Brazil and Mexico, there are two other types of capitalism that we will then define as two rentier types: one more closed and redistributive and another more open and non-redistributive, liberal, that I then describe in the rest of the article. The rotation converged into six interactions. We present the data of the matrix of rotated components of the four components that resulted from the factorial analysis. Of the four components created, we decided to maintain the first two that show the strongest relation between the largest number of variables. In this manner, we had the first factor that explains 27.2% of the correlations and the second one 22.4%, adding to a total of 49.6% (see Table 2.1).

In the first place, we can see a cluster with Mexico and the other Central American economies that also base their economies on outsourcing, although they are much smaller, and thus may be more performative, like Costa Rica. On the other side, as a mirror image, we have the cluster formed by Brazil, Argentina, and Uruguay; although the latter is much more open and dependent on exports and finance.

The factorial analysis (Fig. 2.1), where the y-axis measures openness and deregulation of the economy, while the x-axis measures the intervention of the State in labor and social policies, allows us to distinguish four distinct clusters that I will use in this article to complement the qualitative analysis and to include two additional types of capitalism for Latin America. In the first place, we can see a cluster with Mexico and the other Central American economies that also base their economies on subcontracting, although they are much smaller, and thus may be more successful, like Costa Rica. As a mirror image of this first type, we have the cluster formed by Brazil, Argentina, and Uruguay; although this latter is much more open and dependent on exports and finance, that explains why it is nearer to Peru on the y-axis, but closer to Brazil on the x-axis, a tendency we give preference to from what we know of this country in terms of its State intervention and its social policies. Two other clusters appear: that of Chile, Colombia, and Peru versus Ecuador and Bolivia. They help us confirm the existence of other two types of capitalism that share the characteristic that they depend on both commodities and rentier capitalisms, although one is a liberal type and the other a redistributive type—something that makes sense from what we know from the Peruvian, Colombian, and Chilean economies and societies in contrast to the Ecuadorian and Bolivian. However, some authors consider that rentierism is not capitalistic (Keynes; Boyer 2015), because it does not induce innovation, a more efficient use of resources, productivity growth, but merely a more extensive use of them. Nonetheless, although these countries are very dependent on external markets and their exports are mainly commodities, their economy is not only a primary economy; if one looks at the value added, one sees they are much more diversified (see Table 3.2 in Chapter 3).

Although the mode of accumulation and the dependency on commodities and on the external economy are similar, there are significant differences with respect to the dominant coalition and the wage relation, the manner in which the gains of the rent are distributed.

The two rentier economies are as follows:

3. ***The liberal rentier capitalism*** is a stylization of Peru, Colombia, and Chile. Although these countries have certain specific characteristics, they all depend on the export of commodities, and the percentage of mining, oil and gas extraction, and extensively produced agricultural products (like soy) represented in GDP is very great, more than 15%. They all are very open economies and very dependent on the external demand for their products and on foreign capital that invests in extractive activities with procedures that the countries lack. The mode of consumption is oriented toward profits.

   The State intervenes very little in the economy, it is mainly an agent of mostly foreign capital, and it has no intent of promoting industrialization or of upgrading production, even the production of commodities. While Chile shares most of the characteristics with these two countries, the Chilean State has a capacity that other liberal States such as the Peruvian, Colombian, or even the Mexican State do not have, although it does not intervene in the economy.

   The socioeconomic conformation is defined by weak unions and weak social actors. In all three countries, civil society is almost absent. Thus, the dominant social coalition is formed by large foreign and domestic companies, and a technocratic elite that is responsive to them (Bresser-Pereira 2018). The State structure is very centralized (except for Colombia which is very decentralized). The political system is either totally destructured as the one of Peru and Colombia that are a type of empty democracies or institutionalized as the Chilean, very close to a particracy. In any case, the State and the political system function without much interrelation with civil society.

   Finally, the wage relation is characterized by low salaries, deregulation of the labor market, and an assistance-oriented social security system. Wages grow below productivity gains. Nonetheless, although during the last commodities super cycle these countries achieved reducing poverty, they did not manage to reduce inequality (except Peru).
4. The ***redistributive rentier capitalism*** is equally dependent on the international commodities market and on foreign investment. Nonetheless, the State is interventionist, with projects of, scaling

Table 2.2 Types of capitalism in Latin America

	International outsourcing	*Socio-developmentalist*	*Rentier/liberal*	*Rentier/redistributive*
Mode of accumulation/ consumption	Extensive/profit-led growth	Extensive and intensive/ profit- and wage-led growth	Extensive/profit-led growth	Extensive/profit- and wage-led growth
International insertion	Subordinated	Defensive	Passive	Passive
State intervention	Agent of the market	Redistributive/ interventionist	Weak/subsidiary	Redistributive/clientelist
Civil society	Weak unions and civil society	Social corporatism	Weak unions and civil society	Active social movements
Dominant coalition	MNC/big domestic groups/State/middle classes	State/national entre-preneurs/middle and popular classes	MNC/big domestic groups/State/middle classes	State/popular classes
Political system	Particracy	Participative democracy	Particracy/empty democracy	Movementist/delegative democracy
Wage labor nexus	Labor market deregu-lation/low minimum salaries/assistance social policy	Collective negotiation/ high minimum salaries/ universalization of social protection	Labor market deregu-lation/low minimum salaries/assistance social policy	High minimum salaries/ universal assistance social policy
Stylization of country	México; Central America	Brazil; Argentina (2003–2014); Uruguay	Chile; Peru; Colombia	Bolivia; Ecuador

Source Own elaboration

in the value added chain of commodities as well as of developing industry. The consumption mode is wage led, as the State taxes the extractive companies in order to redistribute part of the created wealth.

The sociopolitical conformation is characterized by strong social actors that exert pressure on the State and force it to intervene in the economy and redistribute the rent. The State structure, albeit centered, is quite decentralized, especially in Bolivia. The political system is very open to social actors and movements; it is a movementist democracy, which makes the State to be very sensible to social demands.

Table 2.2 synthesizes the main characteristics of the four types of capitalism in Latin America according to the different dimensions we will analyze in this book.

2.2 The Political Economy of the Four Types of Capitalism in Latin America

2.2.1 The Mode of Accumulation

As we have mentioned above, this dimension includes ***what*** a country produces, ***how*** it produces it, and the manner in which it ***distributes*** its gains between profits and wages. Fordism was an economic form, in the central economies, based on the production of manufactured goods, where production was increased through productivity escalations (intensively) and through a mode of consumption that combined profits and wages. Even though the Latin American countries, or peripheral capitalism in general, have industrialized to a certain degree, a profit-led mode, which depends on the appropriation of rent on the part of an oligarchy has almost always prevailed. During the import substitution industrialization (ISI) period (1945–1980), an intensive mode of accumulation was implemented in the largest countries of the continent that was accompanied by a form of consumption based upon redistribution through wages and social protection. Starting with the "lost decade", when the import substitution was abandoned, a bifurcation of the trajectory of the different countries in the continent began. Some countries abandoned ISI to return to the production of commodities. This situation included countries that had basically never industrialized (Bolivia and Ecuador) or that de-industrialized (Colombia, Peru, and Chile). Other countries became outsourcing platforms assembling manufactures for export: Mexico and smaller countries in Central America. Finally, some countries tried to continue developing industry: Brazil. While the countries that depended on commodities followed an extensive mode of accumulation, the countries that pretended to industrialize imposed a more intensive mode.

A fundamental distinction between the Latin American economies is whether they mainly produce commodities or manufactures, or a combination of both. While the first type of economy, the rentier, bases its increase in production on extension, the other types depend on the intensity of production, on the increase in productivity. To a certain degree, all Latin American economies depend on extension, as they are partly rentier: the case of oil and other mining products' exports in the case of Mexico and agricultural, mining, and oil in the case of Brazil. Finance can also be considered a rentier activity, and this is the case of both Mexico and Brazil (Boyer 2015). On the other hand, international outsourcing depends more on extension of investment than on innovation and productivity hikes; neither the State nor capital intend to modify the organization of production in order to increase productivity. As Palma (2005) has proven, outsourcing in Mexico depends less on productivity increases than on the differential between levels of productivity similar to those of the advanced countries and salaries of the peripheral countries.

We define the types of capitalism depending on whether the mode of accumulation is based on rent or productivity, and whether the mode of consumption is led by profits or wages. Fordism, where wages follow closely and sometimes surpass increases in productivity, is a wage-led growth, based on the increase of demand. The liberal mode of development that has been implemented since the demise of Fordism is a profit-led growth, based on the increase of supply (Boyer 2015; Stockhammer 2011).

The socio-developmentalist model is a wage-led growth mode that, in an open economy, has to balance internal demand with domestic supply, in order to prevent the growth impulse to be transferred to the exterior through imports (Bresser-Pereira 2015). The international outsourcing capitalism is based on profits, on the gap between advanced economies productivity and peripheral economies salaries, where the State's function is to repress salaries and social protection costs. The liberal rentier economy channels rents toward profits, while the redistributive rentier regime reallocates part of them toward wages.

None of these two latter models is a sustainable growth model as it depends wholly on the price of commodities that are determined by the world market, the natural resources are depleted, and there is no effort to develop alternative economic sources. In the case of the redistributive type, redistribution does not lead to a wage growth regime, but basically to demand that is funneled toward imports: resources that are obtained by the export of commodities directly by State enterprises or through taxes and royalties mostly lead to increase in imports as the economy is subject to the "Dutch disease" and there is practically no industrial policy.

The mode of consumption depends on the strength and character of the social pact, between the State and the social actors. While in the countries where civil society is strong and autonomous, the mode of consumption is redistributive (Brazil, Argentina, Uruguay, and Bolivia); in those countries where civil society is weak, they are profit led (Mexico, Chile, Peru, and Colombia). In Mexico and, in general, in the outsourcing economies, both accumulation and consumption are disarticulated. While the mode of accumulation is disarticulated as it is dependent on a productive structure that lies between countries (in the case of Mexico and Central America, mainly between the USA and the home country), the mode of consumption depends heavily on remittances sent by a significant proportion of the population that has migrated, as well as other resources coming from all kinds of illegal activities, including drug smuggling. This is complemented by an offer of cheap consumer products that are distributed by the informal commerce—some of which are smuggled into the country and do not pay taxes, salaries, or rent as they are sold in the street.

2.2.2 The International Insertion

The international outsourcing capitalism and the two types of rentier economies share the external orientation of their economies, and although the socio-developmentalist type may produce and export commodities, it is fundamentally oriented toward the internal market. Data concerning the weight of exports in both groups of countries confirm this: while in Brazil and Argentina the aggregate demand is balanced between the external and the internal markets, in the case of Mexico the external market is much more significant. However, it is also true, as we will discuss further that Brazil became increasingly dependent on both the export of commodities and the entry of foreign currency. All the rentier economies, be they liberal or redistributive, Colombia, Chile, Peru, Bolivia, and Ecuador, export primary and manufactured goods based on commodities at around 90%.

The type of integration of a specific country to the world economy is also dependent on the capacity of its State to be proactive, defensive, or an agent of the economic actors of world market. While the outsourcing model is characterized by being very open, and by a State whose role is to act as an agent of the large foreign, as well as national enterprises; the State only sets the stage for the companies to profit from the economy of the country as an outsourcing platform. The liberal rentier countries are also very open and liberal, and the State is merely an agent of liberalism (Beck 2002). The governments of Chile, Peru, and Colombia are totally open, and they do not impose any restrictions on foreign capital. The distributive rentier countries are in a contradictory situation: on the one hand, they pose an autonomous discursive posture toward foreign capitals; on the other, they greatly depend on foreign investment in mining, oil, and other commodities.

The socio-developmentalist economies are more protectionist, as they project to industrialize the country with safeguards, subsidies, loans, and industrial policies. Their relation to the exterior is much more defensive. The financial sector is not as open as most banks are still in the hands of the State or of national capitals. Brazil has not signed any free trade agreements that would oblige it to be much more liberal, much less with the USA. It has, at some moment or other, imposed customs tariffs or set a prohibition to import certain products. Moreover, most analysts have mentioned the failure to control overvaluation.

2.2.3 The Intervention of the State

We can define the types of capitalism on whether the State plays a central role in pursuing capitalist development or the economy is left to the market (Bresser-Pereira 2017). We can identify two types of capitalism where the State has a significant role: in one, it orients capitalism toward the internal market, by applying active industrial policies and increasing internal demand, through a distribution of profits between the entrepreneurs and the workers. The State exerts a strong fiscal pressure on the employers and consumers and tries to achieve an active integration to the world economy. It regulates and defends national capital and internal demand, by implementing countercyclical measures. In general, facing a strong State, there are strong unions and business organizations that, in turn, exert pressure on the government in order to preserve their particular or common interests, forcing redistribution, although there are exceptions where the developmentalist State is authoritarian such as Korea and Taiwan in the 1950s and 1960s, and more recently China, where social actors are absent.

In the case of the redistributive rentier mode, the role of the State does not consist of boosting an economy oriented toward the internal market through industrial policies, investment, or innovation, but it is almost "purely" redistributive. Both the political and social relationships, as well as the economic ones, are defined by the fact that the State owns or extracts taxes and royalties from the private companies that exploit natural resources. In many cases, its abundant financial resources are distributed without any productive goals, and they are expended in a clientelistic or State-corporatist logic. They may either support an authoritarian government or used to foster organizations that would serve the State as a political base in order to attain a delegative regime (Venezuela), or when there are pressures from below, from social organizations or movements autonomous from the State, they may foster a participatory democracy (Bolivia, Ecuador).

The other two forms depend more on the market, where the State has a much weaker role, either subsidiary (Chile) or subordinate (Mexico, Colombia, and Peru). In both cases, not only the State is weak and has little autonomy from the entrepreneurs, but social actors are also weak, and coordination between unions and capital (and the State) is almost nonexistent. The way of incentivizing either productive investments, in the case of the outsourcing model, or investment in commodities in the rentier type is through the safeguarding of high profits, low salaries, low social security costs, a State-financed residual/assistance-oriented welfare system, a flexible industrial relations system, low fiscal pressure, and low environmental regulation.

2.2.4 The Dominant Social Coalition

What the country produces and exports, how it does it, and the character of the international insertion of an economy are, in many respects, determined by the orientation that the State and the dominant social coalition give it. If these were not so, we would be living in a perfect Ricardian world where every country would produce what it is best endowed to produce (Haggard 1990). That is why one of our most fundamental assumptions is that the mode of accumulation and the wage relation are defined *in fine* by the character of the dominant social coalition. Thus, in our four types of Latin American capitalism, the composition of the coalition is also crucial to define its character.

Where social actors are strong enough to form part of the pact, and the State is capable of creating a broad coalition including industrialists, middle classes, in a compromise with agro-exporters and financial sectors, we have either a socio-developmentalist type of capitalism if based on productivity gains or a rentier redistributive regime if based on rents. On the other hand, where social actors are weak and the social pact is basically oligarchic, essentially constituted by the State, multinationals, large national and foreign entrepreneurs, and financial capitals, then gains in either productivity or rent are mostly oriented toward profits.

The four countries that have served to formalize the diversity of capitalisms in Latin America went through a different trajectory in what concerns the relation between the State and the national and international capitalistic groups and the national social sectors. In the 1980s and 1990s, new coalitions arose in almost all the countries in Latin America. Central for determining the character of these coalitions was the response to the debt crisis of the 1980s and the path of democratization they followed. The crisis resulted in a process of economic liberalization and democratization; most countries abandoned ISI, while others continued an industrialization effort. This depended greatly on the participation of civil society in the democratization process and the sequence between liberalization and democratization. In Mexico and Chile, civil society was not crucial to push through democratization, and thus liberalization occurred prior to democratization. This meant both a more orthodox liberalization and undermining of social actors, especially the unions by liberalization. In this case, the dominant sociopolitical coalition that emerged during the 1990s and 2000 did not include organized civil society.

In the international outsourcing capitalism and the liberal rentier capitalism, the dominant bloc is constituted by multinationals, large national entrepreneurs, and financial capital, together with the middle classes that profit from the establishment of the foreign enterprises, and the commerce and service sectors that these enterprises require. The State acts basically as an agent of the foreign and national multinationals. As in the process of democratization civil society was basically absent, the process gave rise to a liberal, purely electoral democracy, with strong particratic tendencies, impervious to the interests of the popular classes and the poor. In some cases, as in Peru and, partially, in Colombia, both civil society and the political system equally destructured, and the State can be defined as "pure" technocratic government, equally impervious to popular interests (Bizberg 2010; Aziz 2015).

Where civil society was a central actor in the process of democratization and this process preceded liberalization, some of the institutions and policies of ISI endured, and civil society strengthened through democratization and by its resistance against the liberalization process. It emerged, reinforced by both processes, and imposed itself as part of the sociopolitical coalition that emerged during the 1990s or 2000. This was the case of Brazil, where unions and civil society were central in the political transition and contributed to the creation of a socio-democratic party, the PT, and of Argentina after the emergence of a myriad of social movements in the wake of the deep sociopolitical crisis of 2001–2002. In Bolivia, a country that did not industrialize in any significant manner, the liberalization process that followed the debt crisis of the 1980s that led to the privatization of State companies and the installation of foreign companies in the water and gas fields and the expansion of agribusiness in the east of the country (the Media Luna) was not reversed but was re-oriented toward redistribution with the upsurge of the social movements against the privatization of water and gas that sustained the government of the Movimiento Al Socialismo (MAS).

Both the socio-developmentalist capitalism and the distributive/rentier capitalism are based on a coalition where the State is an active actor of the economy as it arbitrates between the foreign capital, the large domestic groups that are oriented toward the export markets, and the local economic groups oriented toward the internal market and the domestic social groups. It is a capitalist form where the State has a significant interventionist role. The political regime is a stable democracy, when a coalition can be constructed (Brazil), or a "movementist" democracy (Bolivia), when the demand for redistribution comes from below, from autonomous social movements (Bizberg 2010; Aziz 2015), or from a political regime with a tendency toward a delegative democracy if and when the State uses the resources obtained by the exports of commodities in order to control social organizations in a clientelistic or corporatist manner (Venezuela).

2.2.5 The Form of the State and the Type of Political System

The effect of the action of civil society and of the dominant classes on the economic regime is mediated by the structure of the State and by the political system. As Tilly has analyzed in his book on *Democracy*, he considers that a democratic regime depends on the openness of the political system to societal demands and to the capacity of the State to implement them. With regard to the possibility of social demands to reach the State, he only focuses on the openness or closeness of the political system. Here, we will typify different political regimes, in the case we only take into consideration democracies, whether they are more or less institutionalized, more or less representative, and, more important for our purpose, more or less determined by the action of civil society. Following the perspective of federalism of Bruno Théret, according to whom some forms of the State are more open to civil society than others, depending first on whether a State has a federal or centralized structure and then on whether federalism is decentered or centered, we will add this dimension to the analysis in order to define another characteristic that determines the character of the different types of capitalism.

The characteristic of the dominant social pact is very dependent on the existence of a dense, organized, and autonomous civil society. Nonetheless, the capacity of this actor to impose its interests and projects on the economy is mediated by the political system. Where the political system is impervious to pressures from civil society, the State can be dominant by either a technocratic elite or an agent of the international capitals. The same goes for a centralized State structure. On the contrary, an open, representative political system together with a decentralized State structure is conducive to a strong involvement of civil society in orienting the economy. Some State structures are more open, because they are federal and decentralized, while others are more closed, because they are centered and centralized. On the other hand, more responsive political systems are those where political systems are institutionalized and civil society is organized, while particracies, clientelistic, and delegative democracies are less responsive to social demands. Where we find a more decentralized, more responsive political system and an active civil society, we also find a more active role of the State that popular interests are part of the social coalition and in consequence a higher probability of State-/wage-led economy with redistribution. Where a less decentralized structure coincides with a less responsive political system and a less active civil society, we also find less State intervention, popular interests excluded from the social coalition and in consequence a higher probability of a market-/profit-led economy without redistribution.

2.2.6 *The Social Pact/The Wage Relation*

The wage relation does not only comprise wages, but also indirect forms such as the labor market regulations and the social security system (health, pensions, unemployment benefits, etc.). State intervention, as well as the strength and organization of the labor movement and of the employer's organizations, and their relation, is central to define the character of the wage relation that reposes upon a social pact between these three central actors.

We have basically two situations: while in the outsourcing (Mexico) and in the liberal rentier models (Chile, Peru, and Colombia) the industrial relations have been radically deregulated and flexibilized and social protection systems have been transformed into assistantship, although in the socio-developmentalist (Brazil, Argentina, and Uruguay) industrial relations have also been liberalized, the force of the labor movement and the fact that the government has had, at some moments, a close relationship to workers and other social organizations, defines that the labor market continues to be regulated and social protection systems have better endured in their traditional forms.

In the case of Mexico, the corporatist relationship that existed since the 1930s has almost completely disappeared, at least in what concerns the negotiating capacity of the unions and the benefits for the workers. Negotiations in Mexico, Chile, as well as Peru and Colombia occur mostly by enterprise, and unionization rates of the total of salaried earners are very low. Although industrial relations have also 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 a central actor (together with numerous other social movements) in the democratization process, but also because it never lost its character as an interlocutor of the successive governments, even with the more liberal ones. Although during the 1990s the Argentinian Menem government tried to weaken the unions and partially succeeded, they were re-activated during the Kirchner and Fernandez governments to the extent that Etchemendy and Collier (2007) qualified the relationship between government and labor as socio-corporatist (Palomino and Trajtemberg 2006; Cerdas Sandí 2017).

In Argentina and Brazil, social movements were also been very active: the *piqueteros* and the human rights movements in the first, and in the second a myriad of different social organizations that pushed forward the democratization process and the drafting of the 1988 Constitution have maintained their intervention on social policies through informal and formal (the councils) channels (Izunza Vera and Gurza Lavalle 2012). These movements, more than the unions, were a very significant mobilizing force that have managed to impose a popular alliance on the State in the rentier distributive capitalisms: in the case of Bolivia, the indigenous and coca producers of Chaparé are the basis of the MAS that led Evo Morales to the presidency, while in the case of Ecuador, the CONAIE has been the central social and political actor.

A very direct indicator of the character of the social pact is the data on the rise of wages, especially minimum salaries that have an impact on both active workers and pensioners. They are also a good sign of whether the mode of economic growth is redistributive or liberal, and on the weight that is given to either profits or wages. In the liberal rentier type (Peru, Colombia, and Chile), salaries have grown moderately, while in the outsourcing type (Mexico), they have stagnated; in both, the State represses salaries, especially in the outsourcing model as they constitute its principal competitive advantage. In contrast, in both the socio-developmentalist (Brazil and Argentina) and the redistributive rentier (Bolivia and Ecuador), minimum salaries have grown strongly.

The character of the social protection systems is also very contrasting between the different types of capitalism. Social protection policies have a short-term impact on demand through pensions, unemployment compensations, health investment and expenditure, and a medium- and long-term effect through productivity growth. The expansion of public resources dedicated to social policies and health is very significant in the three countries (Argentina, Brazil, and Uruguay) we have catalogued as socio-developmentalist. The rest of the countries have all lagged well behind. In general, social security (pensions) and health coverage are more extended and more generous than in countries with a strong labor movement or strong social movements and with governments that apply public policies aimed at the formalization of workers. While in the case of Mexico and Peru practically nothing has been done to reduce informality, in Argentina and Brazil, tax incentives and stricter work inspection have resulted in a decrease in informality (Maurizio 2014; Berg 2011).

Since the 1980s, the Mexican social security system has been evolving toward a more universal, albeit minimalist scheme. Since the mid-1990s, social programs have decidedly shifted to assistance (Valencia Lomelí 2008). The main social program *Prospera* focalizes on the poorest. Brazil and Argentina (since 2003) stand in sharp contrast to Mexico: in the first place, the welfare regimes were practically not modified, especially in the case of Brazil. In Argentina, in 2008, the Fernandez government renationalized the pension funds which had been partially privatized during the Menem presidency.

The impact of a socio-developmentalist mode of growth is clear in the case of Argentina and Uruguay, as well as Brazil, in terms of both decreasing inequality and reduction in extreme poverty and expansion of a middle class. This is also the case of a redistributive rentier economy such as Bolivia. The countries near the liberal rentier type have also shown a very positive performance in reducing inequality and extreme poverty, less as a result of the increase in wages, formalization, or social security expenditure, because the wage relation is favorable to profits, but most probably through a "mechanic" effect of economic growth. The outsourcing model, typified by Mexico, is exemplary by its stability in terms of inequality and poverty; in fact, although the relative percentage of poor has decreased slightly, in absolute terms there are more poor in Mexico.

References

Amable, B. (2005). *Les cinq capitalismes*. Paris: Editions du Seuil.

Aziz, A. (2015). ¿Democracias diferentes?: México, Brasil y Argentina. In I. Bizberg (Ed.), *Variedades de Capitalismo en América Latina: los casos de México, Brasil, Argentina y Chile* (pp. 283–380). México: El Colegio de México.

Beck, U. (2002). *Poder y Contrapoder en la Era Global, La nueva economía política global*. México: Paidos.

Berg, J. (2011). Laws or luck? Understanding rising formality in Brazil in the 2000s. In S. Lee & D. McCann (Eds.), *Regulating for decent work: New directions in labour market regulations*. Geneva and Basingstoke: ILO and Palgrave Macmillan.

Bizberg, I. (2010). La democracia vacía. In I. Bizberg & F. Zapata (Eds.), *Los Grandes Problemas de México. Los movimientos sociales*. México: El Colegio de México.

Bizberg, I. (Coord.) (2015). *Las variedades del capitalismo en América Latina: los casos de México, Brasil, Argentina y Chile*. Mexico: El Colegio de México.
Bizberg, I., & Théret, B. (2012). La diversité des capitalismes latino-américains: les cas de l'Argentine, du Brésil et du Mexique. *La Revue de la Régulation*, Paris, No. 11.
Bizberg, I., & Théret, B. (2015). Las coaliciones sociopolíticas y las trayectorias de los capitalismos latinoamericanos. In I. Bizberg (Coord.), *Las variedades del capitalismo en América Latina: los casos de México, Brasil, Argentina y Chile* (pp. 95–146). Mexico: El Colegio de México.
Boyer, R. (2014). *Is more equality possible in Latin America? A challenge in a world of contrasted but interdependent inequality regimes* (DesiguALdades.net, Working Paper Series 67). Berlin: Freie Universität Berlin.
Boyer, R. (2015). *Économie politique des capitalismes, Théorie de la régulation et des crises*. Paris: La Découverte.
Bresser-Pereira, L. C. (2015). *Reflecting on new developmentalism and classical developmentalism* (Working Paper No. 395). São Paulo: FGV.
Bresser-Pereira, L. C. (2017). The two forms of capitalism: Developmentalism and economic liberalism. *Brazilian Journal of Political Economy, 37*(4), 680–703.
Bresser-Pereira, L. C. (2018). *Rentier-financier capitalism* (Unpublished manuscript to be published in the *Revue de la Régulation*).
Cerdas Sandí, D. (2017). *La Disputa por el Poder de Asociación de los Trabajadores: Veto Empresarial y Democracia Restringida en América Latina*. Tesis doctoral del Programa de Doctorado en Investigación en Ciencias Sociales, con mención en Ciencia Política. México: Facultad Latinoamérica de Ciencia Sociales.
Drahokoupil, J., & Myant M. (2015). Putting comparative capitalism research in its place: Varieties of capitalism in transition economies. In M. Ebenau, I. Bruff, & C. May (Ed.), *New directions in critical comparative capitalisms research*. London: Palgrave Macmillan.
Etchemendy, S., & Collier, R. B. (2007). Down but not out: Union resurgence and segmented neocorporatism in Argentina (2003–2007). *Politics & Society, 7*(3), 363–401.
Evans, P. (1995). *Embedded autonomy: States and industrial transformation*. Princeton, NJ: Princeton University Press.
Fritz, B., & Lavinas, L. (Eds.). (2015). *A moment of equality for Latin America? Challenges for redistribution*. Surrey and Burlington: Ashgate.
Haggard, S. (1990). *Pathways from the periphery: The politics of growth in the newly industrializing countries*. New York: Cornell University Press.
Izunza Vera, E., & Gurza Lavalle, A. (2012). Arquitetura da participacao e controles democráticos no Brasil e no México. *Novos Estudos, 92,* 105–121.
Lechevalier, S. (2011). *La grande transformation du capitalism japonais*. Paris: Presses de Sciences Po.

Marques Pereira, J., & Bruno, M. (2015). *Path dependence blocking the emergence of a new type of capitalism favoring redistribution in Brazil: A new view on the possibility of a developmental coalition* (Unpublished manuscript). Université d'amiens, France.

Marques Pereira, J., & Murillo, V. S. (2015). El problema del tipo de cambio y la posibilidad de revertir la desindustrialización. Una comparación entre Argentina, Brasil y México a la luz de una concepción alternativa de la moneda como institución social. In I. Bizberg (Coord.), *Las variedades del capitalismo en América Latina: los casos de México, Brasil, Argentina y Chile* (pp. 381–472). México: El Colegio de México.

Maurizio, R. (2014). *Labour formalization and declining inequality in Argentina and Brazil in the 2000s: A dynamic approach* (ILO Research Paper No. 9). Geneva: ILO.

Nölke, A., & Vliegenthart, A. (2009). Enlarging the varieties of capitalism: The emergence of dependent market economies in East Central Europe. *World Politics, 61*(4), 670–702.

North, D. C., Summerhill, W., & Weingast, B. R. (2002). Orden y desorden y cambio económico: Latinoamérica vs. Norte América. *Revista Instituciones y Desarrollo, 12–13,* 9–59.

Palma, J. G. (2005). The seven main 'stylized facts' of the Mexican economy since trade liberalization and NAFTA. *Industrial and Corporate Change, 14*(6), 941–991.

Palomino, H., & Trajtemberg, D. (2006). Una nueva dinámica de las relaciones laborales y la negociación colectiva en la Argentina. *Revista de Trabajo, 2*(3), 47–68.

Schneider, B. R. (2013). *Hierarchical capitalism in Latin America: Business, labor, and the challenges of equitable development*. New York: Cambridge University Press.

Stockhammer, E. (2011). Crecimiento basado en los salarios: introducción. *Boletín Internacional de Investigación Sindical, 3*(2), 183–208.

Théret, B. (1995). *L'État, la finance et le social. Souveraineté nationale et construction européenne*. Paris: La Découverte.

Théret, B. (2015). La diversidad de los federalismos en América Latina: Argentina, Brasil y México. In I. Bizberg (Coord.), *Las variedades del capitalismo en América Latina: los casos de México, Brasil, Argentina y Chile* (pp. 147–282). México: El Colegio de México.

Valencia Lomelí, E. (2008). Las transferencias monetarias condicionadas como política social en América latina. Un balance: Aportes, límites y debates. *Annual Review of Sociology, 34,* 499–524.

Valencia Lomelí, E. (2018). *¿Hacia nuevos compromisos sociales en las trayectorias de los regímenes de bienestar? Los casos de Brasil, Corea del Sur y México*, (Unpublished article). Universidad de Guadalajara.