Models of Economic Liberalization: Business, Workers and Compensation in Latin America, Spain, and Portugal

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This book provides the first general theory, grounded in comparative historical analysis, that aims to explain the variation in the models of economic liberalization across Ibero-America (Latin America, Spain, and Portugal) in the last quarter of the twentieth century and the legacies they produced for the current organization of the political economies. Although the macroeconomics of effective market adjustment evolved in a similar way, the patterns of compensation delivered by neoliberal governments, and the type of actors in business and the working class that benefited from them, were remarkably different. Based on the policymaking styles and the compensatory measures employed to make market transitions politically viable, the book distinguishes three alternative models: Statist, Corporatist, and Market. Sebastián Etchemendy argues that the most decisive factors that shape adjustment paths are the type of regime and the economic and organizational power with which business and labor emerged from the inward-oriented model. The analysis stretches from the origins of state, business, and labor industrial actors in the 1930s and 1940s to the politics of compensation under neoliberalism across the Ibero-American world, including extensive fieldwork material on Spain, Argentina, and Chile.
Part I: The Intellectual Terrain

Chapter 1. Overview: Models of Economic Liberalization in ISI Economies

Introduction

The crisis of the early 1970s and its aftermath was a watershed for modern capitalism. In advanced countries, it signaled the end of the golden age of postwar development based on Keynesian demand stimulus, low unemployment and welfare state consolidation. In the less developed Southern Europe and most of Latin America, it began to show the exhaustion of postwar strategies of economic growth predicated on domestic market expansion, state intervention and high tariff walls, the so-called model of Import Substitution Industrialization (ISI). Indeed, the pace and scope of the market transformations that have developed since then were arguably more dramatic in these semi-closed economies than in most of the advanced countries or the East Asian NICs, which were already more open to international markets and had achieved consistent rates of export-led growth before the phenomenal acceleration of capital mobility and trade started to sweep the world in the early 1980s.

Market-oriented officials in the semi-closed economies of Latin America and Southern Europe, by contrast, were caught between formidable external economic pressures for reform and the hostility of entrenched domestic interests with little to win, and much to lose, from a move towards more open markets. Unlike their counterparts in Eastern Europe, where civil societies were generally weak and organized actors had not been autonomous from the state for decades, market reformers in ISI economies often faced the opposition of powerful unions, industrial associations, or domestic business groups quite independent of state control. Indeed, if democratization was often seen in Eastern Europe as positively associated with economic reform and liberalization (Pop-Eleches 2009: 166, Ekiert 2003: 113, Hellman 1998: 232) and as
strengthening pro-market actors (independent firms, parties or occasionally unions), in the Iberian-American world\textsuperscript{1} the reverse was generally true: democratization was accompanied by the activation and empowerment of popular (and often business) groups long opposed to economic liberalization. For these reasons, ISI economies became the center of the debate on the “politics of economic adjustment” two decades ago.\textsuperscript{2} In politically unstable contexts, academics and officials in multilateral institutions observed that strong executives and state autonomy from hostile economic interests, such as unions or domestic business groups, were essential for the imposition of economic liberalization.

Now, however, the “critical juncture” of economic adjustment and reform in formerly semi-closed countries seems to be over. The main economies in Ibero-America have liberalized substantially, and deepened economic integration into the European Union, NAFTA and MERCOSUR, often under democratic polities. Though the international financial crisis of 2008-9 has put into question the paradigm of radical economic deregulation and has redeemed Keynesian and interventionist tools, it is doubtful that trade and financial integration will be drastically reversed. So the question now is not whether mixed, semi-closed economies reoriented their models of development to the market, but to explain the alternative ways in which they did, and the consequences that these alternative transitions had for the workings of the liberalized political economies.

Initially, the examples of Chile and the East Asian NICs such as Korea and Taiwan, where presumably authoritarianism and bureaucratic insulation made possible the effective outward reorientation of the models of growth, loomed large in the scholarly work on the politics

\begin{itemize}
  \item[I] I use the terms “Ibero-America,” “Iberian-American world” or “Iberian world” to refer to Latin America (the book analyzes at various points Argentina, Chile, Brazil, Mexico and Peru) plus Spain and Portugal.
\end{itemize}
of economic adjustment prevalent in the late 1980s and 1990s.\(^3\) At the same time, international political economy-oriented approaches abundantly explored the external and macroeconomic conditions under which liberalizing reforms and trade integration were more likely.\(^4\) More recently, however, the former scholarly emphasis on bureaucratic autonomy and international economic constraints has been replaced by a wide variety of approaches that have assessed the bargains between governments and specific constituencies in the construction of market-reform coalitions (see Schneider 2004b), particularly those most hurt by liberalization. These scholars have considered the complexities of economic reform in more open polities, emphasizing the territorial,\(^5\) economic-sectoral\(^6\) and partisan\(^7\) dimensions that underpinned negotiations between reformers and insiders or “stakeholders,” be they rural interests and provinces, protected business and labor groups, or populist parties.

This most recent literature, however, has not built a framework that systematically accounts for the type of established actors that are bought off (or marginalized) in the domain of economic interests, and the different ways in which stakeholders are drawn into market reform coalitions. Indeed, we still lack a theory that explains the different ways in which countries achieved successful market reorientation in ISI, protected economies. This book is an attempt to fill this gap. It seeks to provide a unified framework for understanding economic liberalization in Ibero-America by focusing on the interactions between reforming governments and business and labor actors. My primary concern is not with whether general economic liberalization occurs—as has been the norm in the literature—but rather with variations in the modes or types of market transitions, and with the legacies they produced. Based on the compensatory measures employed

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\(^4\) This literature was equally copious; examples are Stallings 1992, Haggard and Maxfield 1996, Remmer 1998, more recently see Brooks and Kurtz 2007, and Pop-Eleches 2009.
to make reform politically viable and the policymaking strategies, this study posits three alternative types of industrial and labor adjustment in countries that have liberalized after decades of Import Substitution Industrialization (ISI), which I call Statist (Spain 1982-96 and Brazil 1990-2002), Corporatist (Argentina 1989-99 and Portugal 1985-1995), and Market (Chile 1973-89 and Peru 1990-2000). The main goal of the book is to conceptualize and explain the principal causes of these three different models of economic liberalization, which are summarized in the next section. I will also contend that neoliberal Mexico (1982-1994) constitutes a “Mixed” or “Hybrid” mode of adjustment in terms of my framework.

The book will argue that the most important factors that account for the alternative adjustment paths in Argentina, Spain and Chile, the main empirical cases analyzed, as well as those in the other major ISI economies, are the type of regime (whether reforming countries were democracies or not) and the nature of the prior ISI actors, namely the economic and organizational power with which industrial business and labor emerged from the inward-oriented model. These two variables, the degree of the liberalization of the polity, and the power of actors and the institutional legacies from the old order, have been crucial in the assessment of alternative paths of liberal economic reform and institutional building in the post-communist literature. Curiously enough, they have not been investigated systematically in the mixed, ISI Iberian-American economies, which had generated their own set of powerful insiders.

**Three Models of Economic Liberalization: Statist, Corporatist and Market**

By the early 1980s it was pretty clear that constraints posed by the international economy had rendered autarchic strategies of growth in Latin America and Southern Europe scarcely

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8 The idea of “adjustment path” has been increasingly used in the political economy literature that analyzes alternative national responses to globalization pressures (Hall 1999: 159; Stark and Bruszt 1998: 101). In this book I use the concepts “path”, “mode,” or “model” to/of economic liberalization or adjustment interchangeably.

viable. Not all economic groups were, however, equally affected by these epochal changes. The working class, specially its most protected formal sector, and domestic industrial firms, saw many of their past privileges jeopardized by the advent of economic opening. Import liberalization and enhanced competition, monetary and fiscal stringency and the need for more flexible labor markets undermined domestic firms, unions and workers that have historically benefited from protection, subsidies, and state-sanctioned monopolies. Moreover, in addition to the contractionary effects of stabilization, most of these liberalizing governments established variants of fixed exchange rates to tame inflation—e.g. fixed parity in Chile and Brazil, a currency board in Argentina, and integration into the European Monetary System in the cases of Spain and Portugal. Thus, in the context of financial deregulation and capital inflows, increasingly appreciated domestic currencies undermined local industrial actors even more. In sum, for domestic industrial firms, unions and individual workers economic liberalization could simply mean bankruptcy, organizational disarticulation, and unemployment and poverty.

This study examines the relation between state and business and labor actors in the subset of liberalizing policies that affect established industrial firms, unions and workers most: tariff liberalization, industrial privatization, labor deregulation and downsizing, and aspects of social policy reform. These measures will be referred alternately throughout the book under the labels of “industrial and labor adjustment” or more simply “economic liberalization.” The book studies adjustment through the lens of the compensatory policies that a reform government can bestow on the “potential losers” under neoliberal reform—i.e., on formerly protected actors such as industrial firms (especially domestic), unions, and workers. Liberalizing governments often forged alliances with these actors through the administration of compensation. These alliances facilitated rather than obstructed neoliberal reform.
The paths of industrial adjustment essentially signal who got what, and how, in the domain of compensation. The “how” concerns the policymaking formula. I identify three patterns of policy-making under industrial adjustment: unilateral state imposition, concertation with the relevant interest groups, and state dirigisme, i.e. a policymaking style in which the state formulates the major restructuring plans from above but is willing to bargain about specific aspects of their implementation.

The “what” refers to the menu of compensatory measures available to the neoliberal reformer. They can be broadly divided in two types. The first type of compensation policy includes various forms of subsidies, such as direct monetary infusions, soft credits or tax exemptions to industrial firms, and employment programs (in which the state provides temporary jobs) or unemployment subsidies in the context of downsizing. The second general form of compensatory measure is market-share compensation, which serves to protect the economic roles of established actors in more open markets. This includes the direct award of ownership to firms and their workers or unions through privatization, and the partial deregulation (i.e. preserving barriers to entry or establishing tariff regimes) of different markets such as labor, or specific industries such as oil, steel etc. This study argues that such “partial” or “protectionist liberalization,” which grants market reserves to specific actors in business and labor—for example, barriers to foreign firms in particular sectors or monopoly of representation in collective bargaining—while the rest of the economy is opened and subjected to unfettered competition, constitutes an important type of side-payment. Hence, the basic distinction (which is more fully developed in the theory of Chapter 2) is between policies that help business, unions or workers to face increasing competition through subsidies and state-backed programs of technological innovation or labor training, and those that allow for the concentration of future open markets by bestowing state assets or administering a biased deregulation or tariff regime.
Finally, the “who” refers to the target of compensatory policy. For analytical purposes I first broadly distinguish two general types of actors. ISI *insiders* are the formerly protected industrial firms, their workers, and the national unions. Domestic industrial firms were often part of broader “business groups,” that is, the family-controlled multisectoral holdings under the same direction typical of developing economies (Leff 1978). Thus, I term “ISI business group” those large domestic holdings that originated and maintain a substantial part of their assets in manufacturing and/or oil/fuels businesses. ISI *outsiders* are the unemployed or poor workers in the informal sector who either had been employed in the distant past, or had never made it to the formal sector or stable employment.

These three dimensions of policymaking style, compensatory measures, and target cohered in a way that produced the Statist, Corporatist and Market models of liberalization. The Statist path involves subsidy compensation to certain ISI insiders and state dirigisme as the main policymaking strategy. The government formulates reconversion plans for selected ISI sectors from above (most often core manufacturing sectors such as steel and transport equipment) and provides monetary subsidies to firms and laid-off workers affected by enhanced competition. Although the process of formulation of these restructuring plans is heavily centralized in the Executive in a *dirigiste* manner, implementation—for example the amount and type of subsidies involved or the timing of plant closures or mergers—is usually subjected to negotiations with affected companies and unions, particularly at the local or firm level. Crucially, privatization in the Statist mode *is not* used as a massive reward for established ISI business groups. Rather, ownership is more diversified among institutional and financial investors, and the state preserves substantial leverage in selected privatized “national champions” through golden-share mechanisms and management supervision. The Statist mode is represented by the Spanish case

The Corporatist path combines market share compensation channeled to certain ISI business and labor insiders with more negotiated, concertational policymaking. The state compensated established industrial business and national labor leaders (rather than laid-off workers) through state assets directly awarded to firms and unions amidst a generally vast privatization process, and through the partial deregulation of certain markets, especially labor and specific industries. These compensatory measures were delivered through formal or informal concertation and negotiation with national unions and the selected domestic industrial groups largely rewarded through privatization. Argentina under the Menem presidency between 1989 and 1999 is the main instance of Corporatist adjustment studied in the book, but Portugal under the Cavaco Silva (1985-1995) administration closely resembles the Corporatist model.

A central point is that in both the Statist and Corporatist paths the bulk of compensatory measures (albeit of different types) were bestowed on the insiders of the ISI model, that is, industrial firms and segments of the union-represented working class—national union leaders in the Corporatist mode, and laid-off workers backed by local unions in the Statist model. Unlike the other two modes, in the Market path the government did not negotiate any major compensatory measure with ISI organized actors, and tariff liberalization and downsizing were unilaterally imposed. Industrial sectoral readjustments were largely left to the market. Yet, we find an explicit government attempt to compensate, subsidize, and eventually mobilize politically the unorganized and poor workers in the informal sector, or outsiders. Unmitigated commercial liberalization combined with extended means-tested social compensation renders “Market” an apt
label for this mode of adjustment.\textsuperscript{10} Chile under Pinochet (1973-89) and Fujimori’s government in Peru (1990-1999) are instances of this type.

Significantly, in all models a crucial component of the effort to impose market reform and industrial adjustment involved the administration of compensatory measures for some of the losers among manufacturing firms and/or the working class. Yet, the \textit{political process, type of compensation} and \textit{target} differed among the cases (Table 1.1). In a language borrowed from Barrington Moore (1966), one finds three main roads to industrial liberalization in Ibero-America: the Statist one in which the government reconverted strategic industrial sectors from above and gave out subsidies to ailing firms and workers, the Corporatist in which the state rewarded domestic industrial groups and national unions with market share in the future order, and the Market in which policymakers excluded ISI insiders, and focused compensation on the informal poor.

| Table 1.1. The Outcome: Compensatory Policies and Models of Economic Liberalization |
|---|---|---|---|
| **Nature of Policymaking:** | State Dirigisme (centralized formulation, negotiated implementation) | Concertation | Unilateral State Imposition |
| **Main Compensatory Measure** | Subsidy | Market-Share Compensation (partial deregulation and/or state assets) | Subsidy |
| **Main Actors Compensated** | ISI Insiders (domestic industrial firms/groups and laid-off industrial workers) | ISI Insiders (domestic industrial firms/groups and national unions) | ISI Outsiders Atomized informal poor |

\textsuperscript{10} To quote Esping-Andersen’s classic work (1990: 22), means-tested poor relief “will compel all but the most
Of course, the identification of Statist, Corporatist and Market as three distinct models of national industrial adjustment echoes the lineage of classic political economy works by Shonfield (1965), Zysman (1983), Berger (1981), and Hall (1986) on advanced countries. My typology has similarities with this tradition—for example the book explains modes of industrial/sectoral reconversion that are more state-led, collaborative or negotiated with peak actors, and company-led (see Zysman 1983: 94). Yet the conceptualization of Statist, Corporatist and Market paths is adapted here to the realities of adjustment in developing economies, essentially denoted by more abrupt and extensive economic liberalization, and by profound crises that made compensation crucial for political survival.

It is also worth stressing that I study the dominant from of compensation. Of course, countries did a lot of things under neoliberal reform, that is, governments granted protection (e.g. an antidumping measure) to this or that subsector, while a single protected firm may have been rewarded in various cases. The question is what compensatory scheme was clearly prevalent, deliberate, and politically more relevant under neoliberalism. Statist, Corporatist and Market configure a typology of adjustment paths around which most of the major countries of Ibero-America cluster. The typology is the result of the combination of “values” or categories in these three dimensions of policymaking strategy, compensatory measure and target. Certainly, a number of other combinations of these dimensions would be, in principle, theoretically possible in the typology property-space. For example, a policymaking style based on unilateral imposition could be combined with market share compensation targeted to ISI insiders Or, alternatively, concertational policymaking could be in principle compatible with subsidy compensation.

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Seawright and Collier (2004: 311) define a typology as a “coordinated set of categories or types that establishes theoretically relevant analytical distinctions.” The models of liberalization constitute both a conceptual or descriptive typology (a set of types defined by different dimensions) and an explanatory typology (that is, outcomes to be explained) in terms of Collier et al (2012).
Still, most of the dimensions are logically connected, and the major Iberian-American countries (except Mexico) empirically fall under each type. Dirigiste officials (who want to redesign industrial sectors from above) will be more ready to give out subsidies in strained sectors and preserve leverage than to simply hand in the control of state assets or market reserves to private groups. Concertational policymaking seems to be more feasible with nationally organized actors such as ISI business groups and national unions rather than with informal workers. Likewise, the atomized informal poor could hardly be compensated with market share deals such as the control of state assets or sectoral tariff regimes.¹²

The cases compared in more detail in this book, Spain, Argentina and Chile are the most complete instances of each type, in the same way than, for example, political economists often consider Sweden the model-case of a social democratic welfare state, or Germany and the US are the embodiment of Coordinated and Liberal market capitalism respectively (Esping-Andersen 1990, Hall and Soskice 2001). They show the most extended repertoire in their type of compensation: a series of top-down reconversion plans based on subsidies to industrial firms and dismissed workers in Spain, various forms of market share compensation negotiated with ISI insiders in Argentina, and a wide array of informal sector-targeted anti-poverty and employment programs in neoliberal Chile.¹³ Other cases of extensive neoliberal reform in the Iberian-American world can be assessed in the light of the same dimensions (for example, if major ISI actors were rewarded through privatization, subsidies, or not rewarded; if a massive national program for the informal poor was implemented during adjustment or not), and located under each type.

¹² Besides, as the methodologists George and Bennett (2005: 235) argue, to be heuristically useful, a typological theory need not show empirical instances of all its possible property-space combinations. On the extensive use of typological theory in comparative historical analysis see also Mahoney (2004: 86) and Collier et.al (2012). ¹³ I refer to Spain, Argentina and Chile as model cases of each path rather than ideal types, given that the latter rarely can be found in practice. In Goertz’s (2009: 192) terms, ideal type concepts have zero extension.
The approach is not meant to suggest that the politics of neoliberal reform and its long-run consequences were restricted to the interaction and deals with the ISI potential losers in industry and labor—some of which became in fact political winners. Alliances with “straight winners” such as internationalized finance and multilateral institutions, TNCs or competitive agriculture were also vital in the crafting of market-oriented coalitions, and their complexity also worth studying. Indeed, the role played by some of this more internationalized actors will surface recurrently along the book—specially that of TNCs in the sectoral studies on business.

Yet, the analysis concentrates on how neoliberal reformers grappled with domestic industry and popular actors, for three reasons. First, dealing with industry and the working class (whether through effective marginalization/repression or via compensation) was crucial for the governability of market reform. Established unions and sheltered business were simply the most dangerous foes of liberalization in the domain of economic interests. Second, in most cases of thorough economic liberalization actors such as the IMF, big landlords, neoliberal think-tanks, TNCs, and international banks sided with reformers. By contrast, the relation with the popular sector and protected industry varied a lot more: some neoliberal governments elicited the support of, and rewarded extensively, ISI firms/groups; some did not. Some closed deals with established national unions to soften the costs of adjustment, while others directed extensive compensation to the mass of informal poor; others privileged laid-off industrial workers. Finally, the analysis of compensation is also relevant in view of the important legacies that the exclusions and deals forged during neoliberalism left for the organizational configuration of the more open economies.

**Alternative Explanations: Partisan, International, Fiscal and Ideas**

An examination of Table 1.1 suggests that two of the most typical explanatory factors found in the literature on globalization and economic policy outcomes, the international (see Stallings 1992, Brooks and Kurtz 2007) and the partisan variables (see Boix 1998, Murillo 2009)
do not offer reliable accounts of each model in terms of both the policymaking strategies and the actors targeted for compensation. The Argentine Peronist Party and the Spanish PSOE were all labor-based parties (i.e. parties which core constituency was organized labor) prior to reform. However, they pursued alternative forms of compensation to the working class—bureaucratic payoffs primarily aimed at union leaders in Argentina vs. employment programs in Spain. Cavaco Silva’s center-right PSD government in Portugal and the populist Peronist party in Argentina interacted with the potential losers from reform in a remarkable similar way, i.e. they negotiated partial reform of the labor law with national unions, and used privatization to compensate local business groups. Indeed, the partisan explanation does not hold in within-case analysis. Collor in Brazil headed a center-right government, and his successor Cardoso was from the center-left of the political spectrum. However, their strategies of industrial adjustment through state dirigisme and compensatory subsidies administered by BNDES in specific sectors look quite similar. Similarly, in Spain, the right wing Popular Party’s sequential approach to industrial privatization after 1996, which helped empower national champions in gradually privatized sectors, was essentially analogous to that of its socialist predecessor.

The international explanation would focus on alternative forms of regulatory pressures emanating from the European Union and Mercosur in the cases of Spain, Brazil, Portugal and Argentina. However, under a similar process of EU accession, Spain adjusted through state dirigisme, industrial reconversion plans and subsidies, whereas the Portuguese government prioritized concertation and market share compensation deals with domestic business groups. Similarly, two Mercosur countries, Argentina and Brazil, underwent divergent adjustment paths that involved alternative policymaking formulas and compensatory schemes. Though this international dimension will be addressed in the analysis —especially concerning the influence of
the EU in the Spanish business adjustment—its explanatory power of the variation in compensatory arrangements remains limited.

Two other explanatory factors may appear plausible: the fiscal situation of the state and the role of ideas. The fiscal argument would contend that in the Statist or Market models reformers distributed monetary subsidies as the dominant form of compensation because their economies were not affected by a major budget deficit. Conversely, countries that lacked the resources to develop reconversion or employment plans based on subsidies could only rely on market-share compensation. However, statist and subsidy-based adjustment plans unfolded in Brazil amidst a complicated state financial situation during the 1990s. Indeed, chapter 9 shows that subsidies distributed by the developmental state bank BNDES literally boomed during neoliberalism in Brazil. Market-share deals (involving biased privatization and/or tariff regimes) with major ISI industrial players took place in fiscally unstable Argentina, in the more stable Mexico, and in fiscally responsible Portugal. In the wake of a stabilization and fiscal crisis, the Chilean and Peruvian governments developed or strengthened their national programs targeted at the informal poor and the unemployed, while Argentina did not. The availability of a minimum of fiscal resources is of course necessary to accomplish subsidy-based Statist adjustment, or to build large, informal-poor oriented social programs. Yet, as in Spain, those resources can be from public debt emissions, or from other areas of the budget if the government is bound to that type of compensation strategy. In virtually all the countries studied neoliberal coalitions welcomed capital market integration, which generally made resources available via debt at least in the medium term. In short, the fiscal situation does not seem to explain variation in adjustment paths, and in the patterns of compensation and groups rewarded.

Finally, the place of ideas in the explanation of economic policy outcomes has a venerable tradition in the comparative political economy literature, revitalized in recent years (e.g. Hall
1989, Sikkink 1991, Blyth 2002, Berman 2006, see also Fourcade 2009). Politicians and officials often seek legitimacy for their policy choice in economic theories or ideas that are popular in certain circles or carry a respectable pedigree. For example, Valdés (1995) and Huneeus (2000) have illuminated the origins of the extraordinary influence of the Chicago School of economics in Chile, and the way in which the orthodox free-marketers positioned themselves and shaped the military economic thinking. The main traits of the Market path to adjustment—massive tariff deregulation, the trimming of social spending for organized urban actors, and the anti-poverty policies targeted to the informal poor—are indeed perfectly coherent with the radical ideological version of free market economics propounded by the Chicago School. Likewise, the role played by the Bank of Spain and by BNDES in Brazil in the spread of the complex mixture of market-oriented and nationalist ideas that lurk behind Statist forms of economic liberalization is also noticeable.

The question becomes, first, whether ideology is a consistent factor that can account for the variation in the models of adjustment. The penetration of free market ideas and the consolidation of a neoliberal technocratic cohort educated in the United States within the state were also powerful in Mexico with the rise of Salinas, as demonstrated by the work of Centeno (1997). In Argentina, neoliberal think tanks such as FIEL and CEMA also bore considerable influence on the Menem economic teams, especially after 1996 when CEMA economists led the Ministry of the Economy and the Central Bank. Yet this book shows that Chile, Argentina and Mexico present alternative patterns of policymaking formulas and compensatory measures during adjustment.

Second, as Peter Hall (1997: 185) has observed, it is sometimes difficult to disentangle the influence of ideas from other kind of variables in economic policymaking. For example, one can point out the importance of BNDES in Brazil, or of the Bank of Spain and the Spanish state
holding INI (National Industrial Institute), in the formation of a solid public industrial bureaucracy, and in the dissemination of reformist-nationalist ideas throughout the political elite that carried out Statist liberalization and empowered privatized national champions. However, is this reform world-view sign of the relevance of a specific set of ideas, of greater prior state strength in the industrial realm, or of both? In short, while it is hard to deny the impact of the neoliberal creed as spread from multilateral institutions and think-tanks (see Fourcade and Babb 2002), and the central influence of concrete traditions and ideas that permeated among policymakers in certain cases—fundamentally in Chile, but also in Spain and Brazil—the place of ideas in a systematic explanation of alternative models of adjustment is less clear.

In sum, this book by no means suggests that the explanatory factors outlined later, regime and the power of prior ISI actors, are the only variables that shaped the alternative models of adjustment in specific countries. Rather, the comparative analysis deployed argues that these two domestic variables systematically explain a good deal of the variation (or, one could say, potential necessary conditions)¹⁴ in the models of economic liberalization across cases. To the specification of this causal argument we now turn.

**Explaining Models of Economic Liberalization: Regime Type and Power of ISI Actors**

This study argues that the model of adjustment pursued in terms of policymaking and compensatory measures to specific actors is shaped by two main factors: the type of regime under which liberalization took place—essentially whether adjusting governments were fully democratic or not—and the power of the prior ISI actors, that is, the economic and organizational strength with which business and labor emerged form the inward-oriented model (Figure 1.1).

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¹⁴ On the identification of potential necessary conditions as a minimum claim in causal assessments based on the most-similar cases design see Gerring (2001:211), see also the section on methods later.
The hypotheses that follow, more fully explained in the theory laid out in Chapter 2, summarize the relation among regime, type of actors and mode of adjustment.

**Figure 1.1**

A Stylized Causal Assessment of Industrial and Labor Adjustment under Market Reform

Regime

Path of Adjustment

- Policy
- Process
- Compensatory Measures

Power of prior ISI Actors

**Hypothesis 1:**

*Democratic reformers prioritized compensation (of any kind) to the organized actors of the ISI model, that is, protected business and unions or union-represented workers. Authoritarian neoliberals could bypass (costly) compensation to the organized ISI actors, and were left with the informal poor as the main arena to cultivate some form of mass support.*

This book seeks to bring the question of the political regime back to the study of alternative policy strategies in the developing world. Although the relation between regime and different economic approaches was pervasive in the scholarly work in the 1970s and 1980s, it started to fade away in the 1990s as most countries—fully democratic or not—had embarked on relatively similar stabilization plans, and had reoriented their economies to the market. Yet, the regime variable may not be important to assess whether a country liberalizes or not, but, I argue, it is important to assess the type of economic liberalization that unfolds. Under democratic
regimes, labor and business, the organized actors of the ISI model, could use alternative forms of pressure: mobilization, bankruptcy threats, and lobbying. Committed neoliberal reformers in democratic settings found it very hard to avoid compensating established organized actors. Authoritarian neoliberal regimes, by contrast, attained the coercive power needed to avoid costly compensation to ISI insiders—as targeted antipoverty policies tend to be cheaper than business subsidies or more universal, formal sector-based, entitlements. Thus, authoritarian neoliberals are more likely to deprive protected industrial firms and urban workers linked to organized labor of past gains, indeed generally repressing the latter. In addition, the unorganized informal sector remained the main arena for neoliberal authoritarian regimes which, for reasons of political survival, wanted to gain popular legitimacy beyond their coercive means. Therefore, compensating the informal poor through “targeted” national programs may be important both to cushion waves of protest, and to obtain support for authoritarian elites in future democratic or semi-democratic contexts. Of course, as will be shown in the following chapters, the fact that these social policies were “targeted” (i.e. directed to the informal or extreme poor) did not make them less politically-driven or clientelistic.  

**Hypothesis 2a:**

*When domestic ISI business groups/firms were economically strong vis-à-vis the state and growing in the years prior to reform, they were more likely to engage in concertational /negotiated policymaking, and lobbied for market share compensation (state assets and partial deregulation) as the main compensatory measure. Weak domestic ISI business groups/firms in*
relation to the state, in decline before reform, were more likely to be subjected to state plans and could only demand subsidies, or were left to their fate.

Economically strong private industrial groups, which generally developed in concentrated sectors (i.e. with a small number of players) faced fewer collective action problems, which made formal or informal concertation with state authorities more likely. Moreover, unlike foreign companies which derived important advantages from liberalization, local industrial groups depended more crucially on those markets consolidated via state favors in transitional contexts. Therefore, when certain domestic ISI business groups had been growing vis-à-vis both state and foreign companies in the run-up to liberalization, they were likely to wield the economic capacity and know-how to take over state assets, or profit from politically sanctioned market reserves. Powerful local economic industrial groups reduced the uncertainty implied by economic opening by concentrating markets in the short run, a much more tangible payoff than eventual subsidy favors from fiscally-strained governments. Domestic firms or business groups that have remained economically weak in relation to the state or foreign firms under ISI, generally unable to take over state assets or expand in the short run, were only left with the various types of state subsidies as the only possible form of compensation. Indeed, a weak and indebted company is more likely to claim subsidy compensation to pay off debts and clear the balance sheet, than to buy state assets in a biased privatization. At the same time, a state that had engaged in massive and successful industrial production under ISI (overshadowing the private industrial grupos) could boast the bureaucratic capacity to make the formulation of reconversion plans from above feasible.
Hypothesis 2b:

Organizationally strong national unions (monopolistic and centralized) made negotiated/concertational policymaking more likely, and lobbied for market share compensation (state assets and partial deregulation especially of the labor law). Organizationally weak, that is, plural and decentralized unions, contested adjustment, and demanded subsidies for their laid-off base.

First, organizationally strong unions had something to gain (and negotiate) in the new liberal order, namely the maintenance of traditional regulatory inducements such as monopoly of representation, centralized collective bargaining and other corporatist prerogatives, through partial deregulation. Monopolistic and centralized national unions that did not fear competition from alternative labor organizations, and could control the pressure from below from their own workers were more willing to enter into concertation with neoliberal reformers and negotiate these concessions. In addition, high affiliation provided leaders in monopoly unions with a relatively secure base (all of their member workers) for the businesses opened by market share compensation, such as the managing of state assets, stock programs or pension funds. Leaders of more decentralized and plural union movements had, by contrast, little to win in the new liberal order. Organizationally weak union movements had built poorly bureaucratized national structures. They were less interested in market share compensation such as the preservation of the (often anti-union) labor law, or the management of stock programs or welfare and pension funds for workers. Moreover, their leaders generally experienced more pressures from below, and from other unions, which hampered national negotiations and concertation over bureaucratic payoffs, and built more incentives to seek compensation for the laid-off base.
Table 1.2. Explaining Economic Liberalization Paths: Regime Type and Power of the prior ISI Actors

<table>
<thead>
<tr>
<th>Power of the Prior ISI Actors</th>
<th>Regime Type</th>
<th>Democratic</th>
<th>Authoritarian</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weak ISI Actors</td>
<td></td>
<td>Spain</td>
<td>Chile</td>
</tr>
<tr>
<td>-Subordinated Industrial Bourgeoisie</td>
<td></td>
<td>Brazil</td>
<td>Peru</td>
</tr>
<tr>
<td>-Pluralistic-Decentralized Unions</td>
<td></td>
<td>(rewards domestic industrial firms and laid-off workers with subsidies)</td>
<td>(excludes ISI actors and rewards informal poor through targeted programs)</td>
</tr>
<tr>
<td>Strong ISI Actors</td>
<td></td>
<td>Argentina</td>
<td>Mexico</td>
</tr>
<tr>
<td>-Dominant Industrial Bourgeoisie</td>
<td></td>
<td>Portugal</td>
<td>(combines market share compensation to ISI actors with labor repression and programs targeted to the informal poor)</td>
</tr>
<tr>
<td>-Monopoly-Centralized Unions</td>
<td></td>
<td></td>
<td>Mixed</td>
</tr>
</tbody>
</table>

Hypothesis 1 and 2, that is, the type of regime and the strength of prior ISI actors—whether private domestic groups or the state dominated core ISI sectors; and whether unions were decentralized and pluralistic, or centralized and monopolistic—combined to produce specific outcomes in each country (Table 1.2). It is important to stress that I refer essentially to prereform economic power in the case of industrial business groups (measured in the following chapters in dimensions such as prior growth, sales and profits in relation to the state and foreign companies), and organizational power (measured as degree of union monopoly and centralization) in the case of labor.¹⁷

In the democratic cases the dominant compensatory schemes benefited ISI insiders. As I show in chapters 3 and 9, Argentina and Portugal had generated powerful industry-based family

¹⁷ Though not always irrelevant, industrial business associations were not a central locus of decision-making in the compensatory deals around economic liberalization. They were relatively marginalized in the Statist and Market-led models, and direct relations between the state and the economic grupos predominated in the Corporatist path.
groups vis-à-vis the state, and a relatively centralized labor movement under ISI. Domestic business groups, especially in concentrated sectors, had the economic power to lobby for state assets and market reserves in the midst of vast privatization processes. Plus, a relatively strong and centralized labor movement entered into a concertation in which they sought to preserve the regulatory benefits and inducements obtained under the inward-oriented model.

In the Statist mode of Spain and Brazil, by contrast, there was no major pressure for market share compensation: relatively weak private industrial groups vis-à-vis the state were unable to take over and control state assets massively. In these countries, a strong bureaucratic-industrial elite had grown sheltered in large developmental state holdings or banks, such as the INI in Spain and BNDES in Brazil. This solid industrial technocracy, and the power of state companies in core ISI sectors, combined to produce top-down adjustment implementation—though Spain put in place a broader series of subsidy-based reconversion plans. The existence of this public technocratic elite also eased the construction and empowerment of national champions in gradually privatized sectors. Moreover, the plural and decentralized nature of the union movement in both countries made labor concertation over adjustment policies less likely, as competing unions were ready to exploit a leader’s defection. Relatively autonomous lower-level union bodies in decentralized structures were much more ready to contest adjustment from below. This militancy could only be tamed with subsidy programs targeted at local unions and dismissed base-workers. In the Statist cases subsidy compensation of the base workers (more systematically developed in Spain and restricted to the conflictual cases in Brazil) evolved parallel to the adversarial relations between the government and the main national unions.

In the Market path of Chile and Peru, the state attained the coercive power that enabled neoliberal reformers to avoid compensation, and to unilaterally impose adjustment on ISI
organized actors, especially labor. Yet the type of social actors (in particular business) also interacted to produce the Market outcome. In effect, the local private ISI business groups (and unions) that confronted neoliberal reformers in Chile and Peru were relatively weak vis-à-vis the state, thus facilitating the unilateral imposition of adjustment. Plus, after their offensive against the organized working class, authoritarian reformers in the Market model knew that the informal sector remained the main popular constituency in which they could aspire to build a support base. The system of means-tested poverty alleviation and employment initiatives targeted to the informal sector (delivered through ODEPLAN[State Planning Office] in Chile and the FONCONDES[National Fund of Cooperation for Development] program in Peru) became, therefore, an important vehicle for the construction of a popular base for the regime and the parties associated with it, the UDI in Chile and Cambio 90 in Peru.

In sum, strong ISI actors, that is, growing private industrial groups vis-à-vis the state and an organizationally powerful and centralized labor movement, fundamentally shaped the Corporatist adjustment path and its set of winners and losers. Conversely, weak prior ISI actors, that is, an industrial bourgeoisie relatively subordinated to the state under the inward-oriented model, and an organizationally weak and bottom-up structured union movement, established the basis for a Statist path. In the Market model the state also became the hegemonic industrial producer in the decade prior to reform, eventually weakening domestic capitalist opposition to neoliberalism. In addition, an authoritarian regime avoided costly compensation of ISI actors, and was left with the informal, poor workers as the main potential mass support base.

The historical trajectory that generated alternative state, business and labor industrial actors, as well as the dynamics of compensation under neoliberalism in each path are studied in

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18 Indeed, it is no accident that in both cases top labor leaders that were explicitly opposed to labor and economic reforms, Tucapel Giménez in Chile and Pedro Huilca, Secretary General of the Peruvian Worker’s Confederation,
the empirical chapters of this book. It should be noted that the power of labor under ISI generally mirrors that of the local business industrial sector. For example, organizationally weak independent labor movements matched private industrial groups relatively subordinated to the state in both Spain and Brazil. By contrast, Argentina historically developed relatively strong domestic business groups vis-à-vis the state, and powerful national unions, under ISI. This “parallel development” in the structural and/or organizational strength of economic actors, frequently noted in the literature on *Varieties of Capitalism* for advanced countries, is further analyzed in chapter 9.

Finally, neoliberal Mexico under De La Madrid (1982-88) and Salinas (1988-94) witnessed a “Mixed” strategy in terms of the framework constructed in this book. Unlike in the three models sketched, Mexican reformers from the PRI did not focus a compensatory strategy more or less exclusively either on ISI insiders or on ISI outsiders. Rather, they bestowed compensation on both types of actors. Hence the “mixed” or “hybrid” label for the case. Market share deals and concertation with certain industrial business groups and unions coexisted with labor repression and the courting of the informal poor through an extended anti-poverty program. The mixed case of Mexico will be explained in Chapter 9 in the light of the atypical combination of authoritarianism and the presence of some strong ISI actors. Of course, the type of authoritarian neoliberal government was qualitatively different in the cases of Chile, Peru and Mexico. Yet, in all the cases democratic accountability and civil liberties were restricted, and authoritarianism served to take resources away from the labor and partisan interests more associated with ISI, into the less organized informal sector.
Methods and Research Design: Levels of Comparison

This book employs the comparative-historical method to assess its main hypotheses. Following standard methodological advice for qualitative studies (see King et al. 1994: 129, Collier and Mahoney 1996: 73-4, Munck 2004: 114), the research design seeks wide variation and contrasts in the explanatory and dependent variables. In other words, the cases studied in more detail in the volume, Spain, Argentina and Chile, are broadly diverse in the forms of industrial liberalization and in the variables that help account for them. As argued earlier, they constitute the most complete empirical instances of each model. At the same time, the analysis makes extensive use of quantitative data sets as a source of insight into key economic actors and the dynamics of the sectors in which they are located.

With regard to the small-n component, the research design is based on the most similar systems design (Przeworski and Teune 1970) combined with process-tracing. Outcomes and explanatory factors present alternative scores while context or control variables are roughly similar in that: 1) Spain, Argentina and Chile were all middle-income countries that had developed mixed (i.e. private and state-owned) industrial sectors before economic liberalization.19 2) They have experienced a period of prolonged Import Substitution Industrialization with high tariff levels, generally above 50% 3) The three countries have been widely considered as exemplars of neoliberal reform among emerging economies.20 Indeed, these countries, plus the other cases analyzed in the book—Brazil, Portugal, Peru and Mexico—constitute the sort of

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19 It is important to make clear that I am comparing the initial conditions before the market-oriented governments took power. In 1981, Spain, with a GDP per capita of $5,200 was a middle-income country according to the World Bank classification. The inward-oriented pattern of development in Argentina, Chile, and Spain is illustrated by the fact that, at the beginning of reform, the sum of exports and imports totaled less than one-third of the GDP. All three countries fundamentally differed from the East Asian NICS: in 1981 the ratios of exports plus imports to GDP were, for example, 75% in Korea, 105% in Malaysia and 376% in Singapore (World Development Report, The World Bank, various issues).
laboratory that social scientists always crave: all share an Iberian-Catholic cultural legacy, mixed industrial sectors, and ISI trajectories sheltered by high tariff walls; and all underwent broadly similar processes of economic stabilization and liberalization in the relatively short historical span from the mid-1970s to the late 1990s.

Furthermore, the research design on the main cases of Spain, Argentina and Chile includes a multilevel comparison (Table 1.3): First, national models are compared through a general assessment of the politics of industrial and labor adjustment in each country. This general cross-national comparison is complemented with detailed case studies of industrial and labor restructuring in specific sectors that are representative of the dominant pattern in each country. Comparative case studies have considerable methodological advantage for our theoretical purpose. As Mcgillivray (2004: 6) states eloquently in her work on modern industrial policy, “industrial assistance and protection rarely leave a smoking gun.” The protection or aid conveyed by certain (de)regulatory initiatives such as a tariff modifications, complex privatizations, antidumping measures, or a promotion program, are often opaque and deliberately obscured by protagonists. Thus, the dynamics by which market share or subsides become the salient form of compensation is more clearly untangled in case studies that present a relatively detailed analysis of events, and the options that are ruled out or available to state and economic actors are closely scrutinized.

20 In the index of “Economic Freedom” developed by Gwartney et. al. (2001) for the conservative think tank The Fraser Institute, Argentina, Spain, and Chile are ranked at the top among the major developing countries of Latin America and Southern Europe for the years 1995 and 2000 (www.freetheworld.com).

21 I take the concept of multilevel comparison from Murillo (2001: 20). The idea of investigating sectoral or within-country variations is a frequent strategy to increase the number of observations in small-n designs. See for example Lijphart (1971) and more recently Snyder 2001a.
Table 1.3
Assessing Economic Liberalization Paths: Levels of Comparison

<table>
<thead>
<tr>
<th>Cross-National Level of Comparison</th>
<th>Argentina Corporatist Model</th>
<th>Spain Statist Model</th>
<th>Chile Market Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dominant Pattern of Compensation</td>
<td>Market-Share Compensation</td>
<td>Subsidies</td>
<td>Subsidies (only to informal poor)</td>
</tr>
<tr>
<td>Sectoral Case Studies: Business</td>
<td>Oil Steel Autos</td>
<td>Shipbuilding Steel</td>
<td>Steel Paper Pulp</td>
</tr>
<tr>
<td>Sectoral Case Studies: Labor</td>
<td>Oil Steel Autos</td>
<td>Shipbuilding Steel</td>
<td>Unemployed/informal sector</td>
</tr>
<tr>
<td>Within-Country Level of Comparison (Deviant cases in Business)</td>
<td>Subsidies</td>
<td>Market-Share Compensation</td>
<td>-----</td>
</tr>
<tr>
<td>Sectoral Case Studies</td>
<td>Petrochemicals</td>
<td>Oil</td>
<td>-----</td>
</tr>
</tbody>
</table>

The selection of sectors for the case studies followed two criteria. First, all are ISI capital-intensive sectors in relative terms, that is, basic, intermediate industries (steel, oil, paper pulp, petrochemicals) or complex transport equipment (autos and shipbuilding). I avoided both light ISI sectors, in which labor abundant developing countries presumably tend to have more comparative advantages—and are therefore in less need of compensation—and capital goods or high-technology industries, less extended in this set of countries. Second, the sectors chosen are paradigms of the model of adjustment in each path. Thus, the book analyzes in more detail the steel and shipbuilding sectors in Spain (the largest sectors subjected to Statist reconversion in terms of manpower and resources poured), the three industries with the highest production value.
out of the six major sectors that were rewarded with market-share compensation in Argentina (steel, oil and autos), and the two most important cases of industrial privatization (in terms of asset value) that illustrate the general no-compensation path in Chile, steel and paper pulp. The cross-national comparison seeks to explain why countries chose different paths characterized by a “dominant” set of compensatory arrangements. It is further illustrated by the general comparison with the national adjustment trajectories of Brazil, Portugal, Mexico and Peru developed in Chapter 9.

In addition to the comparison of national models, the book develops a within-country comparison in business sectors that deviate from the compensatory pattern prevalent in the Statist and Corporatist cases of Spain and Argentina. While compensatory policies targeted at labor were relatively homogenous in the different models, specific case studies in business reveal significant within-country contrasts in the democratic cases of Argentina and Spain. Each has an important sectoral “exception” to the national model of business adjustment. In Spain, established private firms in a single tradable sector—the oil industry—were favored with market-share compensation, that is, with a combination of state asset allocation and protectionist or partial deregulation. The petrochemical industry is likewise an atypical case in Argentina. Domestic private groups only strove for subsidies, and they were eventually eliminated from the market, while the state showed great leverage in the reconfiguration of the industry.

Not surprisingly, oil proved to be the single core ISI sector in Spain in which domestic private firms (controlled by the main local banks) had managed to counter the influence of the state during ISI, developing considerable political and economic power, and consistent preferences for market share compensation in the run-up to liberal reform. By contrast, a close analysis of the political economy of petrochemical production in Argentina shows that it was the single core ISI sector in which the state had managed to attain considerable power *vis-à-vis*
private producers under the inward-oriented model, which made possible a sectoral reconversion largely driven from above.

**Legacies for the Liberalized Economies**

Finally, models of adjustment left decisive legacies for the workings of these political economies in the contemporary liberalized order. The course of liberalization in these countries can be understood as a “critical juncture,” i.e., “as a period of significant change, which typically occurs in distinct ways in different countries… and which is hypothesized to produce distinct legacies” (Collier and Collier 1991: 30).

Once a particular reform path is followed and consolidated, be it sequential and “non-compensatory” privatization in Spain, or unfettered labor deregulation in Chile, it is difficult to reverse: new relations of forces emerge, and subsequently the window of opportunity for further institutional change becomes increasingly narrow. The way in which actors use the reformed set of policies and institutions to deepen asymmetries of power is one of the “increasing return” mechanisms that makes path-dependent phenomena difficult to reverse (Pierson 2000: 257, 262). For example, limited and negotiated labor reform in Argentina preserved the organizational power of traditional unions for the post-liberal setting, while thorough (and repressive) labor deregulation largely hindered Chilean union’s role in the open economy. Market share compensation in Argentina, Portugal and Mexico benefited private ISI business groups in the short run. However, these politically-sanctioned market reserves proved difficult to sustain as markets became increasingly open, and many compensated local business groups eventually sold their assets to major TNCs. The national champions empowered amidst Statist restructuring in Spain and Brazil, by contrast, proved more effective in international competition, and preserved decision-making in the domestic economy to a larger extent. These and other legacies of the
adjustment paths for the configuration of the liberalized political economies are analyzed in the concluding chapter.

**Plan of the Book**

Chapter 2 sets the argument in the context of the debates on economic reform in developing economies in the last two decades, and presents the theory just sketched on the origins of state-driven compensation under market reform. Parts II and III explore the dynamics of industrial and labor adjustment in the Statist and Corporatist models of Spain and Argentina, which primarily compensated insiders, that is, the organized ISI actors in business and labor. Chapter 3 explains the main traits of Statist and Corporatist models of business adjustment at a national level. Chapter 4 reinforces the argument through more detailed case studies that were paradigmatic of the industrial transformation in each country. Chapter 5 explores within-country variations, in which firms in core industries deviated from the dominant pattern of industrial liberalization in both Argentina and Spain. Chapter 6 explains the way in which Statist and Corporatist models of labor adjustment focused compensation on alternative segments of the formal sector and union-represented working class. Chapter 7 replicates the argument in more detailed case studies of labor adjustment in selected industries in Argentina and Spain.

Part IV studies the Market path to economic liberalization, which, unlike Statist and Corporatist models, focused compensation on ISI outsiders in the working class, and is most fully represented by Pinochet’s Chile. Thus, Chapter 8 conceptualizes and explains the Chilean neoliberal experiment with a comparative lens. Finally, Part V situates the argument in Ibero-America. Chapter 9 extends the framework to the other major countries and neoliberal reformers in the region: Brazil, Portugal, Peru, and Mexico. The chapter describes the dominant compensatory strategy in each case. As earlier in the book, it proceeds to explain this outcome
through a focus on the regime question, and through both a general historical account of the
evolution of major ISI actors under the inward-oriented model, and a quantitative measure of
their power prior to reform. Chapter 10 concludes by hypothesizing the main institutional and
structural legacies of these transition models for the liberalized political economies, and by
discussing them in the light of recent extensions of the “varieties of capitalism” debate to
emerging markets.