Varieties of Semi-Articulated Capitalism in Latin America

Ben Ross Schneider
brs@northwestern.edu


Abstract. Four core features of capitalism in Latin America structure business access to essential inputs of capital, technology, and labor: 1) diversified conglomerates, 2) multinational corporations (MNCs), 3) low-skilled labor, and 4) atomistic labor relations. Overall non-market institutions are more important in organizing capital and technology while markets predominate in allocating labor and skills. Important complementarities exist among these features especially the symbiosis between MNCs and diversified conglomerates, as well as mutually reinforcing tendencies between these forms of corporate governance and general underinvestment in skills and in well mediated employment relations. The core features are embedded in, and sustained by, other historical and contextual factors including dependence on commodity exports, shallow capital markets, economic and political volatility, weak and interventionist states, and deep ethnic and class divisions. A comparative institutional approach has several advantages over other theoretical perspectives and helps explain the strong growth performance in the region during import substituting industrialization (ISI) as well as the anemic response to market reforms.
I. Introduction

This paper draws on a comparative institutional or ‘varieties of capitalism’ approach to identify core features of capitalism in Latin America. The comparative institutional analysis of different kinds of capitalism has been elaborated recently most extensively for OECD countries. Although this approach has a long tradition in Latin America, it has been semi-dormant in recent years. Beyond reviving this tradition, a comparative institutional perspective brings several innovations to the study of contemporary Latin American political economy. Most importantly it incorporates labor relations and worker training into analyses of overall capitalist coordination; it shifts attention from states to firms; and it directs the empirical focus away from recent policy changes toward enduring, underlying institutional features of capitalism in the region.

The study of distinctive forms of capitalism in Latin America went through several stages over past decades, before slipping down the list of research priorities. Early analyses began with the assumption that entrepreneurs drove capitalist development, studied the behavior and attitudes of Latin American capitalists, and usually concluded that business people were insufficiently entrepreneurial (see for example Lauterbach 1965). In the 1960s and 1970s this perspective that focused on individuals in a domestic setting was supplanted by an approach that started with structures in the international economy, namely dependency theory. Here the problem with Latin American capitalism was that it was dependent, externally constrained, and lacked internal dynamism (Cardoso 1979; Evans 1979). By the 1970s and 1980s, the analysis of Latin American

\[1\] I am indebted to David Soskice for early conversations on education and training in Latin America. I am grateful to the Searle Foundation for financial support and to Barbara Murphy for research assistance.

\[2\] The current broad currency of the ‘varieties of capitalism’ approach owes much to the popularity of the eponymous volume edited by Peter Hall and David Soskice (2001). However, the comparative institutional analysis of capitalism has a long intellectual pedigree that includes, on developed countries, at least Gerschenkron (1962), Shonfield (1965), Katzenstein (1978), Zysman (1983), and Piore and Sabel (1984), and on developing countries Leff (1978), Cardoso and Faletto (1979), Evans (1979; 1995) (1979; 1995), Amsden (1989), Huber (2002), and Guillén (2001).
capitalism shifted again mostly toward the analysis of the state and patterns of state intervention (Evans 1995; Schneider 1999; Bresser-Pereira 1996).

These successive literatures highlighted major aspects of capitalism in Latin America but also left important gaps. First, they had little to say about distinctive forms of corporate governance in domestic firms. We know a good deal about the political activities of domestic business, and its relations with government and MNCs, but much less about how local capitalists built and organized their firms. Second, and similarly, the large literature on organized labor illuminates more of its role in politics than in collective bargaining and firm-level intermediation. Lastly, the study of worker skills, education, and training has been largely left to a small group of policy experts, and the small literature on skills is rarely incorporated into general discussions of the performance of Latin American capitalism overall. The ‘varieties of capitalism’ approach directs attention precisely to these neglected areas.

The ‘varieties’ approach starts with the firm, which in some ways seems to hark back to the narrow perspective adopted in research on Latin American business in the 1960s. However, the focus is on the firm and its strategic interactions with its environment, and in Latin America the international economy and the state dominate this environment. Even from a firm’s-eye view the state rarely disappears; states mediate many key relations -- with creditors, unions, and MNCs, for example -- and regulate many markets. Nonetheless, a firm’s-eye view of the world is useful both as a corrective to other perspectives that either deduce firm behavior or treat it as secondary and mechanically reactive to other forces. And, in practice, what has emerged in developing countries in the wake of market-oriented reforms of the 1980s and 1990s is neither state-led nor market-led development but rather business-led development.

A main goal in the ‘varieties of capitalism’ perspective is to identify complementarities among institutions. For Hall and Soskice extensive vocational training in “coordinated market

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3 Nothing like the extensive subdiscipline of business history in developed countries exists in Latin America. What little historical material there is on individual businesses and business people comes almost exclusively from journalists.
economies” (CMEs) like Germany and Japan combine with and complement ‘patient’ capital and long-term employment relations to create an environment propitious for innovation in production processes and applied technology. Looser market relations and short-term employment in “liberal market economies” (LMEs) like the United States and Great Britain coupled with easy access to stock markets favor smaller start-up firms and an environment conducive to basic science and product innovation. Assessing possible complementarities in Latin America promises new insights into the analysis of past economic performance and contemporary policy prescriptions.

The next section examines four core features of capitalism in Latin America that stand out in comparison to other countries. Section III considers complementarities among these features especially the symbiosis between MNCs and diversified conglomerates, as well as mutually reinforcing tendencies between these forms of corporate governance and general underinvestment in skills and in well mediated employment relations. Section IV takes a step back to look at historical and contextual factors that strengthened the core features: dependence on commodity exports, shallow capital markets, economic and political volatility, weak and interventionist states, and deep ethnic and class divisions. Section V briefly considers some variations or subvarieties of capitalism within Latin America and contrasts Latin America with East Asia. Sections VI and VII conclude by considering the analytic advantages of the comparative institutional approach as well as implications of this semi articulated variety of capitalism for understanding development performance during ISI and the anemic economic response to market reforms.

II. Core Features of Capitalism in Latin America

This section describes four enduring features of corporate governance and the organization of production in Latin America: diversified conglomerates, MNCs, atomistic labor and employee relations, and low-skilled labor.\(^4\) Compared to other varieties of capitalism these

\(^4\) These four features cover much of the same ground that Hall and Soskice examine in their five spheres of strategic relationships: 1) industrial relations; 2) vocational education and training; 3) corporate governance; 4) inter-firm relations; and 5) employee relations.
four features provide for greater institutional, non-market organization of access to finance and technology than in LMEs, but rely on the labor side primarily on market mechanisms. This hybrid mix makes capitalism in Latin America partially coordinated or semi-articulated.\(^5\)

1. **Multisectoral conglomeration.** This core institutional feature of capitalism in the region is widely recognized but rarely investigated. In Latin America the range of diversification in large domestic firms is very wide; conglomeration subsidiaries regularly have no market or technological relation to one another. While horizontal (e.g., Proctor & Gamble), vertical (Ford historically), or technological (General Electric and Sony) conglomeration was common in the United States and other OECD countries, conglomeration in later industrializing Latin America (and East Asia, as considered later) typically entered a wide range of unrelated sectors and activities. In contrast to stand-alone firms, conglomerates internalize capital markets, especially if some of the subsidiaries are in finance, and sometimes labor markets as well.

Comparable data are scarce, but available estimates give consistent indications of the pervasiveness of diversification and conglomeration among large domestic firms.\(^6\) For example,

--- in Mexico by the 1980s there were 121 major diversified grupos (Camp 1989, 174). Mexican banks played a central role in conglomeration and most major grupos had a financial arm. By the mid 1990s the 59 largest grupos accounted for 15 percent of GDP (Amsden 2001, 231, citing Garrido).

--- in Colombia the four largest grupos (accounting for 20 percent of GDP) controlled 278 firms in 1998 and had minority holdings in other firms (Rettberg 2000, Chapter 3, p. 16).

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\(^5\) Hall and Soskice note that France, Italy, Spain, Portugal, Greece, and Turkey do not cluster with either LMEs or CMEs and may constitute a separate “Mediterranean” variety characterized by “capacities for non-market coordination in the sphere of corporate finance but more liberal arrangements in the sphere of labor relations” (2001, 21). If similar patterns of asymmetrical coordination predominate in Latin America and other regions, then this residual variety may be a broader generic feature of late industrialization. Identifying subvarieties in this category may turn on differences in non-market institutions for coordinating access to capital and technology.

\(^6\) Diversification has a long tradition and was often common among smaller firms. From early in the 20th century (and unlike their counterparts in earlier industrializing countries) large agriculturists invested in urban enterprises in services, finance, and emerging industry. This was especially common in the grain and coffee economies of Argentina, Chile, Colombia, and Brazil (Palomino 1987, 43–45; Polit 1968, 399–400; Zeitlin and Ratcliff 1988; Thorp and Durand 1997).
-- in Chile in the 1950s the 11 largest grupos controlled nearly 300 firms (Lagos 1961 cited in Johnson 1967, 47). The holdings of the Edwards grupo for example included a bank, a newspaper, the beer monopoly, coal and gold mining, a real estate firm, and an insurance company which in turn controlled other industrial firms (Johnson 1967, 53).

-- in Argentina in the 1990s the 40 largest conglomerates participated in about 700 firms most of which were on the list of the 1000 largest firms in the country (Bisang 1998, 151, 156).

One of the most comprehensive recent studies of big business in Latin America begins by noting that the universe of big stand-alone firms “is very small in the region. Big firms are, by a large majority, part of formal or informal groups” (Garrido and Peres 1998, 13). A rare comparative study of the five largest grupos in eight countries (including all the largest) found that 34 of 40 grupos had diversified into 4 or 5 different sectors (out of five total: primary, manufacturing, construction, services, and finance) (Durand 1996, 93).

Diversified conglomerates gained competitive advantage by developing generic project expertise and economies of scope which generate increasing returns to overall firm size and to diversification into sectors with standard and available technologies (Amsden 1989; Amsden and Hikino 1994). That is, the capacity (in terms of organization and personnel) used to set up a cement plant, for example, could later be redeployed to develop an aluminum or chemical plant. For Amsden, “the generic skills involved in diversifying included conducting feasibility studies, arranging finance, identifying sources of technology, supervising construction, procuring machinery, starting-up operations and trouble-shooting” (2001, 197).

Even within sectors, firms in Latin America tended to diversify more than similar firms in developed countries. The non-serial, or made to order, capital goods industry in Brazil provides a telling illustration (drawn from Amann 2000, especially 233–48). In the 1970s the Brazilian government targeted the capital goods sector for development and used a variety of promotion policies including trade protection, subsidized credit, and procurement by state enterprises. The sector developed rapidly with a mix of domestic and MNC producers, yet the two types of firms

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7 On diversification in Venezuela and Ecuador, see, respectively Naím and Francés 1995, 166–7, and Conaghan 1988, Table 2, 46, see also 33–45.
pursued different strategies. MNCs concentrated on producing a narrower range of higher technology products and adjusted to fluctuations in domestic demand by exporting. Domestic firms produced a wider range of unrelated, lower technology products and managed volatility in demand, always large in capital goods, by diversifying into multiple markets. Government policy also explicitly encouraged diversification because policy makers encouraged multiple producers in each market segment to ensure competition. Moreover, MNCs concentrated on products where their parent companies had made heavy investments in R&D. Domestic firms in contrast invested little in R&D in part because foreign technology was available for license and, over time, because they were too diversified and could not invest meaningfully in R&D for all their products. Instead, domestic firms developed economies of scope and capacity to borrow existing technologies in a variety of different market segments. By the 1990s the government reduced tariff protection and intervention in the sector, yet contrary to expectations, domestic firms did not specialize or merge. Initially at least domestic firms still thought it best to manage volatility through diversification, lower technology, and economies of scope.

Another common characteristic of Latin American capitalism is family ownership and management (see IDE 2004). In a study of the ownership structure of the 20 largest firms in 27 countries the two Latin American countries in the sample, Mexico and Argentina, ranked first and third in terms of the highest proportion of firms controlled by families, 100 percent and 65 percent, respectively. The rankings were the same for a sample of medium sized firms. Several factors sustained family capitalism in Latin America, including the relatively young age of large firms and shallow capital markets (so founders had fewer opportunities to open the capital of their firms to outside investors). Moreover, family management is compatible with, and functional to,  

8 The second ranked ‘country’ in both samples was the small city-state of Hong Kong, and the only other developing country in the sample ranked much lower (La Porta, López-de-Silanes, and Shleifer 1999, 492, 494). In Brazil family ownership survived the massive ownership transformations of the 1990s. Overall, shared control and foreign ownership expanded at the expense of government and family ownership, yet the latter was not eclipsed, especially among the remaining domestic firms among the largest 100 firms (Goldstein and Schneider 2004, 61).
unrelated diversification (see Granovetter 1995, 108–9). To the extent that diversification does not require technological, production, or marketing coordination among subsidiaries, then professional expertise is likely less valuable than strong principal control over agents of the sort provided by family ties.

2. **Multinational Corporations.** Foreign firms, mostly from the United States, made massive direct investments in Latin America throughout the 20th century: first in raw materials and railroads in the early 20th century, then in other infrastructure and public utilities through the decades up to World War II, then after the war into Fordist manufacturing (mostly consumer durables), and after market reforms in recent decades back into infrastructure and expanding in manufacturing and finance. By the 1960s and 1970s the foreign share of the value of production across all manufacturing sectors was 24 percent in Argentina, 50 percent in Brazil, 30 percent in Chile, 43 percent in Colombia, 44 percent in Peru, and 14 percent in Venezuela (Cunningham 1986, 46 citing Jenkins 1984). The percentages in almost all cases were higher in sectors like chemicals, electrical equipment, and transport equipment than in consumer non-durables like food, beverages, textiles, and clothing. MNC presence was also prominent among the largest firms; by 1999 one third of Latin America’s 100 largest firms were MNCs (Petras and Veltmeyer 1999, ??).9

Most MNCs that invested in Latin America were large, capital- and technology-intensive firms in their home countries, and they usually brought both capital and established technologies with them. In terms of coordinating functions, MNCs organized technology transfer, capital for investment, trade (intra-firm trade), and sometimes relations with suppliers and customers. By one estimate by the 1990s 58 percent of trade between the United States and Latin America was intra-firm and controlled by MNCs (Petras and Veltmeyer 1999, ??).

In sum, conglomeration (usually with family management) and MNCs have provided key mechanisms for organizing access to capital and technology. Conglomerates and MNCs solve

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9 In Brazil MNCs increased their share of the revenues of the top 100 non-financial firms from 26 percent in 1990 to 40 percent in 1998 (Goldstein and Schneider 2004, 61).
common coordination problems more through Coasian internalization and hierarchy; in contrast in CMEs other kinds of institutions (such as business associations) promote non-market coordination among formally independent firms. However, in some grupos, especially more informal ones, and in some MNCs centralized, hierarchical control is weaker than in traditional corporate structures. Nonetheless, one of the key overall contrasts between Latin capitalism and CMEs is the relative weakness of inter-firm coordinating institutions.\footnote{Business associations vary widely across Latin America, especially among economy-wide encompassing associations (Schneider 2004a). Strong encompassing associations helped coordinate macro policy in some countries (Mexico, Chile, and Colombia among the larger countries), but strong sectoral or employers associations like those that engage in crucial coordinating functions in CMEs were rare in Latin America.}

3. **Atomistic employee and labor relations.** The third and fourth features cover issues involving labor and skills. On these dimensions most countries in Latin America had few or weak coordinating mechanisms so labor relations and investment in skills were left largely to markets, often quite imperfect ones.\footnote{The IDB reported that “in a study of 47 countries including most developed countries, six Latin American countries and a sampling of countries in Asia and Africa, Argentina was ranked 29th in productivity per worker, Mexico 34th, Chile 36th, Brazil 38th, Colombia 40th, and Venezuela 42nd. The reasons for these low productivity levels include slow progress in education, the failure of training systems, poor labor relations, and the absence of compensation mechanisms for workers who stand to lose their jobs or job standing due to innovations” (IDB 2001, 105).} Labor relations in Latin America are atomistic and often anomic because workers have fluid, short-term links to firms, and weak or no horizontal links to other workers through labor unions. Among other things, worker turnover is high, few countries in the region have any special institutions (like co-determination) for micro coordination within firms between labor and management, and “organized labor . . . is extremely weak” (Huber 2002, 458–9). Labor markets in Latin America are characterized by the paradox of high labor turnover despite employment rigidities and protections (especially in the costs of lay-offs, see IDB (2001, 112–7)). Table 1 shows a much lower proportion of workers in Latin America have been in their jobs more than two years and that average tenure is also considerably lower than in
developed countries.\(^\text{12}\)

**Table 1. Tenure and Seniority Rates for Workers in Manufacturing**

<table>
<thead>
<tr>
<th></th>
<th>Latin America &amp; Caribbean</th>
<th>OECD</th>
</tr>
</thead>
<tbody>
<tr>
<td>percent of workforce with less than 2 years’ seniority</td>
<td>38.1</td>
<td>24.5</td>
</tr>
<tr>
<td>Average tenure (years)</td>
<td>7.6</td>
<td>10.5</td>
</tr>
</tbody>
</table>

Source Maloney 2001, 139.

Table 2 breaks down the data on average tenure to show some of the variation in job tenure across individual countries and compares averages across selected countries in Latin America with different groups of OECD countries. The overall OECD average masks major differences; average job tenure rates in CMEs are nearly a third higher than rates in LMEs. Tenure rates in Latin America are even lower than rates in developed LMEs.

**Table 2. Average Job Tenure in Manufacturing**

<table>
<thead>
<tr>
<th>Latin America</th>
<th>Tenure</th>
<th>OECD</th>
<th>Tenure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>8.9</td>
<td>UK</td>
<td>9.0</td>
</tr>
<tr>
<td>Bolivia</td>
<td>6.2</td>
<td>United States</td>
<td>9.2</td>
</tr>
<tr>
<td>Brazil</td>
<td>6.2</td>
<td>Australia</td>
<td>7.0</td>
</tr>
<tr>
<td>Honduras</td>
<td>8.4</td>
<td>Average LMEs</td>
<td>8.4</td>
</tr>
<tr>
<td>Venezuela</td>
<td>5.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>7.1</td>
<td>Netherlands</td>
<td>10.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Germany</td>
<td>10.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Austria</td>
<td>10.6</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sweden</td>
<td>11.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Japan</td>
<td>13.1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Average CMEs</td>
<td>11.3</td>
</tr>
</tbody>
</table>

Source Maloney 2001, 161

In Brazil in the 1970s foreign auto producers used a deliberate policy of “hire-and-fire” to

\(^{12}\) In addition, informal employment is much more widespread in Latin America (32 percent of the workforce) than in OECD countries (13 percent) (Maloney 2001, 139).
reduce total labor costs (Humphrey 1982, 113). On a regular basis producers dismissed not only new workers but also workers with greater seniority, skills, and therefore wages. Across six auto firms in São Paulo, the cumulative exit rate for the two year period 1977-78 ranged from 33 to 54 percent (Humphrey 1982, 87). Cumulative hiring for these two years ranged from 35 to 57 percent (calculated from Table 3-8 Humphrey 1982, 88). Thus in most of these six firms the number of workers with less than two years seniority was higher than the 38 percent average (in Table 1) for the region as a whole. In two plants average tenure also ranged below Brazilian and regional averages: from 6 years for more skilled workers to only 3.3 years for less skilled workers. A survey on worker attitudes in these two plants found that this policy of systematic dismissals, regardless of worker performance, “aroused more heated feelings than any other discussed in the questionnaire” (Humphrey 1982, 100).

Compared to labor unions in much of the developed world, organized labor in Latin America tended to be more politicized and state controlled, and less effective at collective bargaining or ongoing intermediation at the plant and firm levels. The unionization rate was relatively high in some countries in the mid 20th century, especially in concentrated industries like mining and capital-intensive manufacturing, but it declined thereafter. By some estimates unionization among wage earners fell over the 1990s from 67 to 39 percent in Argentina, from 60 to 43 percent in Mexico, and from 18 to 5 percent in Peru (Marshall 2000, 12). By another calculation (as percent of the total workforce) union membership declined from an average of 25 percent to 16 percent in Latin America (and from 40 to 31 percent in industrial countries) from the 1980s to the 1990s (IDB 2001, 117). Even where unionization rates were high (sometimes due to compulsory membership), unions were not necessarily a useful institutional vehicle for coordination between workers and employers, due largely to political and state intervention. States intervened both structurally in the sense of legislating levels and conditions of bargaining, and on an ad hoc basis through labor courts or direct intervention, so that both employers and union leaders often had incentives to pursue their interests politically, with state actors, rather than engage in joint coordination with each other (see Buchanan 1995; French 2004).
In terms of organizational development, unions are generally weakest at the plant and firm level. In some cases this disintermediation is the result of explicit legislation; in Brazil, for example, unions could not legally organize factory-level representation.\textsuperscript{13} Overall, labor legislation and political mobilization favored organization at higher levels in order to negotiate with the state over benefits, call general strikes, or mobilize electoral and party support.

4. Low levels of education and vocational skills. Despite relatively high spending on education, educational levels in Latin America remain lower than those in developed countries and East Asia (Edwards 19xx). From 1960 to 2000 the average years of school and levels of secondary education in Latin America almost doubled (see Table 3). Yet, educational attainment still lagged behind East Asia and developed countries (even for 1960) especially for secondary education, the level most relevant for worker education and training.

| Table 3. Education by Average Years of Schooling and Highest Level Attained |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|
| (percent of population aged 15 and over) |                 |                 |                 |                 |
| Latin America and Caribbean (1960) | 3.3             | 12.6            | 4.1             | 1.8             |
| Latin America and Caribbean (2000) | 6.1             | 24.9            | 8.6             | 10.9            |
| East Asia (1960)                   | 2.8             | 8.5             | 2.8             | 1.6             |
| East Asia (2000)                   | 6.7             | 32.7            | 14.8            | 11.7            |
| Advanced Countries (1960)          | 7.1             | 36.4            | 13.5            | 6.7             |
| Advanced Countries (2000)          | 9.8             | 43.1            | 16.6            | 28.1            |

Source (Barro and Lee 2000, 29–30):

Table 4 shows that by one partial measure countries of Latin America invest much less on

\textsuperscript{13} There are some exceptions in Brazil where workers organized informal plant commissions. Mexico has tripartite committees in large firms to plan for worker training.
training than do either LMEs or CMEs. Looking just at the United States and Latin America reveals a consistent pattern of investing under .10 of GDP in training for people out of work.\textsuperscript{14}

The following table 5 shows a similarly consistent pattern of low investment per person in training in Latin America, especially once the high investing outliers of Chile and Costa Rica are excluded. However, these programs do not include all spending on training, since firms provide, under state compulsion, some in-house training to employed workers (IDB 2003, 266).

**Table 4. Expenditure on Training for Unemployed Workers** (1994 or 1995)

<table>
<thead>
<tr>
<th>Latin America</th>
<th>Percent of GDP</th>
<th>OECD</th>
<th>Percent of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>.04</td>
<td>LMEs (average)</td>
<td>.26</td>
</tr>
<tr>
<td>Argentina</td>
<td>.04</td>
<td>Australia</td>
<td>.04</td>
</tr>
<tr>
<td>Brazil</td>
<td>.06</td>
<td>Canada</td>
<td>.29</td>
</tr>
<tr>
<td>Chile</td>
<td>.03</td>
<td>New Zealand</td>
<td>.44</td>
</tr>
<tr>
<td>Mexico</td>
<td>.04</td>
<td>United States</td>
<td>.07</td>
</tr>
<tr>
<td>Peru</td>
<td>.01</td>
<td>CMEs (average)</td>
<td>.51</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Austria</td>
<td>.13</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Denmark</td>
<td>.86</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Finland</td>
<td>.60</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Germany</td>
<td>.44</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Japan</td>
<td>.03</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sweden</td>
<td>.98</td>
</tr>
</tbody>
</table>

Source IDB 2003, 282

\textsuperscript{14} Costa Rica stands out for investing .73 percent of GDP on training for the unemployed, nearly 20 times the average for the region and well above the average even for CMEs (IDB 2003, 282).
Table 5. Funding for Vocational Training Institutions in Latin America

<table>
<thead>
<tr>
<th>Country</th>
<th>Payroll Tax (percent)</th>
<th>Budget/EAP*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>2.5</td>
<td>5.6</td>
</tr>
<tr>
<td>Colombia</td>
<td>2.0</td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>none</td>
<td>12.6</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>2.0</td>
<td>31.8</td>
</tr>
<tr>
<td>Mexico</td>
<td>none</td>
<td></td>
</tr>
<tr>
<td>Peru</td>
<td>.75</td>
<td>2.2</td>
</tr>
<tr>
<td>Venezuela</td>
<td>2.0</td>
<td></td>
</tr>
</tbody>
</table>

Source Galhardi 2002, 80–1: * Total budget for training, in US Dollars, divided by the “economically active population” (EAP). Most smaller countries have a smaller payroll tax around 1 percent and a budget/EAP ratio of 3-5.

What explains the low levels of investment in skills? The lack of spontaneous firm investment is the common result of free riding; if one firm invests in training workers others can then poach and hire away the trained workers at wage rates lower than what it would cost to train the workers themselves. This is the common coordination problem faced by all political economies, overcome, when it is overcome, by either public provision or third-party enforcement of uniform private provision. The main question then for Latin America, is why the weakness of public provision? For a fuller answer to this question, as well as a deeper understanding of why the other features persist, we need to look in the next two sections at complementarities among these features and supporting aspects of the historical context.

III. Reinforcing Incentives and Complementarities

Some of the core features and background factors (discussed in Section IV) reinforce one another in ways that sustain many institutional aspects of capitalism in Latin America (see Figure 1). For Hall and Soskice, “two institutions can said to be complementary if the presence (or

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15 For instances, a Ford plant in Hermosillo, Mexico had 40 percent turnover; the plant invested a lot in training, and workers would then take this human capital and search for jobs elsewhere (Labarca 2000, 14).
efficiency) of one increases returns from (or efficiency of) the other” (2001, 17). The
counterfactual, negative relationship should also hold; the absence (or inefficiency) of one
institution should decrease returns from (or the efficiency of) the other. Empirical research on
possible complementarities in Latin America is scarce so this section is largely deductive and
focuses on how core features reinforce the incentives of workers and capitalists to maintain or
strengthen other core features (or increase costs of attempting to change enduring mechanisms
and institutions). These complementarities contribute to the stickiness of core features but they
do not add up into a system in equilibrium.

Over time domestic conglomerates and MNCs were generally complementary and often
symbiotic, sometimes explicitly encouraged to be so by government policy. When MNCs
sought out domestic partners (sometimes forced to by government restrictions against wholly-
owned subsidiaries) they often joined with conglomerates and thereby contributed to their
diversification. Because MNCs already dominated the technology, they did not need
technological or managerial expertise, and could rely on generic capacities of conglomerates,
thereby reinforcing the value of general project expertise within the conglomerate. If MNCs
wanted potential partners to put up some of the investment, conglomerates had advantages
because they could mobilize and pool resources in ways that single-sector firms could not. Lastly,
MNCs might prefer partnering with larger firms in order to tap into political (rather than technical
or managerial) expertise and capacity.

MNCs also encouraged diversification indirectly. MNCs had advantages over domestic
firms in high technology sectors and over time MNC investment concentrated in capital intensive,
technology intensive sectors. To the extent conglomerates were blocked out of these sectors, or
had options to enter joint ventures, it reduced incentives for conglomerates to invest in

16 In some sectors MNCs and domestic firms were substitutes and competitors, and in the late
20th century MNCs often bought out domestic competitors.

17 For instance, the directors of Banamex, the largest, and very diversified, bank in Mexico (until
its nationalization in 1982) were on the boards of most important business associations, so any
partner of Banamex would automatically gain crucial representation.
The fact that MNCs had taken over the higher technology sectors or subsectors encouraged conglomerates to expand into lower technology areas where they could take advantage of their economies of scope.

Both MNCs and conglomerates had relatively low demand for skilled labor. Easy access to technology through joint ventures with MNCs reduced incentives for domestic firms to invest in R&D, hire scientists and engineers, or train highly skilled workers. MNCs for their part typically opted to invest in established product markets with stable technologies and predictable market demand. This often meant that MNCs shipped used, obsolete equipment from host country production facilities. Even in higher technology sectors the skill and training requirements were relatively low because MNCs had already worked through many of the initial problems when they first set up production in their home markets.

MNC organization of investment, technology, and trade solved daunting challenges for developing countries of moving into new sectors of production. However, once in place, the MNCs suppressed a number of incentives that in other contexts encouraged domestic firms to upgrade. The low investment of MNCs in domestic R & D is well known; less explored are the consequences of intra-firm trade. In sectors characterized by low transport costs and decentralized production -- automobiles for example -- then MNCs presumably locate plants with varying skill requirements in areas where skills are readily available. Over time MNCs are also be under pressure in their home markets, from unions and politicians, not to move high skill, high wage jobs out of their countries of origin. Both market and political pressures thus reduce incentives to invest in skills in developing countries. Counterfactually, a domestic producer without opportunities to decentralize production according to the availability of skills in other countries has incentives to invest in, or press the state to invest in, skills. At a more abstract level, MNCs rely more on exit than voice, especially when production is geared to world rather than local markets.

The lasting, perverse complementarities of a low-skill trap or equilibrium are well known (Booth and Snower 1996). The basic coordination problem is that workers do not invest
individually in acquiring skills because firms do not offer high-skill, high wage jobs. Firms in turn have incentives to invest in production processes that do not require skilled labor because skilled workers are scarce.\textsuperscript{18} This low skill trap seems to hold strongly for Latin America. In the mid 20th century, ISI and commodity exports rapidly expanded the market for unskilled and semi-skilled labor, and thereby reduced incentives for major investment in higher end skills, both by individuals and states. After World War II commodity exports and ISI continued to absorb labor from rural areas without apparent problems, so skills and training dropped as policy priorities.\textsuperscript{19}

When turnover is high and unions at the firm level are weak, then employers have few incentives to invest in worker skills both because they expect not to stay long and because they lack institutional means for negotiating with workers an explicit distribution of gains over time from investing in training. For workers, high turnover also limits their time horizons and lowers their interest in investing in firm specific skills, or even in sector specific skills if they move regularly among different sectors.\textsuperscript{20} High turnover also reduces the incentives for both labor and management to improve plant- and firm- level intermediation.

The absence of a large pool of skilled workers discouraged domestic firms from investing in upgrading their production or in other higher technology sectors, and instead encouraged

\textsuperscript{18} Top management in Latin America may also be characterized by a low-level skill equilibrium. To the extent that family ownership blocks accession to top positions by non-family professional managers with MBAs, it reduces incentives for investing in MBAs and other professional qualifications. And, to the extent owners cannot draw on a broad pool of talented MBAs, they are further encouraged to hire family members.

\textsuperscript{19} Prior to World War II, as industrialization began in the more advanced countries of Latin America, new industrialists took a greater interest in policies to train workers from the countryside for industrial employment. Brazilian industrialists took the lead and pressed the government to establish national training systems in the early 1940s (Weinstein 1996). Over the next decade many other countries copied the Brazilian system. However, these systems never developed much beyond this modest and often remedial function. What is striking in the Brazilian case is how debates about training and skills faded after the initial flurry in the 1960s. The 2001 IDB Report on competitiveness devotes only 10 of 250 pages to training (2001, 125–34).

\textsuperscript{20} An IDB study found fluid, common movement between formal and informal employment and this presumably involves movement among sectors with different skill requirements.
domestic firms to target lower technology investments where appropriate skills were abundant in the labor market. Low technology investment coupled with high labor turnover facilitated conglomerations. That is, lower technology investment and the management of homogeneous flows of temporary, low-skilled workers became elements of, and increased returns to, economies of scope. Once a firm had developed a successful strategy for borrowing one technology and using it successfully with a flow of low-skilled workers, then the barriers for replicating this strategy in other sectors were low (and depended in large part on government incentives and competition from other conglomerates and MNCs (Amsden 1989)).

MNCs and conglomerates are non-market forms of organizing investment and technology, yet, in contrast to the effects of non-market coordination in CMEs, there are few institutional incentives for their investment to be patient. The crucial function of coordinating institutions in CMEs, for both labor and capital, is to lengthen time horizons. Ironically, non-market organization of investment in Latin America allows conglomerates and MNCs to respond flexibly and rapidly to market signals; both forms of corporate governance are well suited to manage exit.  

The state is the main external institution that historically reinforced the core features as it regulated markets for capital, labor, technology, and a wide variety of goods and services. States invited MNCs in and regulated the terms of their entry. States encouraged -- sometimes directly, sometimes indirectly -- diversification, though often simultaneously restricting the overall size of conglomerates (Amsden 2001). States, at least from the 1930s, intervened deeply in labor markets and initial worker training, at the same time they provided inadequate public education. Once MNCs and conglomerates came to dominate the private sector, around the 1960s and 1970s in most countries, they in turn reinforced and supported patterns of state intervention and

21 In principle, family capitalism would give domestic firms options for being more patient since family owners do not have to meet short term targets for banks or stock markets. Subsidized loans from state banks could also lengthen time horizons. Empirical research is needed to determine whether domestic firms in fact take advantage of the opportunities for patience.
regulation. And, as discussed later, big business, foreign and domestic, lacked incentives to push the state to reform and so favored the status quo.

The four core features and their interactions were central concerns in day to day management and basic organization of production. However, capitalists also faced other regular aspects of their economies -- what Hall and Soskice call “shared expectations” -- that influenced longer term strategies. A São Paulo industrialist, for instance, in the mid 20th century knew that coffee would bring foreign exchange, use lots of unskilled labor, and generate overall economic volatility. Commodity exports, and several other contextual factors were not core features of capitalism itself, but they did shape these and sometimes close off alternative strategies.

IV. Background Factors and Context

Figure 2 illustrates graphically the complex set of other factors that reinforced core features of Latin American capitalism: commodity exports, economic and political volatility, shallow capital markets, a weak and interventionist state, and deep ethnic and socio-economic divisions. Besides noting some of the crucial interactions, two other goals of this section are to draw attention to the deeper historical roots of contemporary features of Latin American capitalism and to shift explanations of institutional continuity from a functionalist equilibrium based on immediate complementarities to an exogenous and politically contingent set of historical factors.

1. Commodity exports. Throughout the 20th century, in periods of both free trade and ISI, exports have been primarily low-valued added raw materials and semi-processed goods. Exports of unprocessed commodities decreased over the second half of the 20th century as a percentage of total exports. However, what grew proportionally was not higher technology manufactured goods but largely middle technology processed commodities and basic scale-intensive products like metals and paper pulp (Table 6).
Table 6. Selected Products as a Percentage of Total Exports, 1990

<table>
<thead>
<tr>
<th></th>
<th>Primary products</th>
<th>Traditional industrial products</th>
<th>Products with scale economies</th>
<th>Durable goods</th>
<th>Products intensive in technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>29</td>
<td>33</td>
<td>31</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Bolivia</td>
<td>67</td>
<td>16</td>
<td>17</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Brazil</td>
<td>20</td>
<td>29</td>
<td>31</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>Chile</td>
<td>27</td>
<td>16</td>
<td>53</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Colombia</td>
<td>63</td>
<td>21</td>
<td>13</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Mexico</td>
<td>47</td>
<td>9</td>
<td>17</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td>Venezuela</td>
<td>83</td>
<td>3</td>
<td>11</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Source Baumann 2002, 59

Many industrialized commodities like plywood, aluminum, orange juice, or vegetable oils are based on natural resource endowments, and comparative advantage comes first from these endowments rather than technology or productivity. To the extent that these commodity exports satisfy foreign exchange needs they diminish incentives to move up the commodity chain by investing in upgrading skills, technology, and productivity. Moreover, some commodity sectors such as mining, metals, and agriculture attracted a lot of MNC investment.

2. Economic and political volatility. On the economic side Latin America was subject throughout the 20th century to enormous fluctuations from various sources, both foreign and home grown. Variations in international demand for commodities, and later in the cost and availability of credit, caused severe downturns, including the Great Depression of the 1930s to the debt crisis of the 1980s. Even in more normal times balance of payments and fiscal imbalances and inflation were chronic problems that often erupted into dramatic and unpredictable crises.  

22 Exports changed little from 1990 to 1997 in most countries, despite the wave of liberalizing reforms over the 1980s and 1990s. Mexico and Venezuela were the exceptions where export composition shifted dramatically away from primary products (oil) toward traditional industrial products, durable goods, and especially higher technology products in Mexico, and toward products with scale economies in Venezuela (Baumann 2002, 59). In the Mexican case this was a clear consequence of Nafta.

23 The annual IDB report for 2003 concluded that, “Latin America suffers from an extremely volatile macroeconomic environment” (2003, 133). The report measured volatility (defined as the
Political volatility also contributed to radical shifts in macroeconomic policy and spending. Military intervention was a primary cause of unscheduled changes in the presidency, especially in the waves of coups in the 1930s and 1940s and again in the 1960s and 1970s. In addition there have been numerous attempted coups, insurgencies, and destabilizing popular mobilizations. Even in periods of relative democratic stability, several institutional factors have contributed to instability and discontinuity including presidentialism, no-reelection laws, majoritarian parties, fragmented party systems, and fluid electorates.

From a business perspective throughout most of the 20th century uncertainty prevailed along most major economic variables like growth, government spending, inflation, exchange rates, and interest rates. These uncertainties encouraged defensive diversification precisely into unrelated sectors -- a trademark of Latin American conglomerates -- in order that some part of the conglomerate or grupo would be spared any given economic shock. In addition, within particular firms and plants, volatility encouraged managers to maintain maximum flexibility with regard to labor (given expectations that severe downsizing would be required at regular intervals) which reduced incentives for long-term employment arrangements, for investing in worker training, and for establishing enduring institutions for ongoing intermediation with employees. Volatility greatly shortened time horizons.

3. **Underdeveloped capital markets.** Latin America businesses could not finance investment through domestic bank finance (as in CMEs) or stock markets (as in LMEs) and relied instead on retained earnings, international loans, or loans from state agencies. Financial markets in Latin America “are in fact very small... On average the ratio of credit to the private sector to GDP in the 1990s was close to 35 percent, roughly a third of the size of the average credit markets in East Asia and the developed countries” (IDB 2001, 57). Stock market capitalization

standard deviation for the whole period) for 1970-2000 and found volatility for output, terms of trade, and capital flows in Latin America higher than Asia and almost twice as high as volatility in developed countries (IDB 2003, 116).

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24 Brazil, for example, has a very low ratio of total credit to GDP of 30 percent, compared to 61 percent in Chile. In developed economies available credit often exceeds GDP: 127 percent in the
in the 1990s averaged only three percent of GDP (IDB 2001, 58). Underdeveloped capital markets increases the value of conglomeration in that diversified groups internalized capital markets; member firms regularly pooled capital across sectors in order to invest in the best opportunities of the moment. And, to the extent small financial markets constrain total investment by domestic firms, policy makers have incentives to promote foreign direct investment (FDI) to boost aggregate investment.

4. **Weak and interventionist states.** The state in Latin America has long been characterized by comparative weakness in both capacity to tax and meritocratic bureaucracy.\(^{25}\) The weaknesses in revenue collection can be traced in part to the low incidence of war on the continent since independence (Centeno 2002), as well as the ease of taxing trade and borrowing abroad to finance the state. On the administrative side the temptation has often been greater to use the bureaucracy for political patronage than to build professional competence. At the same time, state actors have not been reluctant to intervene deeply and dramatically in the society and economy. Both features, weakness and a proclivity to intervene further increased volatility and uncertainty for private firms.

Tariff protection and ISI generally were suitable industrial policies for this kind of state because they allowed for detailed, discretionary intervention (tariffs, quotas, licenses) without a corresponding need for extensive bureaucratic capacity and material resources to enforce the intervention. Some states in Latin America also created development banks, technology institutions, and state enterprises to add to the instruments of industrial promotion. However, these entities were scarcer, and generally functioned less well than in East Asia. Reciprocity is a key issue in this comparison, and Latin American states generally conceded promotion benefits without a corresponding capacity to enforce reciprocal compliance on the part of corporate

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\(^{25}\) On taxation, see Mahon (2003), and Centeno (2002). On bureaucracy, see Schneider (1991) and Schneider and Heredia (2003).
beneficiaries (Amsden 2001; Schneider 1998).

Weak and deep intervention also characterized state regulation of labor markets and unions. Restrictions on labor markets were extensive and resemble CMEs on some dimensions, especially employment protections. However, in Latin America weak enforcement and informal employment undermined these protections. Moreover, the long history of deep state intervention may have ‘crowded out,’ or inhibited the emergence of, other kinds of non-state, non-market institutions common in CMEs like life-time employment or strong unions and employers’ associations. The end result was greater market coordination for labor.

5. Ethnic division and socioeconomic inequality. Most countries of Latin America are riven by intense ethnic, class, gender, and racial divisions, and these divisions reduced both individual and collective political incentives for investing in education and human capital. If workers perceive ethnic or other ascriptive barriers to upward mobility, then they have few incentives to invest in training. For political elites -- mostly white men -- the political benefits of pushing costly investments in education for poor, stigmatized groups are likely small. Historically in Latin America legacies of colonial exploitation, slavery, and racism slowed the extension of universal basic education. From the beginning of the 20th century literacy rates were higher in countries with greater equality and ethnic homogeneity. By 1925 Argentina, Chile, Cuba, Costa Rica, and Uruguay had literacy rates greater than 66 percent while the rate was less than half of this in most of the rest of the region, including the most populous countries Brazil, Mexico, and Colombia (Mariscal and Sokoloff 2000, 175). Lastly, extreme poverty at the bottom of the highly skewed socioeconomic pyramid forces children out of school and into the labor market early and effectively precludes individual and family decisions to invest in education and human capital.

Overall these five background factors affected the core features in varying intensities and combinations (that Figure 2 tries to simplify graphically). Before closing this section it is illustrative to take one core feature -- diversified conglomeration -- and summarize how both institutional complementarities and some aspects of the background context provided business with consistent incentives to diversify. Previous sections noted how economies of scope, MNCs,
government promotion and competition policies, family ownership, volatility, and shallow capital markets all facilitated and favored diversified conglomerate.26

In addition, ISI and other government policies that produced asymmetries in mediating transborder transactions were especially propitious for diversification (Guillén 2001). With limited domestic markets and few export opportunities, production quickly saturated markets, so profits could not be reinvested in the same product lines. As governments promoted ISI in an ever increasing range of sectors, those with ready capital -- existing firms or conglomerates -- were well placed to move into each new sector (interview with Paulo Villaes, 28 January 1993). ISI attracted MNCs that invested to jump tariff barriers and often drew large firms into new sectors. Lastly, as large firms gained greater access to international lending (especially in the 1970s and 1990s), they could also leverage interest rate differentials, borrowing abroad to acquire subsidiaries at home.27

With so many factors pushing diversification, it is difficult to tease out which ones have the greatest weight and which ones might be necessary and/or sufficient. Despite this complexity, comparative analysis (pursued further in the next section) suggests that economic and political volatility were crucial factors affecting the distinctive, defensive strategy of diversification pursued by conglomerates in Latin America. Volatility and instability encouraged the widest possible diversification, which presumably reduced their overall dynamism as it included unproductive

26 These economic motivations for diversification were in some cases abetted by ideas. In the Mexican case, for example, Agustín Legoretta, a scion of a traditional Mexico banking family and CEO of Banamex from 1971-82 (Banamex was the largest private bank in Latin America until its expropriation in 1982), followed the German model (interview, 23 June 2004). Legorreta, and his father before him, pushed their bank into many diverse industrial and service industries so that by the time of Banamex’s expropriation the bank had an ownership share in over 300 other firms. In addition, in the 1950s and 1960s business strategies in Mexico were influenced by diversification strategies pursued, though briefly, by firms in the United States. However, Mexican firms did not thereafter reduce diversify as quickly as firms in the United States did once orthodoxy there shifted to specialization in core competencies.

27 The most extreme example of this process came in Chile in the 1970s. Some large firms used access to international credit and lax internal banking rules to go on a binge of acquisitions, diversification, and conglomeration (Silva 1996, 105).
hedging investments and likely entered the realm of decreasing returns to scope.28

Complementarities and background factors often support institutional maintenance through incentives not to press for change rather than active support for the institutional status quo. For example, conglomerations and family capitalism were encouraged by high transaction costs (weak legal framework, threats from state, underdeveloped capital markets, etc.), and in a vicious cycle, once conglomerates had overcome these costs it gave them competitive advantages over non-conglomerates. Once the largest firms had overcome problems of access to capital, volatility, and access to technology, they then had few incentives to press for reforms that might give smaller, non-conglomerated firms a better chance to compete with them. So, for example, because they had internal funds, MNCs and conglomerates reduced overall demand for capital through stock markets, and they had few incentives to pressure governments to expand stock markets.

V. Comparative Variations and Extensions

My analysis has focused on commonalities among the larger countries of Latin America. There are of course major differences among the large countries as well as between them and smaller countries. Venezuela, for example, is an outlier among larger countries, because oil exports determined overall economic performance and the oil rents channeled through the state constituted the main focus of strategic relations for business (Karl 1997). Venezuela still shared many of the core and background features with other countries in the region, but analytically it may have more in common with other large petro-states like Nigeria and Indonesia. The smaller countries of South America as well as Central America and the Caribbean deviate from the regional ‘median’ in that their small domestic markets limited ISI and MNC investment to service

28 Although not addressed in the literature, some diversification projects must not entail increasing economies of, or returns to, scope. The generic, project execution capacity in steel, for example, would presumably result in economies of scope in aluminum but not in hotels or retail banking.
local demand. Nonetheless many of the core features were also common there. Even conglomerates and informal grupos, though small, were prominent (Strachan 1979).

Mexico may also be on a trajectory that will deviate significantly from the Latin American median. Nafta promoted far greater growth in exports and especially higher technology exports than trade liberalization did elsewhere in the region (Stallings and Peres 2000). Among the core features, the Mexican trajectory depends increasingly on MNCs and less on conglomerates to mediate access to capital and technology. However, little has changed on the labor side. To the extent that integration opens up access to US capital markets, then one hypothesis would be that the incentive structure shifts to resemble more LMEs. Labor and employment relations were already more market-oriented, so as access to capital becomes less mediated by non-market institutions, the trend could be toward great institutional isomorphism with North America. If so, the fact that it took something as drastic as Nafta to set Mexico on the path to some other institutional variety of capitalism underscores the staying power of the Latin variety.

Costa Rica provides an example of another possible exception in its strategy of investing heavily in human capital, and Costa Rica might break out of the general mold through greater non-market coordination on the labor side. Costa Rica has higher education levels than most of

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In a more speculative vein there may also be some clustering in Latin America among two politically based sub-varieties. Hall and Soskice note that LMEs tend to have majoritarian political systems and CMEs have coalitional ones. Their hypothesis is that coalitional governments shift policies less abruptly and encourage investment in more specific assets and longer term coordination mechanisms (2001, 49–50). At first glance most presidential systems in Latin America would appear majoritarian. However, informal coalitional practices, especially enduring practices in fragmented party systems, in some countries in some periods produce something like coalitional practices in CMEs (see Amorim Neto 2002b; Schneider 2004b). The hypothesis for Latin America would be that coalitional periods in Brazil, Chile, and Colombia would facilitate better coordination and economic performance than periods of majoritarian rule in Venezuela, Mexico, and Argentina.

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There are some indications that larger domestic firms may be tending more towards specialization. Cemex and Bimbo, for example, adopted strategies of specializing and expanding abroad. Pulsar attempted to diversify into a number of unrelated fields and failed. The Grupo Carso, the owner of Telmex, adopted a hybrid strategy; it specialized abroad as it expanded into Latin American markets in cellular service, but remained in Mexico a very diversified conglomerate.
its neighbors in the Caribbean basin. Costa Rica also spends far more on worker training (as noted in section II) and on R&D (as a percent of GDP) than other countries in Latin America (Alcorta and Peres 1995, 28, Table 7). The government touted its comparative advantage in human capital to attract manufacturing investment, and from 1985 to 2001 Costa Rica’s share of world exports grew rapidly (from .07 to .12) and within this growing flow of exports the share of high technology products mushroomed from 3 to 28 percent (Cepal 2004, 75). To the extent this strategy succeeds, the Costa Rican exception would reinforce the deeper historical explanation for low investment in education and training. Within Latin America, Costa Rica has long ranked high in terms of equality, social welfare, ethnic homogeneity, and educational attainment, all of which likely facilitated the shift to, and return from, greater investment in skills.  

Similar facilitating factors may also reinforce differences between Latin America and East Asia, especially Taiwan and Korea. The standout contrasts between the regions are the much higher educational and skill levels and much lower levels of FDI in East Asia. Although average years of schooling in 2000 were similar (6.1 in Latin America, 6.7 in East Asia), the percentage of the population with complete or some secondary education was 34 percent in Latin America versus 48 percent in East Asia (from Table 3). In 1982, foreign affiliates of US and Japanese firms controlled 19 percent of manufacturing in Latin America versus 8 percent in East Asia (Amsden 2001). Lastly, labor and employment relations in East Asia seem, at least in large firms, to be somewhat less coordinated by arm’s length market relations but are still probably closer to LMEs than CMEs.

Given these major differences, it is noteworthy that diversified conglomerates are so prevalent in both regions, and even more central in East Asia to coordinating access to capital and technology where MNCs historically played little role. Yet the absence of MNCs (and other historical factors in Latin America) permitted the evolution of different sorts of Asian

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31 Costa Rica’s success in high technology exports might not have been so striking had Intel not decided on massive investments there that amounted to 2.1 percent of GDP. Intel alone contributed 5 points of the 8 percent growth rate of 1999 (IDB 2001, 258).
conglomerates that were more active in manufacturing and ultimately moved into higher technology sectors (Amsden 2001). Part of the explanation lies in the lack of MNCs that in Latin America boxed domestic firms out of higher technology sectors and relatively less volatility of the kind that led conglomerates in Latin America to diversify out of manufacturing and into finance, services, and agriculture. The key common impetus to diversify came from the state -- more through finance in East Asia and protection in Latin America -- though both policy instruments encouraged conglomerations in both regions. A last difference on the dimension of non-market coordination of investment and technology is the stronger role in East Asia of business associations and other forms of inter-firm cooperation, usually enforced or subsidized by the state.

For shorthand I have referred to a Latin American type of capitalism, however the four core features and most of the background features characterize a number of other middle income developing countries where capitalism may be similarly semi-articulated. Among richer developing countries outside Latin America where the similarities seem greatest, Turkey, the Philippines, and Thailand stand out. Careful comparisons would be necessary to assess how similar these political economies in fact are to those of the larger countries of Latin America, but my point of departure would be that the semi-articulated variety of capitalism identified in this paper is not exclusive to Latin America.

VI. Understanding Development Performance

The lackluster performance of most economies of Latin America in the wake of market reforms of the 1980s and 1990s confounded reformers’ optimism and raised three big questions. Why were growth rates so much higher under ISI than after the market reforms of the 1990s? Why did Latin American exports in the 1990s not grow as much or as quickly as expected? And, why did market reforms have so little impact on increasing low skilled employment and thereby improving income distribution? The comparative institutional approach offers some hypotheses on each of these puzzles.

The first hypothesis is that ISI promoted greater investment by MNCs and conglomerates
than did free trade. Aggregate investment dropped in the 1980s and 1990s (below 20 percent for most countries for most of the period) and never recovered the levels of the 1960s and 1970s. As noted earlier, ISI was a propitious environment for conglomerates and MNCs; MNCs were induced to invest in manufacturing to jump tariff barriers and conglomerates also invested heavily. Since domestic markets were small and profitable, conglomerates raced each other to get into each new market or sector (Amsden 1989). Both sets of firms struggled when governments rolled back ISI protections. New MNC investment gravitated out of manufacturing into services and raw materials, or to countries with better skills, lower wages, and closer proximity (like Mexico). Conglomerates were able to adjust quickly to market reforms but did so mostly by exiting uncompetitive industries and expanding into non-tradable sectors and commodity exports, and both areas had limited growth potential.

Based partly on East Asia’s export success in previous decades, reformers hoped that trade liberalization would rapidly increase overall trade, especially through higher value added exports. However, outside the special case of post-Nafta Mexico, the proportion of higher technology exports did not expand in the 1990s (Baumann 2002, 59). A possible explanation lies in a convergence of disincentives. MNCs often kept the higher technology parts of their commodity chains in developed countries or East Asia and had few incentives to move them to the low-skill (and often high-wage due to currency overvaluations) economies in Latin America. Domestic conglomerates lacked core competencies based on proprietary technologies and hence had few incentives to bet heavily on specializing in particular sectors for export.

Neoliberals in the 1980s also hoped that market reform, especially trade liberalization, would favor unskilled labor and hence serve not only to increase efficiency and growth but also equity while reducing poverty. This was not the result in Latin America (Stallings and Peres 2000). In fact the sectors that responded rapidly to new export opportunities were not the sort

32 Absolute flows of FDI into Latin America reached all time highs, but much of this investment went to acquire firms (some through large privatization programs). Cross border merges and acquisitions do not though add to the aggregate rate of investment.
of labor intensive, small scale manufacturing sectors but more capital-intensive, mid-technology, commodity processing sectors dominated usually by large grupos. The expansion of the kinds of smaller firms that were prominent in other experiences of labor-intensive export booms, as in Korea and Spain (Shafer 1994; Guillén 2001), were unlikely in an institutional context with high barriers to entry. These barriers included transaction costs in terms of regulation and underdeveloped capital markets that offered little finance to small firms.

Moreover, globalization and the integration of China into the world economy opened up new opportunities for poorer countries in Asia for low wage, low skill manufacturing, making it difficult for Latin American companies to compete on the low end. Advances in basic education in Latin America in recent decades meant that it had a smaller pool of workers with no education than the poorest countries of Asia and a larger pool of workers with some primary education. As the Interamerican Development Bank (IDB) lamented:

The evidence suggests that Latin America in fact has no advantage in producing unskilled labor-intensive goods at low cost. It seems that the region is at a point between two worlds. On the one hand, it is not the region of the world most abundant in unskilled labor. On the other, schooling progress has been so slow in the past few decades that the region has not made the big push seen in other areas (such as East Asia) needed to achieve comparative advantages in middle-skilled labor (2001, 108).

The key policy implication, noted at the outset, of a comparative institutional approach is that, to be effective, policies should play to the strengths of particular institutional configurations. Given Latin America’s comparative advantage in the larger pool of workers with only primary education, the short term conclusion would be to promote lower technology, traditional manufacturing and commodity processing sectors. However, this modest ambition, while playing perhaps to comparative institutional advantages, is not likely to meet aspirations for millions of

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33 Mexican maquilas are a possible exception. Export processing zones in Mexico (as well as elsewhere in Central America and the Caribbean) rapidly expanded employment in the 1990s. In Mexican maquilas, employment rose from 446,000 in 1990 to 1,188,000 in 2001 and from 1.7 to 3.0 percent of the economically active population (IDB 2003, 163).

34 On an index of start-up costs developed by the World Economic Forum, the median score for Latin America was around 50, compared to less than 25 for East Asia and less than 20 for developed countries (IDB 2003, 54).
more interesting, better paid jobs. The longer term, more ambitious and more optimistic policy implication is that creating better jobs requires more than a few targeted labor market interventions; it requires rather an integrated strategy to reform the broader institutional configuration, which in Latin America would include vocational training, labor law, unions, and basic education (see IDB 2003, 274–7).

VII. Theoretical Implications and Conclusions

A comparative institutional or ‘varieties of capitalism’ perspective offers a number of analytic advantages over other approaches to Latin America political economy. A comparative institutional approach helps in identifying features that make theoretical assumptions or arguments drawn from other contexts inappropriate. For example, if major firms are diversified then assumptions about firm behavior derived from theories based on asset specificity are not applicable (Schneider 2004b). Most conglomerates were therefore less opposed than specialized firms to trade liberalization because many of their subsidiaries were not threatened by import competition. Conglomerates might though still have misgivings about dismantling ISI because it favored and sustained general diversification strategies, and open markets might force specialization and reduce competitive advantages based on economies of scope. However, these misgivings would lead to different kinds of economic and political behaviors than those predicated on asset specificity. Or, if access to capital for investment is highly variable across firms or periods, we should not expect uniform firm responses to new market opportunities. Trade liberalization, for example, may give both small, labor-intensive firms and large, capital intensive grupos equal incentives to expand, but in the short run only the grupos have access to capital to invest.

Another related analytic benefit of the comparative institutional perspective is to focus on enduring features of capitalism in Latin America. Most of the contemporary literature on the political economy of the region looks at various policy issues or changes in development strategy, aspects that have changed with remarkable and high frequency of the last century. Although these
policy and strategy shifts often had profound effects on the functioning of capitalism -- from hyper to low inflation, for example -- they nonetheless divert attention from possible underlying institutional continuities, that in turn affect how economies are likely to react to different sets of policies.

In terms of institutional continuities, change, and isomorphism, Latin capitalism seems to pose an anomaly for the ‘varieties of capitalism’ approach. Latin capitalism combines non-market organization in finance and corporate governance with market institutions for coordinating skills and labor relations. This enduring hybrid does not square with Hall and Soskice’s expectation that, “nations with a particular type of coordination in one sphere of the economy should tend to develop complementary practices in other spheres as well” (2001, 18). They hypothesize that coordinating institutions from one sphere can be replicated in other spheres (economies of scope in non-market coordinating institutions) or firms may pressure governments to create complementary institutions in other spheres. These logics appear to have had less force in rendering the Latin variety less hybrid and more consistently LME or CME.

One hypothesis for this lasting hybrid form derives from the character of the mechanisms organizing access to capital and technology, namely MNCs and conglomerates. In one sense these are more Coasian solutions to market problems than coordinating institutions intermediating between independent sets of firms. In LMEs stock markets and short-term credit markets intermediate investment, and in CMEs banks finance firms. In Latin America, MNCs and conglomerates internalize this financial intermediation, because, in Coasian terms, the transaction costs of stock markets and banking are too high. Internalizing financial intermediation (and technology transfer in the case of MNCs) may in turn reduce the impetus to harmonize coordinating institutions across multiple spheres. That is, because the mechanisms for organizing investment are internal, they do not provide models of inter-firm coordination to replicate (as for example in the case of a business association that moves from setting product standards to certifying skills). And because coordinating solutions are firm, or grupo specific, they do not generate externalities in terms of collective action, as might be the case again in experiences of
strong coordination through business associations that might subsequently pressure the government to supply complementary institutions.
References


IDE. 2004. *Family Business in Developing Countries*. Institute of Developing Economies, JETRO.


Figure 1: Core Factors of Semi-Articulated Capitalism in Latin America
Figure 2: Background Factors in Semi-Articulated Capitalism in Latin America

- Shallow Capital Markets
- Economic and Political Volatility
- Conglomerates
- Atomistic Labor Relations
- Low Skills
- Wide Ethnic + Class Divisions
- Weak + Interventionist State
- Commodity Exports