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COMMENTARY

## Hierarchical Market Economies and Varieties of Capitalism in Latin America\*

BEN ROSS SCHNEIDER

*Abstract:* The extensive scholarship on ‘varieties of capitalism’ offers some conceptual and theoretical innovations that can be fruitfully employed to analyse the distinctive institutional foundations of capitalism in Latin America, or what could be called hierarchical market economies (HMEs). This perspective helps identify four core features of HMEs in Latin America that structure business access to essential inputs of capital, technology and labour: diversified business groups, multinational corporations (MNCs), low-skilled labour, and atomistic labour relations. Overall non-market, hierarchical relations in business groups and MNCs are central in organising capital and technology in Latin America, and are also pervasive in labour market regulation, union representation and employment relations. Important complementarities exist among these features, especially between MNCs and diversified business groups, as well as mutually reinforcing tendencies between these dominant corporate forms and general under-investment in skills and in well-mediated employment relations. These four features of HMEs, their common reliance on hierarchy, and the particular interactions among them add up to a distinct variety of capitalism, different from those identified in developed countries and other developing regions.

*Keywords:* varieties of capitalism, Latin America, business groups, multinational corporations, skills, labour, economic liberalisation

### *Introduction*

The comparative institutional analysis of different varieties of capitalism has been elaborated extensively for some developed countries, especially the ‘liberal market economies’ (LMEs) of the United States, the United Kingdom

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and other Anglophone countries, and the ‘coordinated market economies’ (CMEs) of Germany, Japan and other northern European countries.<sup>1</sup> In recent years scholars in other areas, especially Asia, southern Europe and Eastern Europe, have been asking whether distinctive varieties of capitalism exist in these regions as well.<sup>2</sup> Although the comparative institutional analysis of capitalism in Latin America has a long tradition, new research has been sparse. Beyond helping to revive this tradition, a ‘varieties of capitalism’ perspective would bring several major innovations to the study of Latin American political economy. Most importantly, it incorporates labour relations and worker skills into analyses of business strategies; it shifts attention from states to firms; and it directs the empirical focus away from recent policy changes and towards enduring, underlying institutional features of capitalism in the region.

The study of distinctive forms of capitalism in Latin America has gone 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, then studied the behaviour and attitudes of Latin American capitalists and usually concluded that businesspeople were insufficiently entrepreneurial.<sup>3</sup> In the 1960s and 1970s this focus on individuals in a domestic setting shifted to a preoccupation 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. By the 1980s the analysis of Latin American capitalism had shifted again, mostly towards the analysis of states and state intervention in the economy, and later to changing development strategies.<sup>4</sup>

<sup>1</sup> The original framework is from Peter A. Hall and David Soskice, ‘An Introduction to Varieties of Capitalism’, in Peter A. Hall and David Soskice (eds.), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (New York, 2001), pp. 1–68. For more recent debates and extensions, see Robert Boyer, ‘How and Why Capitalisms Differ’, *Economy and Society*, vol. 34, no. 4 (2005), pp. 509–57; Colin Crouch, *Capitalist Diversity and Change: Recombinant Governance and Institutional Entrepreneurs* (Oxford, 2005); Bob Hancké, Martin Rhodes and Mark Thatcher (eds.), *Beyond Varieties of Capitalism: Conflict, Contradiction and Complementarities in the European Economy* (Oxford, 2007).

<sup>2</sup> See, for example, Bruno Amable, *The Diversity of Modern Capitalism* (New York, 2003); Hancké et al. (eds.), *Beyond Varieties of Capitalism*; David Lane and Martin Myant (eds.), *Varieties of Capitalism in Post-Communist Countries* (New York, 2007); Andreas Nölke and Arjan Vliegenthart, ‘Enlarging the Varieties of Capitalism: The Emergence of Dependent Market Economies in East Central Europe’, *World Politics* (forthcoming, 2009).

<sup>3</sup> See, for example, Albert Lauterbach, ‘Government and Development: Managerial Attitudes in Latin America’, *Journal of Interamerican Studies and World Affairs*, vol. 7, no. 2 (1965), pp. 201–25.

<sup>4</sup> Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton, 1995); Stephen Haggard and Robert Kaufman, *The Political Economy of Democratic Transitions* (Princeton, 1995).

These successive literatures highlighted crucial aspects of capitalism in Latin America but also left important gaps. Firstly, 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 multinational corporations (MNCs), but much less about how local capitalists built and organised their firms.<sup>5</sup> The firm's-eye view of the world characteristic of 'variety of capitalism' analyses offers a useful corrective to other perspectives that either deduce firm behaviour 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. Secondly, and similarly, the large literature on organised labour focuses more on its role in politics than in collective bargaining and firm-level intermediation. Lastly, the study of worker skills, education and training in Latin America has been left largely to a small group of policy experts, and the narrow literature on skills is rarely incorporated into general discussions of the performance of Latin American capitalism overall.<sup>6</sup> A 'varieties of capitalism' approach directs attention precisely to these neglected areas and the interactions among them.

The goals of this paper are several. Conceptually and theoretically, the goal is to extend the debate on varieties of capitalism beyond the narrow confines of developed countries and to consider the benefits of employing conceptual innovations such as the analysis of institutional complementarities to illuminate continuities in developing regions like Latin America. This analytic lens helps to generate hypotheses on the contours of a distinct variety of capitalism, a hierarchical market economy (HME), that seems to characterise most large countries of Latin America well.

Following the 'varieties' focus on corporate governance and labour relations, the four core empirical features of HMEs in Latin America would be diversified business groups, MNCs, atomistic labour relations and low skills. The dominant corporate form among large private domestic firms has long been the family-owned and -controlled diversified business group, normally known in Latin America as a *grupo económico* or *grupo*. In 1980, for example, the largest private domestic firm in Mexico, Banamex, was a sprawling, conglomerated, family-owned group. By 2000, the largest private firm in Mexico, in fact in all of Latin America, was the Grupo Carso, also highly diversified and family-controlled. Most of the rest of the large private firms

<sup>5</sup> Almost nothing like the extensive subdiscipline of business history in developed countries exists in Latin America. For an important exception, see Carlos Dávila and Rory Miller (eds.), *Business History in Latin America: The Experience of Seven Countries* (Liverpool, 1999).

<sup>6</sup> María Angélica Ducci, 'Training and Retraining in Latin America', in Albert Berry (ed.), *Labor Market Policies in Canada and Latin America* (Boston, 2001).

were subsidiaries of MNCs. MNCs have long been dominant in manufacturing, but in recent decades they have also expanded into finance, utilities and other services. On the labour side, the main focus is on the absence of institutions both for intermediating employment relations within firms and for fostering greater investment in skills and training. Unions are small and represent a decreasing share of workers, in part because the informal sector is so large. Moreover, turnover is very high, so few employees establish long-term relations with their firms. Lastly, education levels are comparatively low, despite recent advances, and public and private investment in training is minimal.

In some respects HMEs resemble CMEs (for example, in non-market forms of corporate governance), and in others they tend towards LMEs (as in labour markets). However, HMEs are not simple hybrids or mixtures (what Peter Hall and David Soskice have identified as a possible Mediterranean variety).<sup>7</sup> Rather, both the major components, and especially the interaction among them, constitute a distinct variety, and closer examination of apparent features of coordination and markets reveals, in fact, much more hierarchical relations. The economies of Latin America are of course deeply penetrated by market relations and private property (and therefore have little in common with socialist, command economies). Yet, hierarchy pervades the core relations of capitalism more in Latin America than elsewhere. The term ‘hierarchical market economy’ is designed in the first instance to highlight differences among LMEs, CMEs and HMEs. In addition, the oxymoronic coupling of hierarchy with market also suggests that the institutional components may not fit together as smoothly as those in LMEs and CMEs, and may in some instances be dysfunctional.

The next section briefly analyses the empirical dimensions of the core features of hierarchical capitalism in Latin America.<sup>8</sup> The paper then considers some complementarities among these features, especially interactions between MNCs and diversified business groups, as well as mutually reinforcing tendencies between these forms of corporate governance and general underinvestment in skills. The paper concludes by considering some broader comparisons with other regions, as well as implications of this hierarchical variety of capitalism for understanding economic policy and performance.

<sup>7</sup> Hall and Soskice, ‘An Introduction’, p. 21.

<sup>8</sup> Elsewhere I elaborate on abstract conceptual and ideal typical distinctions among CMEs, LMEs and HMEs: Ben Ross Schneider, ‘Comparing Capitalisms: Liberal, Coordinated, Network, and Hierarchical’ (MS, 2008). In this paper the goal is more to use the varieties of capitalism framework to identify comparable empirical regularities in Latin America in corporate governance, labour relations and skills.

*Core Features of Hierarchical Market Capitalism in Latin America*

An inductive survey of corporate governance and the organisation of production in the larger countries of Latin America over the past half-century reveals four enduring features: diversified business groups, MNCs, atomistic labour and employee relations, and low-skilled labour. The four core features of HMEs cover much of the ground that Hall and Soskice examine in their five spheres of strategic relationships: industrial relations, vocational education and training, corporate governance, inter-firm relations, and employee relations.

In these generic spheres in HMEs, hierarchy often replaces or attenuates the coordinated or market relations found elsewhere. For example, whereas post-secondary or on-the-job training is more market-based in LMEs and more negotiated in CMEs, it is often unilaterally decided by firms or business associations in Latin America. Such hierarchical relations also characterise employee relations more generally, where employees lack formal grievance procedures and representation and informally lack voice, because most of them are quite temporary. Unions have little influence on hierarchies within the firm, in part because so few workers are unionised, and in part because where unions do exist they are often distant from the shop floor. Finally, industrial relations are further structured by top-down regulations issued by national governments and enforced by labour courts.

On the dimension of corporate governance, relations in HMEs are even more clearly hierarchical because most firms are directly controlled and managed by their owners, either prominent families or foreign firms. On inter-firm relations, sometimes they are competitive, but other sectors are oligopolistic and others regulated by the state. Even in countries with strong business associations most inter-firm coordination focuses on politics and policies rather than narrower issues of sectoral (self) governance, as in CMEs.<sup>9</sup>

To simplify the exposition, the following discussion considers the broad contours of a single variety of capitalism in Latin America. And, in fact, in comparison to variations within regions like Western or Eastern Europe, these core aspects of capitalism in Latin America manifest greater homogeneity across the region.<sup>10</sup> Of course, there are major variations within Latin America, especially in terms of country size, commodity rents and the

<sup>9</sup> See Ben Ross Schneider, *Business Politics and the State in 20th-Century Latin America* (Cambridge, 2004). Nölke and Vliegenthart, in 'Enlarging the Varieties of Capitalism', also emphasise hierarchy as the core mechanism of allocation in the 'dependent market economies' they identify in Eastern Europe.

<sup>10</sup> Dorothee Bohle and Béla Greskovits, 'The State, Internationalization, and Capitalist Diversity in Eastern Europe', *Competition & Change*, vol. 11, no. 2 (2007), pp. 89–115.

degree of integration with the US economy. Yet what is remarkable is that, despite these variations, the similarities on the four core features remain significant. In the conclusion and elsewhere I examine intra-regional variation in greater depth and the possibility of extending the HME framework to countries in other regions, but the goal here is to cover briefly common features across the larger and richer countries of Latin America, especially Argentina, Brazil, Chile, Colombia and Mexico.<sup>11</sup>

### *Diversified business groups*

While most varieties of capitalism are characterised by a single dominant form of corporate governance, large companies in Latin America are divided between large domestic business groups and MNCs. There are four things to emphasise about large domestic firms in Latin America.<sup>12</sup> First, they are widely diversified into subsidiaries that have little or no market or technological relation to one another. Second, each large group maintains direct hierarchical control over dozens of separate firms. Third, small numbers of huge groups account for large shares of economic activity, estimated sometimes as high as a fifth or more of GDP. And, fourth, groups are mostly owned and managed by families, and often have been for several generations.<sup>13</sup> Comparable data are scarce, but available estimates give consistent indications throughout the twentieth century of the pervasiveness of diversified business groups. One of the most comprehensive recent studies of big business in Latin America begins by noting that the universe of large stand-alone firms 'is very small in the region. Big firms are, by a large majority, part of formal or informal groups.'<sup>14</sup> A rare comparative study of the five largest groups in eight countries of Latin America found that 34 out of 40 had

<sup>11</sup> Ben Ross Schneider, 'Economic Liberalization and Corporate Governance: The Resilience of Business Groups in Latin America', *Comparative Politics*, vol. 40, no. 4 (2008), pp. 379–98; Ben Ross Schneider and Sebastian Karcher, 'Labor Markets in Latin America: Inflexibility, Informality, and Other Complementarities' (MS, 2008); see also Boyer, 'How and Why Capitalisms Differ'. Most of the specific examples and illustrations in this paper are drawn from these countries, but much of the quantitative data and the secondary literature covers more or all countries of the region.

<sup>12</sup> Schneider, 'Economic Liberalization'; Ben Ross Schneider, 'A Comparative Political Economy of Diversified Business Groups, or How States Organize Capitalism', *Review of International Political Economy*, vol. 16, no. 2 (forthcoming, 2009).

<sup>13</sup> Although different from large firms in many LMEs and CMEs, such diversified business groups are common in most of the rest of the developing world: see Tarun Khanna and Yishay Yafeh, 'Business Groups in Emerging Markets: Paragons or Parasites?', *Journal of Economic Literature*, vol. 45, no. 2 (2007), pp. 331–72; Asli Colpan, Takashi Hikino and James Lincoln (eds.), *The Oxford Handbook of Business Groups* (Oxford, forthcoming).

<sup>14</sup> Celso Garrido and Wilson Peres, 'Las grandes empresas y grupos industriales latinoamericanos en los años noventa', in Wilson Peres (ed.), *Grandes empresas y grupos industriales latinoamericanos* (México DF, 1998), p. 13.

diversified into four or five different sectors (out of five in total: primary, manufacturing, construction, services and finance).<sup>15</sup>

Contrary to expectations of convergence, diversified business groups survived and prospered through the liberalisation and globalisation of the 1990s and 2000s.<sup>16</sup> Competitive pressures of liberalisation did lead some firms to spin off unrelated holdings, but at the same time privatisation and regulation opened up other new opportunities for greater diversification. By the 2000s most business groups had significant holdings in regulated and non-tradable sectors. Even in Chile, the regional leader in liberalisation, diversified business groups flourished, especially those based in commodities and services.<sup>17</sup> As a top financial executive at the Grupo Matte (electricity, finance, forestry, construction and other sectors) explained, the group strategy was to be big in four or five 'sectors with high profitability, regulated, but also, as a consequence [*por lo mismo*], low risk and capital intensive'.<sup>18</sup> Another enduring characteristic of corporate governance in Latin America is family ownership and management.<sup>19</sup> In the early 2000s over 90 per cent of 33 of the largest groups in Latin America were family-owned and -managed.<sup>20</sup>

Both diversification and family control introduce more hierarchies into corporate governance. Diversification itself introduces hierarchies that do not exist where firms are more specialised and independent (as in LMEs). Block-holding (concentrated share ownership) in Latin America centralises control and rarely requires negotiation among multiple owners or stakeholders, as it does in CMEs. In addition, family ownership in Latin America typically involves multiple generations of managers and superimposes generational hierarchy on managerial relations. Lastly, the huge size of most groups, both in terms of overall proportion of GDP and market dominance

<sup>15</sup> Francisco Durand, *Incertidumbre y soledad: Reflexiones sobre los grandes empresarios de América Latina* (Lima, 1996), p. 93.

<sup>16</sup> Schneider, 'Economic Liberalization'. Business groups fared less well in Argentina and Peru than their counterparts elsewhere, and many sold out to foreign investors. However, the foreign investors were sometimes business groups from other countries of the region, which added a regional dimension to business-group dominance of the private sector. Some reports also suggested that new business groups were emerging in Argentina in the late 2000s: Diego Cabot, 'El repliegue de grandes grupos empresarios', *La Nación*, 11 January 2009.

<sup>17</sup> Fernando Lefort, 'Ownership Structure and Market Valuation of Family Groups in Chile', *Corporate Governance*, vol. 5, no. 1 (2005), pp. 7–13.

<sup>18</sup> *Qué Pasa*, 5 November 2005, p. 22.

<sup>19</sup> See Institute of Developing Economies/Japan External Trade Organization, *Family Business in Developing Countries* (Tokyo, 2004).

<sup>20</sup> Schneider, 'Economic Liberalization'; see also Rafael La Porta, Florencio López-de-Silanes and Andrei Shleifer, 'Corporate Ownership around the World', *Journal of Finance*, vol. 54, no. 2 (1999), pp. 492, 494.



in certain sectors, means that relations with competitors, suppliers and clients are often unequal and imbued with a hint of coercive hierarchy.

### *Multinational corporations*

Foreign firms, mostly from the United States, made massive direct investments in Latin America throughout the twentieth century: first in raw materials and railways in the early part of the century, then in other infrastructure and public utilities through the decades up to the Second World War, then into Fordist manufacturing (especially consumer durables), and, after market reforms in recent decades, back into infrastructure and services and expanding into finance. By the 1970s the foreign share of manufacturing was 24 per cent in Argentina, 50 per cent in Brazil, 30 per cent in Chile, 43 per cent in Colombia, 44 per cent in Peru and 14 per cent in Venezuela.<sup>21</sup> The percentages were usually higher in sectors like chemicals, electrical equipment and transport equipment than in consumer non-durables like food, beverages, textiles and clothing. By 1995, by another calculation, the stock of FDI as a percentage of GDP was on average 16 per cent for the four largest countries of Latin America (compared to 2 per cent for South Korea and 10 per cent for Thailand).<sup>22</sup> MNC presence was especially visible among the largest firms. The share of MNCs in the sales of the 500 largest companies in the region ranged between 30 and 40 per cent for most of the 1990s and 2000s, and the MNC share of the top 200 exporters grew to nearly half in 2000 before dropping back to a third in 2004.<sup>23</sup>

In terms of coordinating functions, MNCs administered, in hierarchical fashion, technology transfer, capital for investment, some relations with suppliers and customers, and especially trade. Although difficult to measure precisely, estimates of intra-firm trade between Latin America and the United States vary between one third and two thirds.<sup>24</sup> Although the patterns are similar for other regions, it is important to note that this trade is not a market exchange between independent buyers and sellers, but more a shipping order between members of the same corporate organisation. In addition, though not formally owned by MNCs, many export firms in Latin America

<sup>21</sup> Susan Cunningham, 'Multinationals and Restructuring in Latin America', in Chris J. Dixon, David William Drakakis-Smith and H. D. Watts (eds.), *Multinational Corporations and the Third World* (London, 1986), p. 46.

<sup>22</sup> Mauro Guillén, *The Limits of Convergence: Globalization and Organizational Change in Argentina, South Korea, and Spain* (Princeton, 2001), p. 126.

<sup>23</sup> Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Investment in Latin America and the Caribbean, 2005* (Santiago, 2006), p. 11.

<sup>24</sup> James Petras and Henry Veltmeyer, 'Latin America at the End of the Millennium', *Monthly Review*, vol. 51, no. 3 (1999), pp. 31–52; William Zeile, 'US Intrafirm Trade in Goods', *Survey of Current Business*, vol. 77, no. 2 (1997), pp. 23–38.

are dependent on one or two international buyers in closely linked global commodity chains in which the inter-firm relationship is more vertical than horizontal.<sup>25</sup>

Before 1990, MNCs usually entered Latin America with greenfield investments in new plants and operations. After 1990 most FDI went into acquisitions of existing firms. In addition, new *translatinas* or *multilatinas* (business groups that expanded into other countries of the region) contributed to the wave of mergers and acquisitions. In combination with domestic acquisitions, this buying spree resulted in significant concentration and a reduction of firms listed on local stock exchanges (as new owners often preferred to buy up remaining shares and de-list their new acquisitions), and generally extended hierarchical control over a greater proportion of the economy.<sup>26</sup> For example, by one recent measure, the sales of the 63 largest firms in Chile in 2006 equalled 87 per cent of GDP, meaning that a few dozen hierarchies controlled a large proportion of economic activity.<sup>27</sup>

In sum, on the side of corporate governance diversified business groups and MNCs were the key conduits for organising access to capital, technology and markets through Coasian internalisation and hierarchy.

#### *Atomistic employee and labour relations*

Labour relations in Latin America are atomistic and often anomic because most workers have fluid, short-term links to firms and weak or no horizontal links to other workers through labour unions.<sup>28</sup> Among other things, worker turnover is high, few countries in the region have any special institutions for micro-coordination within firms, and ‘organized labour ... is extremely weak’.<sup>29</sup> As a result, labour and employment relations are individualised,

<sup>25</sup> Gary Gereffi, John Humphrey and Timothy Sturgeon, ‘The Governance of Global Value Chains’, *Review of International Political Economy*, vol. 12, no. 1 (2005), pp. 78–104.

<sup>26</sup> See Barbara Stallings, *Finance for Development: Latin America in Comparative Perspective* (Washington DC, 2006).

<sup>27</sup> This figure exaggerates the proportion of GDP controlled by these 63 firms, because it includes foreign sales. At the same time it underestimates the degree of concentration, because some of these 63 firms belong to an even smaller number of business groups: *América Economía*, 9 July 2007, p. 67.

<sup>28</sup> This discussion of labour markets draws heavily on my joint work with Sebastian Karcher: Schneider and Karcher, ‘Labor Markets in Latin America’. This work analyses separately and in greater depth the several components that comprise atomistic labour relations. For a recent comprehensive overview, as well as more coverage on variations across the region, see Maria Cook, *Politics of Labor Reform in Latin America: Between Flexibility and Rights* (College Park PA, 2007). Labour markets in Latin America are segmented, and only a minority of workers have stable jobs with full legal protections and union representation. The focus here is more on median trends that characterise better the experiences of the majority of workers.

<sup>29</sup> Evelynne Huber, ‘Conclusion: Actors, Institutions, and Policies’, in Evelynne Huber (ed.), *Models of Capitalism: Lessons for Latin America* (University Park PA, 2002), pp. 458–9.

Table 1. *Labour Markets in LMEs, CMEs and Latin America*

	LME	Latin America	CME
Union density (per cent)	28	15	45
Job tenure (median years)	5.0	3.0	7.4
Index of labour market regulation	1.0	1.8	1.4
Informal economy (per cent)	13	40	17

*Source:* Ben Ross Schneider and Sebastian Karcher, 'Labor Markets in Latin America: Inflexibility, Informality, and Other Complementarities' (MS, 2008).

disintermediated and consequently hierarchical (as employees have little leverage in relations with employers).

Table 1 summarises key differences in labour markets among different varieties of capitalism. Very high turnover (half of workers have held their jobs for less than three years) is a major factor contributing to atomised employment relations, since workers enter firms with few expectations of staying long. Once in the firm, most workers are unlikely to have plant-level union representation, both because union density is so low and because even where unions do exist, they often do not have much of a formal presence on the shop floor.<sup>30</sup> In addition, there are few other well-functioning mechanisms (like German-style co-determination) for mediating relations between workers and employers. Finally, many people work in the informal sector without unions or legal protections. Labour market regulations, in formal terms, are, surprisingly, more extensive on average in Latin America than in LMEs or even CMEs. However, the de facto reach of these regulations is limited, because they do not cover the large informal sector and compliance in the formal sector is uneven at best.<sup>31</sup>

Compared to labour unions in much of the developed world, organised labour in Latin America has tended to be more politicised and state-controlled, and less effective at collective bargaining or ongoing intermediation at the plant and firm levels.<sup>32</sup> The unionisation rate was relatively high in some countries in the mid-twentieth century, especially in concentrated industries like mining and capital-intensive manufacturing, but it declined

<sup>30</sup> Argentina is an outlier, as collective bargaining experienced a surprising and broad-based revival in the 2000s, to the point where a large majority of formal sector workers were covered: Sebastián Etchemendy and Ruth Berins Collier, 'Down but Not Out: Union Resurgence and Segmented Neocorporatism in Argentina (2003–2007)', *Politics and Society*, vol. 35, no. 3 (2007), pp. 363–401. Given recent volatility, it is hard to know if this trend will last.

<sup>31</sup> See, for example, Janine Berg, *Miracle for Whom? Chilean Workers Under Free Trade* (New York, 2005).

<sup>32</sup> Cook, *Politics of Labor Reform*.

thereafter. By some estimates unionisation among wage earners fell over the 1990s from 67 to 39 per cent in Argentina, from 60 to 43 per cent in Mexico, and from 18 to 5 per cent in Peru.<sup>33</sup> Even where unionisation 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 labour courts or direct intervention, so that both employers and union leaders often had stronger incentives to pursue their interests politically, with state actors, than with each other.<sup>34</sup> In Chile, for example, labour statutes imposed by the Pinochet dictatorship prohibit multi-union confederations from collective bargaining and thereby encourage them to engage in broader political activities, rather than in more concrete problem solving and ongoing dialogue with employers, as is common in CMEs. Labour statutes also forbid company unions from negotiating on anything but wages, thereby precluding precisely the kinds of discussions over work organisation, working time, training and other issues that are at the heart of plant-level relations in CMEs.<sup>35</sup>

In some respects, high turnover combined with weak unions and limited regulation (as in the informal sector) would all seem to infuse markets into labour relations. Indeed, many employment relations were like short-term spot transactions in open markets. However, most of these factors also shifted the balance of power in favour of employers and gave them more hierarchical control than is common in LMEs. For instance, translated into day-to-day relations, high turnover means that workers are almost always subject to dismissal, thereby enhancing employer leverage. Moreover, the absence of unions and weak enforcement of legal protections make workers even more vulnerable, and this vulnerability is even higher in the informal sector where workers, by definition, lack protection and representation.

<sup>33</sup> Adriana Marshall, 'Labor Market Regulation, Wages and Workers' Behavior – Latin America in the 1990s', paper presented to XXII Congress of the Latin American Studies Association, Miami, 2000, p. 12. By another calculation (as a percentage of the total workforce) union membership declined from an average of 25 per cent to 16 per cent in Latin America (and from 40 to 31 per cent in industrial countries) from the 1980s to the 1990s: Inter-American Development Bank (IDB), *Competitiveness: The Business of Growth* (Washington DC, 2001), p. 117.

<sup>34</sup> See Paul G. Buchanan, *State, Labor, Capital: Democratizing Class Relations in the Southern Cone* (Pittsburgh, 1995); John French, *Drowning in Laws: Labor Law and Brazilian Political Culture* (Chapel Hill NC, 2004).

<sup>35</sup> Berg, *Miracle for Whom?*; Kirsten Sehnbruch, *The Chilean Labor Market: A Key to Understanding Latin American Labor Markets* (New York, 2006); Louise Haagh, *Citizenship, Labour Markets, and Democratization: Chile and the Modern Sequence* (New York, 2002).

*Low levels of education and vocational skills*

Educational levels in Latin America remain lower than those in developed countries and East Asia. From 1960 to 2000 the average educational attainment in the adult population of Latin America almost doubled from 3.3 to 6.1 years of school.<sup>36</sup> Yet by 2000 educational attainment in Latin America was lagging behind East Asia (6.7 years) and the developed countries (9.8 years), especially for secondary education, the level most relevant for technical education and vocational training, where 8.6 per cent of adults in Latin America had complete secondary education versus 14.8 per cent in East Asia. Moreover, governments in Latin America spent far less on training unemployed workers (an average of 0.04 per cent of GDP) compared with LMEs (0.26 per cent) or CMEs (0.51 per cent).<sup>37</sup> The Inter-American Development Bank (IDB) reported in 2005 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.<sup>38</sup>

What explains the low levels of investment in skills? The common fear of poaching discourages investment; if one firm invests in training workers, other firms can then poach and hire away the trained workers, so rational firms do not invest in training in the first place. This is a generic coordination problem faced by all political economies, overcome, when it is overcome, by either public provision or third-party enforcement of private provision. The further question for Latin America is why incentives for public provision and individual investment in education and training are weak. For fuller answers to this question, as well as a deeper understanding of why the other features persist, it is useful to examine complementarities among these features and reinforcing aspects of the broader context.

*Compatibilities, Complementarities and Resilience in HMEs*

Some of the core features, as well as other background factors, reinforce one another in ways that sustain many institutional aspects of HMEs in

<sup>36</sup> Robert Barro and Jong-Wha Lee, 'International Data on Educational Attainment: Updates and Implications', National Bureau of Economic Research, Working Paper 7911 (Cambridge MA, 2000), pp. 29–30.

<sup>37</sup> IDB, *Economic and Social Progress in Latin America: 2004 Report. Good Jobs Wanted: Labour Markets in Latin America* (Washington DC, 2005), p. 282.

<sup>38</sup> IDB, *Competitiveness*, p. 105.

Latin America and impede convergence towards either LMEs or CMEs. For Hall and Soskice, 'two institutions can be said to be complementary if the presence (or efficiency) of one increases returns from (or efficiency of) the other'.<sup>39</sup> In addition to such positive complementarities, HMEs also manifest negative complementarities and weaker reinforcing tendencies and compatibilities. There are numerous apparent complementarities among the four features of HMEs; this section concentrates on only a few crucial connections, especially those related to skills.

### *MNCs and business groups*

Over the course of the second half of the twentieth century, the complementarity between MNCs and domestic groups was primarily negative. The existence of MNCs in higher-technology manufacturing reduced the returns that domestic groups received from investing in proprietary technologies and R&D generally, and increased the returns to groups that invested in other areas such as natural resources, commodities and services that used lower skills and technologies.<sup>40</sup> The few domestic firms that did invest in developing technologies were often in the end bought out by MNCs entering the market, thereby reinforcing the division of labour between MNCs and domestic groups. In addition, government policy towards MNCs encouraged business groups to diversify. Before the deregulation of foreign investment in the 1990s, governments often obliged MNCs to arrange joint ventures with domestic partners. These joint ventures usually pulled groups into new sectors and expanded the scope of their diversification. Even in the absence of specific policies, MNCs sometimes preferred partnering with domestic groups in order to tap into political (rather than technical or managerial) expertise and capacity.<sup>41</sup>

MNCs and domestic business groups impeded movement towards both markets in corporate governance and coordination in inter-firm relations. MNCs and groups substituted for domestic stock and financial markets, and thus slowed their expansion. In fact, as noted earlier, MNC acquisitions of domestic firms contributed to the fall in the number of listed firms in the 1990s, because MNCs often prefer to de-list local subsidiaries.<sup>42</sup>

<sup>39</sup> Hall and Soskice, 'An Introduction', p. 17.

<sup>40</sup> In one recent survey of Latin America, 'the most striking result [was] the low level of R&D conducted by firms': David de Ferranti et al., *Closing the Gap in Education and Technology* (Washington DC, 2003), p. 5.

<sup>41</sup> For instance, the directors of Banamex, a very diversified bank and the largest in Mexico until its nationalisation in 1982, were on the boards of most of the important business associations, so any partner of Banamex would automatically gain crucial representation: see Schneider, *Business Politics and the State*.

<sup>42</sup> Generally on financial markets, see Stallings, *Finance for Development*.

Business groups too, because they internalise capital market functions, supplant stock and credit markets. Moreover, while many groups list subsidiaries or parent holding companies on stock markets, the family owners usually maintain voting control, so minority investors have fewer incentives to buy in to firms; this further depresses potential expansion in stock markets.<sup>43</sup>

In terms of inter-firm relations, MNCs and domestic groups impede coordination and, at times, other market relations. MNCs often join local business associations, but they tend to participate less actively and have difficulty coordinating with local firms because many management decisions are taken abroad. When managers are foreign, then language, culture and shorter time horizons further undermine potential coordination. At times, relations between MNCs and local firms degenerate into acrimonious divisions and, in extreme cases, splits into separate associations (as in the Chilean mining associations).<sup>44</sup> Subsidiaries of business groups may also make unreliable interlocutors: the top management of the groups is located outside the sector and may ultimately decide to exit (or attempt, as often happens, to use financial leverage to buy up other firms in the sector). More abstractly, sustained coordination is unlikely among the agents (managers in subsidiary firms) of distant principals (MNCs or business group owners) with opaque and diverse interests.

Because they substitute for financial markets, MNCs and domestic business groups constitute non-market forms of organising investment and technology, yet, in contrast to the effects of non-market coordination in CMEs, there are fewer institutional incentives for their investment to be patient. A crucial function of coordinating institutions in CMEs, for both labour and capital, is to lengthen time horizons.<sup>45</sup> In contrast, non-market organisation of investment in HMEs allows business groups and MNCs to respond flexibly and rapidly to market signals; both forms of corporate governance are well suited to managing swift entry and exit. The agility of closely controlled business groups in short-term adjustments and transitions in and out of sectors contradicts the arguments that dispersed ownership in LME corporations is a functional adaptation to the larger policy swings associated with majoritarian governments in LMEs and is a product of the need for firms to be able to accommodate quickly to these swings.<sup>46</sup> Hierarchy may be an even better adaptation for facilitating adjustment.

<sup>43</sup> Rafael La Porta et al., 'Investor Protection and Corporate Governance', *Journal of Financial Economics*, vol. 58, no. 1 (2000), pp. 3–27. <sup>44</sup> Schneider, *Business Politics and the State*.

<sup>45</sup> Margarita Estevez-Abe, Torben Iversen and David Soskice, 'Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State', in Hall and Soskice (eds.), *Varieties of Capitalism*, pp. 145–83.

<sup>46</sup> Peter Gourevitch and James Shinn, *Political Power and Corporate Control: The New Global Politics of Corporate Governance* (Princeton, 2005), p. 10; Hall and Soskice, 'An Introduction'.

*MNCs/grupos and low skills*

Both MNCs and business groups had relatively low demand for skilled labour and weak incentives to press for widespread investment in education and training.<sup>47</sup> With MNCs dominating higher-technology manufacturing, domestic business groups concentrated in lower-technology commodity sectors and services had fewer incentives to invest in R&D, hire scientists and engineers, or train highly skilled workers.<sup>48</sup> R&D expenditures in Latin America have rarely exceeded the comparatively low level of 0.5 per cent of GDP, and over three quarters of that is public spending.<sup>49</sup> Even when they hire skilled workers, business groups do not hire very many; in the words of the IDB, ‘with respect to other regions of the world, the large Latin American companies ... generate little employment’.<sup>50</sup> Moreover, MNCs pay higher, sometimes much higher, wages than local firms, so MNCs can easily poach skilled workers. This reduces even further the incentives for domestic firms to invest in training.<sup>51</sup>

MNCs, for their part, have typically opted to invest in established product markets with stable technologies and predictable market demand (market-seeking rather than efficiency-seeking FDI).<sup>52</sup> By the 2000s, MNCs were investing virtually nothing in R&D in Latin America. According to a 2005 report, Latin America and the Caribbean ranked ‘last out of all the world’s regions in terms of percentage of research and development investment companies have made in the last three years or expect to make in the next three years’.<sup>53</sup> Intra-firm trade may also reduce incentives for MNCs to upgrade skills. In sectors characterised by low transport costs and decentralised production – electronics and automobiles, for example – MNCs can locate plants with varying skill requirements in areas where skills are readily available.

<sup>47</sup> See Janine Berg, Christoph Ernst and Peter Auer, *Meeting the Employment Challenge: Argentina, Brazil, and Mexico in the Global Economy* (Boulder CO, 2006); Koji Miyamoto, ‘Human Capital Formation and Foreign Direct Investment in Developing Countries’, OECD Development Centre, Working Paper 211, 2003, available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=668505](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=668505).

<sup>48</sup> In Brazil, for example, domestic commodity firms were split between capital-intensive sectors like steel and cellulose that had mostly skilled workers, although not many employees overall, and labour-intensive firms in sectors like meat processing with large numbers of unskilled workers: see Ben Ross Schneider, ‘Big Business in Brazil: Leveraging Natural Endowments and State Support for International Expansion’, in Leonardo Martinez-Diaz (ed.), *Brazil as an Emerging Economic Superpower* (Washington DC, 2009).

<sup>49</sup> Jorge Katz, ‘Structural Reforms and Technological Behaviour: The Sources and Nature of Technological Change in Latin America in the 1990s’, *Research Policy*, vol. 30, no. 4 (2001), p. 4.

<sup>50</sup> IDB, *Competitiveness*, p. 37.

<sup>51</sup> Berg, *Miracle for Whom?*

<sup>52</sup> ECLAC, *Foreign Investment in Latin America and the Caribbean, 2007* (Santiago, 2008).

<sup>53</sup> ECLAC, *Foreign Investment in Latin America and the Caribbean, 2004* (Santiago, 2005), p. 17.



The lasting, negative complementarities of a low-skill trap or equilibrium are well known.<sup>54</sup> 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 labour, because skilled workers are scarce. This low-skill trap seems to hold strongly for Latin America.<sup>55</sup>

#### *Atomistic labour relations and low skills*

When labour turnover is high and unions at the firm level are weak, employers have even weaker incentives to invest in worker skills both because they expect workers not to stay long, and because they lack the institutional means for negotiating with workers an explicit distribution of gains over time from investing in training. For workers, short job tenure 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. Among Chilean workers who changed jobs in the 1990s, over half switched from one sector to another.<sup>56</sup> Moreover, the frequent movement of workers between formal and informal employment presumably involves shifting among sectors with different skill requirements. High turnover also reduces the incentives for both labour and management to invest in improving plant- and firm- level intermediation.

#### *Low skills and business groups*

The absence of a large pool of skilled workers has further discouraged domestic firms from investing in upgrading their production or in other higher-technology sectors, and instead encouraged domestic firms to target lower-technology investments where appropriate skills were abundant in the labour market. Studies in the United States have shown that technology acquisition did not lead firms to upgrade training and skills among their workers; rather, firms that already had skilled workers invested more in new technologies.<sup>57</sup> Lower-technology investment coupled with high labour turnover may also facilitate diversification. In other words, lower-technology investment and the management of homogeneous flows of temporary, low-skilled workers can become elements of, and increase returns to, economies of scope. Once a firm develops a successful strategy for borrowing one

<sup>54</sup> Alison Booth and Dennis Snower, *Acquiring Skills: Market Failures, Their Symptoms and Policy Responses* (New York, 1996).

<sup>55</sup> Schneider and Karcher, 'Labor Markets in Latin America'.

<sup>56</sup> Sehnbruch, *The Chilean Labor Market*, p. 127. <sup>57</sup> IDB, *Good Jobs Wanted*, p. 188.

technology and using it successfully with a flow of low-skilled workers, the barriers for replicating this strategy in other sectors are lower.<sup>58</sup>

Hall and Soskice also expect 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'.<sup>59</sup> Although they do not elaborate, the mechanisms promoting this isomorphism seem to differ between CMEs and LMEs. In CMEs, isomorphism is largely a positive function of learning: as economic agents realise joint gains from coordination in one sphere they will be more likely to replicate coordination into other realms. In LMEs, it seems to result more from managerial expectations and preferences. If relations in some spheres are market-based, then managers have incentives to press for flexibility in other spheres, or reasons to chafe at non-market constraints. A similar logic informs complementarities in HMEs. It is not so much the case that agents realise joint gains from hierarchy and agree to extend them to other spheres; rather, hierarchy is the default preference, especially for state and business elites, who have greater influence in initial institutional formation. Longer-term complementarities and path dependence arise from the fact that hierarchies impede movement to either coordination or markets. Overall, these complementarities and weaker compatibilities contribute to the stickiness of the core features of HMEs, but this resilience is less the result of internal equilibrium and more a matter of resistance to exogenous pressures for change.

Beyond the four core features and their interactions, capitalists faced other regular aspects of their economies – what Hall and Soskice call 'shared expectations' – that influenced longer-term strategies. Among the major shared expectations of businesspeople in Latin America, volatility, pervasive but weak state intervention, and socio-economic inequality stand out. Each of these further reinforce hierarchy in one or more of the four core features in ways that resemble the political underpinnings of LMEs and CMEs in particular electoral systems: majoritarian and parliamentary with proportional representation respectively.<sup>60</sup>

Economic and political volatility and endemic uncertainty, for instance, have encouraged defensive diversification precisely into unrelated sectors, a trademark of Latin American groups.<sup>61</sup> The annual IDB report for 2003 concluded that 'Latin America suffers from an extremely volatile

<sup>58</sup> See Alice Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York, 1989).

<sup>59</sup> Hall and Soskice, 'An Introduction', p. 18.

<sup>60</sup> *Ibid.*; Torben Iversen and David Soskice, 'Distribution and Redistribution: The Shadow of the Nineteenth Century', Working Paper, 2007, available at [www.people.fas.harvard.edu/~iversen/PDFfiles/Iversen&Soskice2008a.pdf](http://www.people.fas.harvard.edu/~iversen/PDFfiles/Iversen&Soskice2008a.pdf).

<sup>61</sup> Schneider, 'A Comparative Political Economy'.

macro-economic environment.<sup>62</sup> For the period 1970–2000, volatility of output, terms of trade, and capital flows in Latin America were higher than in Asia and almost twice as high as in developed countries.<sup>63</sup> In addition, within particular firms and plants, volatility encouraged managers to maintain flexibility with regard to labour (given expectations that downsizing could be necessary at any moment), 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.

The state is the main external institution that historically reinforced the core features of HMEs as it regulated markets for capital, labour and technology. States invited MNCs into their countries and regulated the terms of their entry. States encouraged and shaped, directly or indirectly, patterns of diversification in business groups.<sup>64</sup> States, especially after the 1930s, intervened deeply in labour markets and initial worker training, and at the same time provided (low-quality) public education. Pervasive state intervention, especially in the twentieth century, both aggravated uncertainty and made the state the primary intermediary for labour. Restrictions on labour markets were extensive and have resembled CMEs in 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 lifetime employment or stronger unions and employers’ associations. In general, states in Latin America have been supportive enablers of the core features of HMEs.

Finally, Latin America has long been a world leader in socio-economic inequality, which works in the contemporary period to reinforce hierarchies as well as to thwart efforts to promote education and investment in human capital. Without resorting to more cultural interpretations of class divisions, it is nonetheless plausible to hypothesise that vast differences in education, norms, ethnicity and sometimes gender and language create a gulf between workers and managers that makes both sides less inclined to engage in coordination and negotiation. Inequality also reduces incentives on both sides for incremental investment in education and training, because the gap between actual and desired skills is so great. Perversely, in Latin America the returns to education are lowest for poor households.<sup>65</sup>

<sup>62</sup> IDB, *Good Jobs Wanted*, p. 133.

<sup>63</sup> *Ibid.*, p. 116.

<sup>64</sup> Schneider, ‘A Comparative Political Economy’.

<sup>65</sup> Guillermo E. Perry, J. Humberto Lopez, William F. Maloney, Omar Arias and Luis Servén, *Virtuous Circles of Poverty Reduction and Growth* (Washington DC, 2005). In terms of ‘shared expectations’, long-standing historical patterns (including slavery and forced labour) and

In sum, numerous factors reinforce HMEs in Latin America. Some interactions, as in the low-skill trap, represent strong (negative) complementarities. In other instances, hierarchy is more a default that is at least compatible with other hierarchical components.<sup>66</sup> Other contextual factors like state intervention and volatility tend to reinforce hierarchy and the four core components. Even without reinforcement, hierarchies have some inertia and create obstacles to coordination and markets that would require extraordinary effort or circumstances to overcome. Yet, even taking all these factors into account, it would be overstated to conclude that HMEs are in immutable equilibrium. Change is possible on a number of dimensions, including state reform, lessening volatility and improving education, and might shift some of the HMEs of Latin America towards some other variety of capitalism. If so, incremental movement towards markets may be easier than transitioning to coordination.<sup>67</sup> Some recent developments in Latin America – growing stock markets, for example – may gradually displace more hierarchical corporate governance. For the time being, however, most large economies of Latin America are better characterised as HMEs than as emerging CMEs, LMEs or other possible hybrids.

### *Comparisons and Conclusions*

This analysis has stressed commonalities among the larger countries of Latin America on the core features of HMEs, but there is, of course, wide variation across the region, and some countries deviate sufficiently from the mean to warrant consideration for separate classification. Venezuela's oil rents, for example, make it an outlier, especially in terms of the weight and role of the state in the economy. Venezuela still shares many HME features with other countries in the region such as low skills and large business groups, but analytically it may have more in common with other large petro-states like Indonesia and Russia as a variety of 'rentier market economy'.<sup>68</sup> Oil and gas rents in Ecuador and Bolivia have pushed their political economies in a similar direction.

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cultural norms could be invoked to explain the lasting resilience of hierarchy. For the most part, however, the incentives are more immediate, although social acceptance of hierarchy may ease its imposition as new opportunities arise.

<sup>66</sup> Chilean training programmes provide an apt illustration. The government offers firms tax write-offs for spending on training and an additional deduction if the firm negotiates a training plan with its workers. But even firms that have created labour-management training councils choose to forgo the additional subsidy and make unilateral decisions on training: Sehnbruch, *The Chilean Labor Market*, pp. 181, 185.

<sup>67</sup> David Finegold and David Soskice, 'The Failure of Training in Britain: Analysis and Prescription', *Oxford Review of Economic Policy*, vol. 4, no. 3 (1988), pp. 21–53.

<sup>68</sup> Terry Karl, *The Paradox of Plenty: Oil Booms and Petro-States* (Berkeley, 1997).

Beyond the petro-states, the other countries of the region often diverge on one or another dimension from the mean, but not significantly or consistently enough to conclude that they do not fit the general HME framework. Moreover, countries that diverge on one dimension are often close to the median on others. Country size, for example, affects the extent of FDI, as most FDI in the region flows to the larger countries. However, Intel and other high-technology MNCs are central to development strategies in Costa Rica, and global production networks dominated by MNCs are crucial to development elsewhere in Central America and the Caribbean. Moreover, most of the large firms in the region are located in the larger countries: three quarters of companies in the region with revenues over \$1 billion are in Mexico or Brazil.<sup>69</sup> Yet the largest domestic firms in smaller economies, like those of Central America, still adopt the structure of diversified business groups.<sup>70</sup> Geography also differentiates countries of the region in terms of proximity to and integration with the US economy. Mexico and other countries of Central America and the Caribbean had stronger growth in manufacturing and FDI, mostly via integration into global production networks. However, the impact of this integration has yet to alter fundamentally the main HME features. The effect may also be transitory, as more outsourced manufacturing moves to Asia.

Another change that affected most of the larger countries is the significant expansion in equity markets that took place in the 2000s.<sup>71</sup> One hypothesis would be that the countries at the vanguard of this expansion, Chile and Brazil, are trending toward LME forms of corporate governance. Although there are some signs of more dispersed ownership and greater participation by institutional investors, both foreign and domestic, nearly all companies in both countries still have controlling block-holders, in most cases families. Overall, although these variations, more of degree than kind, do not yet warrant excluding countries from the HME category, they do help identify potential sources of future change and movement away from HME complementarities towards other possible types of capitalism.

Outside Latin America the core features of HMEs also seem prominent in some middle-income countries of South-East Asia and possibly Turkey and South Africa. Latin America and East Asia, especially Taiwan and Korea, differ greatly along all four dimensions, however. East Asia had higher educational and skill levels, as noted earlier, and lower levels of FDI and socio-economic inequality. The two regions also differed with respect to the presence of MNCs. In 1982, foreign affiliates of US and Japanese firms

<sup>69</sup> *América Economía*, 14 July 2006, p. 53.

<sup>70</sup> Alexander Segovia, *Integración real y grupos de poder económico en América Central: Implicaciones para el desarrollo y la democracia de la región* (San José, Costa Rica, 2005).

<sup>71</sup> Stallings, *Finance for Development*.

controlled 19 per cent of manufacturing in Latin America versus 8 per cent in East Asia.<sup>72</sup> Diversified business groups dominate the domestic private sector in both regions, but Asian groups were more active in manufacturing and ultimately moved into higher-technology sectors.<sup>73</sup> Part of the explanation for this contrast lies in the lack of MNCs that boxed domestic firms out of higher-technology sectors in Latin America, and in relatively less volatility of the kind that led business groups in Latin America to diversify out of manufacturing and into finance, services and agriculture. A final difference is the stronger role of business associations and other forms of inter-firm cooperation in East Asia, usually enforced or subsidised by the state. Overall, despite some inter-regional similarities, countries like South Korea and Taiwan differ significantly enough to exclude them from the HME category (and to hypothesise that they may approximate CMEs more closely).<sup>74</sup>

One of the major analytical benefits of the comparative institutional perspective is its focus on enduring features of capitalist development. Most of the contemporary literature on the political economy of Latin America looks at various policy issues or changes in development strategy, aspects that have changed frequently and dramatically over the last century. Although these policy and strategy shifts often had profound effects on the functioning of capitalism – the transition from hyperinflation to low inflation, for example – they nonetheless divert attention from possible underlying institutional continuities, which in turn affect how economies are likely to react to different sets of policies and opportunities. The lacklustre performance of most economies of Latin America in the wake of the market reforms of the 1980s and 1990s confounded reformers' optimism and sparked a debate over what went wrong. The comparative institutional approach of a 'varieties of capitalism' perspective, with its emphasis on reinforcing complementarities, helps illuminate the institutional continuities that impeded greater progress, especially on jobs and skills, in the new market-oriented development strategy.

In the wake of the commodity boom of the 2000s and the resumption of moderate growth in the region, the debate over the shortcomings of market reforms faded. Most aspects of the new commodity-led development played to the relative strengths of HMEs. MNCs and business groups were well positioned to expand commodity production. Many of the largest business groups, such as Votorantim (aluminium, and pulp and paper) in Brazil, Grupo México (mining), and Luksic (mining) in Chile, were concentrated

<sup>72</sup> Alice Amsden, *The Rise of 'The Rest': Challenges to the West from Late-Industrializing Economies* (Oxford, 2001), p. 209. <sup>73</sup> Schneider, 'A Comparative Political Economy'.

<sup>74</sup> Schneider, 'Comparing Capitalisms'.

in commodities prior to 2000, and some business groups, especially in Brazil and Mexico, leveraged commodity rents into aggressive expansion abroad. Hierarchical labour relations were not an obstacle to expansion; commodity production relies on fairly standard technologies, and bonanza prices reduced pressures to improve efficiency, so managers and workers had few incentives to seek more institutionalised forms of coordination. As the commodity boom progressed, skills shortages did emerge in some sectors, but for the most part commodity production is capital-intensive and requires few workers, skilled or unskilled. In Chile, for example, the copper sector accounted for some 15 per cent of GDP but employed less than 2 per cent of the labour force.<sup>75</sup> At the same time, as growth rates stabilised and currencies appreciated, the commodity boom reduced pressures to find higher skill niches in the global economy that could generate more and better employment. In sum, commodity-led growth seems compatible with, and likely to reinforce, most features of HMEs.

Finally, on a more theoretical level, a focus on hierarchy facilitates the incorporation of factors like the state and MNCs that have been so prevalent in most late developers, yet so absent in most analyses of varieties of capitalism.<sup>76</sup> While a firm's-eye view has some advantages over earlier statist perspectives, the state is rarely out of sight in Latin America. In addition, elements of hierarchy in several spheres of the economy, especially labour markets, are directly or indirectly reinforced by states. In terms of international influences, when scholars invoke globalisation, they often have in mind integrated markets for goods, services and especially finance, or the geographical contraction resulting from the spread of new information and communication technologies. These factors have had profound effects on developing economies, but for most people, especially workers, the palpable face of globalisation is the MNCs that organise, hierarchically, so much employment, investment and technology transfer. One of the neglected ironies of liberalisation in the 1990s is that market-oriented reforms in trade, privatisation and deregulation often resulted, in the end, in more hierarchy than market.

### *Spanish and Portuguese abstracts*

*Spanish abstract.* El extenso debate académico sobre las “variedades del capitalismo” ofrece algunas innovaciones conceptuales y teóricas que pueden ser utilizadas exitosamente para analizar los fundamentos característicos del capitalismo en Latinoamérica, o de lo que se pudieran llamar economías jerárquicas de mercado (EJMs). Esta perspectiva ayuda a identificar cuatro características fundamentales de

<sup>75</sup> Sehnbruch, *The Chilean Labor Market*, p. 92.

<sup>76</sup> See Hancké et al., *Beyond Varieties of Capitalism*.

las EJM's en América Latina que estructuran el acceso de las empresas a las aportaciones esenciales de capital, tecnología y trabajo: grupos económicos; corporaciones multinacionales; trabajo no calificado; y relaciones laborales atomizadas. Sobre todo, las relaciones jerarquizadas en los grupos económicos y corporaciones multinacionales son esenciales para la organización del capital y la tecnología en Latinoamérica, y también son dominantes en las regulaciones del mercado laboral, la representación sindical y las relaciones laborales. Existen importantes complementariedades entre estas características, especialmente entre las corporaciones multinacionales y los grupos económicos, así como en las tendencias mutuamente reforzadas entre estas formas corporativas dominantes y una pobre inversión general en capacitación y en las relaciones laborales mediadas efectivamente. Estas cuatro características de las EJM's, la dependencia común en las jerarquías y las particulares relaciones entre ellas, conforman distintas variedades del capitalismo, diferente de las identificadas en países desarrollados y en otras regiones en vías de desarrollo.

*Spanish keywords:* variedades de capitalismo, Latinoamérica, grupos empresariales, corporaciones multinacionales, capacidades, trabajo, liberalización económica

*Portuguese abstract.* O extensivo leque de estudos que trata das “variedades de capitalismos” nos oferece inovações conceituais e teóricas que podem ser proveitosamente empregadas na análise das distintas fundações institucionais do capitalismo na América Latina, ou no que podem ser chamadas de economias de mercado hierárquicas (HMEs, do inglês *hierarchical market economies*). Esta perspectiva auxilia na identificação de quatro pontos-chave das HMEs na América Latina que estruturam o acesso dos empreendimentos às fundamentais entradas de capital, tecnologia e mão-de-obra, sendo os pontos: grupos econômicos; corporações multinacionais (MNCs, do inglês *multinational corporations*); mão-de-obra não qualificada; e relações de trabalho fracionadas. No geral, relações hierárquicas são centrais na organização de capital e tecnologia nos grupos corporativos e nas MNCs. Essas relações permeiam, também, a regulação do mercado de trabalho, a representação sindical e as relações de trabalho. Importantes complementariedades existem dentre estas características, particularmente entre MNCs e grupos econômicos, assim como tendências mutuamente fortalecedoras entre estas formas corporativas dominantes e o baixo investimento em capacitação e em relações de trabalho bem mediadas. Estes quatro aspectos de HMEs, sua recorrente dependência de hierarquias, e as interações específicas entre elas somam para produzir uma variedade distinta de capitalismo, divergente daquelas identificadas em países desenvolvidos e em outras regiões em desenvolvimento.

*Portuguese keywords:* Variedades de capitalismo, América Latina, grupos corporativos, corporações multinacionais, aprimoramento profissional, mão de obra, liberalização econômica