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## Politics and Development: Lessons from Latin America

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The present article discusses the conditions for the adoption of development strategies in Latin America in the aftermath of neoliberal reforms, focusing specifically on the role of political institutions as a component of productive regimes in selected countries. Development is treated as an endogenous process, shaped over time in terms of trajectories that are continuously redefined according to specific political conjunctures. Having moved from restricted democracies or authoritarian regimes and autarchic economies to mass democracies operating in the context of open economies after market-oriented reforms, persistent structural inequalities presently constitute the major *axis* framing the definition of development policies. Unlike in advanced countries where the State is treated as an *epiphenomenon* of the respective productive regimes, in the Latin American semi-periphery the State is the crucial actor for the reversal of vicious circles and negative complementarities stemming from the extreme structural and social inequalities within and between countries in the region.

Following a brief discussion on development and economic growth in the definition of the post-neoliberal agenda, the article examines institutional indicators for the economic performance of contemporary government coalitions in selected countries, focusing on State policies favouring development, such as financing, technological innovation, training of the labour force and social policies. Next, we concentrate on analysing political institutions and the role of political elites capable of generating national projects for sustainable development strategies, showing some of the differences between these countries. We conclude with a brief discussion on the adequacy of contemporary political economy approaches to understand processes of capitalist transformation in the periphery, drawing attention to the need for a redefined regional perspective on development issues.

Keywords: Development; Political institutions; State intervention; Inequality; Varieties of capitalism.

Desarrollo es un término de azarosa biografía en América Latina. Sus promesas arrastraron a todos los sectores de la sociedad y de algún modo encendieron uno de los más densos y ricos debates de toda nuestra historia, pero fueron eclipsándose en un horizonte cada vez más esquivo y sus abanderados y seguidores fueron enjaulados por el desencanto.<sup>1</sup>

Aníbal Quijano

## Introduction

Since the beginning of the century, the tendency in Latin America has been one of reversing the direction of public policies, in an extraordinary ideological turn. The degree of the metamorphosis going on in the States of the region is demonstrated by the electoral victories of formulas that proclaim more or less clearly their distance from neoliberal ideology. These have taken place over a fairly short period of time, with renewed State intervention in the economy resulting.

This turn has given new energy to the Political Science and Economics discussion on the new public agenda and the key components of the emerging development project. In other words, a new window for politics has been opened up. The 1980s was a period of reduced degrees of freedom for the governments of peripheral countries, given the foreign debt burden and the neoliberal ideological umbrella. The combination of a thought considered to be the only possible alternative, the renowned Washington Consensus, and fiscal constraints, was the key for governments to carry out a handbook of structural reforms, mostly forced by short-term emergencies. In recent years, the process of reversing countries' conditions in order to pursue their autonomous development paths has been accelerated. Furthermore, change has not only been domestic, but also in certain world-system conditions, which has strengthened the degree of freedom and autonomy of politics in national projects.

This geopolitical climate change is essential in the analysis of the sociopolitical alternatives for countries in the region. Contemporary discussions on development alternatives take into account neoliberal thought and consider the possibility of carrying out development projects within the framework of an extended capitalist system that is increasingly interdependent and globalized, with a surprising degree of wealth concentration in the *axis* of the rich countries of the north. Alternatives are constrained by the fact that capital flows take place mostly between the three subsystems that make up this system: the North American bloc, the European Union and the group of Southeast Asia/Pacific countries led by Japan. Given these changes, both at the domestic and international levels, questions arise regarding the alternatives open to peripheral countries, especially regarding

Latin America, which has performed reasonably, based on a series of interventionist policies within the framework of a model of protectionism and industrialization by import substitution, as revealed by steady average growth rates in the period, despite the absence of redistribution through social policies.

In this paper we try to focus on the role of institutions and politics for the creation of a new development agenda and for the generation of a breeding ground for the components of this agenda. Firstly, we consider development as an endogenous process that takes place within nation-states in the globalized framework of a power struggle *vis-à-vis* other states, regions and multilateral agencies. In this context, the importance of politics, rather than being diminished, is amplified, given that any project aiming to become hegemonic and diffused through epistemic communities must be translated at the national level into laws, regulations and other forms of public policy. Moreover, elites do not lose their strategic importance and, again in this sense, politics retains its strategic role (Diniz 2008).

We focus on South American countries and Mexico. While differences between countries in the region are quite marked, it is possible to identify similarities in contemporary socioeconomic processes affecting them. With differences in the degree of intensity and timing of implementation, all countries have gone through a process of transition from protected economies to systems defined according to the neoclassical paradigm. In recent years, the opposite phenomenon — a shift towards greater state involvement typical of a new development model — is taking place in the region as a whole, with few exceptions. The article is organized as follows: firstly, we present the theoretical framework of institutional legacies and their impact on the possibilities for implementing the new development agenda, still under construction. Next, we analyse the role of institutions and the relationship between market and state, or between the public and private sectors. Lastly, we attempt to draw some conclusions from this recent historical experience of Latin America.

## **New Development Agenda for Latin America**

Concerns about development are not new (Cooper 2005) and represent the search for the conditions to generate modernization dynamics of societies towards economic progress and social transformation (Ferrer 2007; Stiglitz 1998). In Latin America, studies on development and underdevelopment were stimulated by structuralist thought, mainly with the creation of Economic Commission for Latin America and Caribbean (ECLAC) in the late 1940s, facing a decline later on, after the crisis of the interventionist model of import substitution. Nevertheless, during the last five years, a remarkable change in the ideological orientation of the vast majority of governments in the region has taken place, partly in response to the economic and legitimacy crisis caused by the neoliberal project.

This unforeseen breakthrough revitalized the discussion of key concepts in the field of development studies such as the role of the State and of economic, political and social actors in socioeconomic projects, the relationship between politics and economics, and the role of institutions in development prospects, among others. In other words, even though still in formation, this transformation that started with the arrival in power of governments that recognize themselves as anti-neoliberal and pro-intervention, opens a new era in the long debate on alternative development perspectives that has taken place in Latin America since the postwar period.

Even though the current development model retrieves elements of ECLAC's post-structuralist discourse (Bresser Pereira 2006; Boschi and Gaitán 2008) it is undoubtedly different and combines the value of state intervention with respect for the value of macro-economic stability, largely because of the spectre of the inflationary spiral that the region suffered in the 1980s. The notion of stability implies recourse to instruments of exchange control, interest rates and fiscal surplus (or at least balance) as tools in the intended process of economic growth. In open opposition to the neoclassical idea, which denies space for the nation-state, neo-developmental discourse revitalizes the role of the state *apparatus* as a primary agent of development.

This neo-developmental discourse is nurtured by the academic debate as well as historical experience. It grows out of the controversies between the advocates of the neoclassical view, who tended to naturalize the orthodox perspective in terms of the benefits of coordination through the market, emphasizing, at the same time, the thesis that poor growth performance was due to the fact that reforms were not carried out completely. In this context, the new outlook that is still taking shape faces opposition, on one hand, from neoclassical sectors, autistic before the poor results of neoliberal experiences and, on the other, from the radical left, which criticizes the supposed continuity of policies.<sup>2</sup> The argument in favour of recovering state capabilities as a development factor is still a matter of controversy in the public debate.

Thus, it is possible to observe a contradiction between a market-friendly perspective, generally associated with economic efficiency and supported by those who defend the rigidity of monetary stability, and a developmentalist tradition, related to the necessity of recovering state capacities, which tends to be associated with archaism, protectionism, corruption and backwardness. The new discourse recognizes the importance of good governance, the role of the state in terms of the promotion of development, but is definitely even more limited in this sense than that of the classical development vision.

A key aspect of the new agenda is economic diversification, both in terms of domestic production and of foreign trade. There is a growing recognition that the scale of the struggle between countries on global trade is so strong that investment in science

and technology<sup>3</sup> becomes necessary, not only to put Latin American countries on the path to development but, above all, so as not to lose the — already small — share that countries in the region have in international trade. International trade is the key variable to consider in assessing the distance between Latin American countries and those of the economic centre. International trade is growing year after year and, in spite of the fact that national boundaries still define the scope of intermediation, the importance of trade relations between countries is undeniable.

Rodrik (2001, 26) states that “no country has succeeded by turning its back to international trade”. If Latin America has historically specialized in the production of agricultural and livestock products and participation in these areas was crucial, changes in international trade over the past 35 years led to deep adjustments. During this period agricultural products went from being 30% to 10% of world trade. As a result, Latin America’s accumulated share of world exports is falling.<sup>4</sup>

The Brazilian experience shows the importance of the state’s action in the diversification of foreign trade. Since 2000, there has been a reversal of the trade deficit, generally explained, at least initially, by the devaluation of the *Real* with the introduction of a floating exchange rate. More fundamentally, when the *Real* begins a recovery process and the undervalued currency no longer explains the dynamic taken on by the pattern of trade (mostly from 2002), this is explained by the policies pursued by the current administration, particularly those included in the PITCE (“Industrial, Technological and Foreign Trade Program”) and PAC (“Growth Acceleration Program”). In addition, Brazil has comparative advantages in terms of the strength of some existing local financing institutions (especially publicly-owned, but also private). In this regard Brazil differs from the rest of the countries in the region. Furthermore, as part of the South-South strategy introduced in 2003 by the current administration, Brazil strengthened its embassies, mostly in Latin America and Africa, resulting in robust sales growth abroad.

Certain branches of knowledge, such as biotechnology, are a direct challenge to the comparative advantages of certain sectors related to traditional exports. Development of financing systems, in particular those focusing on production diversification and innovation, are central to the new development strategies. The reform of the Brazilian state left untouched certain clusters of technical excellence. Bureaucratic institutions such as the BNDES (“National Bank for Economic and Social Development”) were kept in the public realm. The importance, strategic role and nature of the activities of this institution has no parallel in any other Latin American country, thus preserving a role built up during the developmentalist phase. A few other agencies geared at development promotion, such as the Chilean Corporation for Promotion of Production (CORFO), assume a strategic role in creating the conditions for private investment. Between 2003 and 2005, Brazilian exports grew 100%.

Lastly, social issues are another key factor in the new interventionist models. The social agenda has a significant level of importance in the neo-developmental model. Latin American countries have shown no ability to combine growth and equality. Between 1970 and 2006, Latin America grew as a whole at an average rate of 3%, yet the proportion and number of poor people remains constant. Today, almost 40% of its population are poor (some 210 million people) and 15% are extremely poor. One of the main aspects of the post-neoliberal agenda in terms of development challenges in the current globalization phase refers not only to its economic aspects, but more than ever, to its social dimension, essentially, the ability to extend development to society as a whole. This concern with social inclusion appears both in the academic debate (Huber and Solt 2004; Huber et al. 2006) and in neo-developmental experiences, which have expanded the instruments for social intervention.

In Argentina, two lines of social policy can be observed: one sponsored by the Social Development Ministry and the other by the Ministry of Labour. The Social Development Ministry is responsible for the “National Food Safety Plan” (“Plan Nacional de Seguridad Alimentaria”), the “Local Development and Social Economy Let’s Get to Work Plan” (“Plan de Desarrollo Local y Economía Social Manos a la Obra”) and, lastly, the “Families Plan” (“Plan Familias”) for social inclusion (which consists of the “Families Social Inclusion Program”, “Integrative Community Centres” and the “National Pension Assistance Commission”). For its part, the Ministry of Labour is in charge of the “Unemployed Heads of Household Plan” (“Plan Jefes y Jefas de Hogar Desocupados”). This set of policies streamlines a large number of previous programs and have the almost exclusive purpose of improving efficiency in implementation, benefiting mainly those sectors that have suffered more from the strong crisis that followed the collapse of the convertibility regime.

In Chile, the social policies of the current administration are based on three main programs: the “Chile Solidarity Program” (“Programa Chile Solidario”), which works with female household heads; the “Chile Grows with You Program” (“Programa Chile Crece Contigo”), designed to follow-up and support children in their development from pregnancy onwards, as a way of combating inequities from the cradle itself; and a free health system for citizens over the age of 60 has been announced.

In Brazil, the social programs of the federal government led by the Workers’ Party (“Partido dos Trabalhadores” (PT)) can be divided into three areas, the most important being the “Articulation, Mobilization and Social Control” (“Articulação, Mobilização e Controle Social”), focusing on malnutrition. In this context, the “Zero Hunger Program” (“Programa Fome Zero”) has four main areas: access to food, the strengthening of family agriculture, income generation and articulation, and mobilization and social control. It includes actions such as income transfer, the “Family Grant” (“Bolsa Família”), food and nutrition, social security, small-scale agriculture and the fight against child labour, among others.



## Path Continuity, Legacies and Development Possibilities

Proper identification of the elements of the new development agenda is a complex task, though representing just one aspect of the studies on development. One of the main questions in the extensive literature on development regards the conditions that allow the establishment of policies for a new agenda. The reflections not only address the constitutional vectors of a development project<sup>5</sup> but also the conditions that will ensure its implementation. In this sense, the challenge is explaining the differences in development prospects between Latin American countries.

Entering a development path involves exploring a variety of alternatives. This does not necessarily imply a radical break with previously trodden routes (Boyer 2005; Amable 2003). In the institutionalist perspective,<sup>6</sup> successful adoption of a new institutional framework depends on the context and historical trajectories that have shaped the nation-State and institutions in each country (North 1990; 1998). The generation of virtuous cycles of development would be connected, among other factors, to a process of successive stages involving the establishment of institutions capable of reducing transaction costs and increasing efficiency. In the case of Latin America, such an effort implies considering the post-market reform scenario.

There has been no single model of neoliberal adjustment, but different models of open market implementation. For example, despite the general opinion, we can find neoliberalism with State coordination in Chile, in a type of model that hides complex processes, which are far from an anti-interventionist practice associated with this experience.<sup>7</sup> In Argentina, the process of implementation of structural adjustment was radical, based on neoliberal orthodoxy with productive regression. The dismantling of the postwar interventionist model reached significant levels. Uruguay and Brazil are examples of a lesser degree of penetration of neoliberal adjustments, so much so that it can be referred to as a development model with macroeconomic orthodoxy, rather than as a classic neoliberal model.

It can be said that those countries that advanced less in the implementation of structural reforms, i.e., that retained higher levels of freedom to apply a neo-developmental agenda, are those that were reluctant to copy models as an ecumenical doctrine, and followed their own paths. The same applies to national differences as to the reversal of crises of growth or to the leap in national development levels that characterized the trajectories of certain Asian countries like China (which is conducting its own transition to capitalism) or Malaysia.<sup>8</sup> Taiwan and South Korea — success stories of the 1970s that used the postwar Japanese industrialization model — also constitute successful experiences of development based on state strategies targeting certain objectives considered central to national projects (Chang 2007; Kholi 2004.) These cases prove: i) the importance of relatively autonomous



paths, doing away with “handbook” implementation of reforms; ii) the key role that political components and technical officials can play in the definition of the path to follow in a particular national project; and iii) the centrality of coordination mechanisms and interest intermediation structures. In fact, some studies, Evans (2005) among them, present the so-called emerging Asian tigers. These are cases of successful *catching up*, examples of the capacity to create market-oriented elites that established an interface with state bureaucracies, leading their respective trajectories away from predatory processes.

Identifying institutional legacies and the role of institutional arrangements capable of overcoming vicious cycles commonly regarded as obstacles to development is not a simple task. Actually, although the successful postwar development experiences of Latin American countries show that state institutions have a key role in creating favourable conditions for socioeconomic development, the way in which institutions operate towards building efficient state intervention is not clearly delineated. Such task calls for a distinction between the strictly economic level and political factors that outline, on the whole, the alternatives for future development, together with other variables assuring institutional comparative advantages.

### State, Markets and Politics as Key Elements of Development Models

Nonetheless, the recognition that institutions play a central role is just a starting point for dealing with a larger problem: the conditions for the creation and permanence over time of such organizations. The possibility of creating them is not easy (North 1990; 2005). Institutions are more than simple rules of the game and procedures that must be followed. As is well known, their efficacy depends on the possibility of governing over individual or collective behaviour and of incorporating values, preferences and expectations of human beings in interaction.

Insofar as development is concerned, the issue relates to the possibility of making government institutions incorporate a pro-development orientation in their daily operation, with the aim of inaugurating a virtuous cycle of growth. In this sense, there must be institutions in place capable of effectively dealing with the interactions between individuals and groups with opposing interests. In turn, a shared frame of reference among elites is necessary to *guarantee* productive results in a fairly stable manner over time. Elites with influential capabilities over the public agenda have a key role in this process. In this regard, *emphasis* is put on the political and bureaucratic component (the existence of bureaucracies with *esprit de corps*) and on coordination between the public and private sectors (the existence of arenas where *entrepreneurs* and the state may cooperate or concert).

The state’s ability to build strong administrative-bureaucratic machinery is vital in creating the path towards development. Cases of more integrated or cohesive patterns of

state intervention, such as Brazil and Chile, have relied on the existence of these bureaucratic *nuclei*. On the other hand, the state must be capable of processing interest group actions, both from capital and labour, in terms of conflicting alternatives. In sum, the instruments for achieving growth targets are varied and the choice of a particular set of instruments involves the mobilization of social support, the formation of coalitions, the diffusion of values favourable to the different options and the organization of collective action in different institutional formats (political parties, trade associations, trade unions), among others. The challenge is putting the state *apparatus* in motion to create an inclusive development project (Gourevitch 1986).<sup>9</sup> As the neo-developmental agenda is being built upon the remaining state structure in the aftermath of neoliberal reforms, the task at hand is that of reversing the previous path so as to generate a virtuous *consensus* around the idea of national development. At this point one must consider the fact that the neo-developmental agenda is still not the winning choice. The epistemic community identified with open market theories remains strong (Fukuyama 2004) and the tendency for these orientations to prevail as a filter in elites' worldviews is proportional to the time the corresponding policies were in place. The same would be true of the legacy of state interventionism, affected as it was by the reforms. In some cases, the reversal of this previous trajectory encountered obstacles and it took longer for neoclassical views to take hold.

Disparities in Latin America are remarkable in this regard. In Chile, where neoclassical ideas flourished in an almost unique manner and with a radicalism never seen in the region before, the coalition government that emerged from the process of democratization found in the social commitment to the neoclassical economy an ideological corset. In Brazil, where neoliberalism was a project of late and partial implementation, expressions of a strong developmentalist state remain.

In the Brazilian case, even though business elites were the segment that supported neoliberalism most readily, the deepening of the development model generated sectors more critical of the economy's opening. Later on, during Fernando Henrique Cardoso's second presidential term, there developed a position critical of maintaining the fundamentals of monetary stability — high interest rates, high primary surpluses and, mainly, the high tax burden. Since the Lula government, there seems to be a certain preference for a more pro-development type of model, centred on the need for investment in production and infrastructure, while enhancing stability as a public good (Diniz and Boschi 2007).

As analysed in detail in Boschi (2008), significant differences also exist in the way Latin American parliamentary elites perceive the role of the state in development policies and also regarding the state-market dichotomy. Data from the *Parliamentary Elites in Latin America* survey coordinated by Alcantara (1994/2005) at the University of Salamanca clearly indicate differences in the perception and views of parliamentarians from various

countries. Thus, it appears that Chilean parliamentary elites are more favourable to market regulation (53.4%), a position that may be explained by the depth and duration of market reforms there. In Brazil, a lower percentage of parliamentarians are so inclined (43.3%). On the other hand, in Mexico, 57.3% of the elite's preference concentrates on the maximum value of statism, and 28.2% in the category of strong statism, with a total absence of preferences in the pro-market category. The data presented in this work are revealing of the almost dichotomous way that choices are framed in the public debate about development alternatives. It is also indicative of the still preliminary nature of a neo-developmental perspective as a policy preference in the region. The perceptions of potential support coalitions for a development platform based on new forms of state intervention, with different degrees between countries, is yet to be constructed, diffused and consolidated.

Differences in elite perceptions about the state in each country are stressed in the revealing analysis by Dezalay and Garth (2002) on contending perceptions of lawyers and economists in the process of Latin American state-building. Centred on the Brazilian, Chilean, Argentinian and Mexican cases, the work underlines how elite fragmentation in Argentina and Mexico led to a less consensual position on the role of the state and a more outward-looking perspective, one less prone to accumulate state capacities. On the other hand, Brazil is placed closer to the Chilean case for reasons ranging from the preservation of a law-based tradition of control of the state *apparatus* and the progressive creation of institutional capacities of state intervention. In other words, in the latter cases, the presence of more cohesive elites that took possession of the state *apparatus* through a tradition of thought linked to the Law acted as a deterrent to the projected state minimalist perspective of the economists.

Therefore, with regard to the role of elites, it is necessary to stress the importance of previous visions about the state as the possible foundation for the diffusion of new pro-development networks of professionals articulated in epistemic communities. Very often the state *versus* market polarity blurs the identification of new trends. The vision of the Chilean model as a beacon of neoliberal success, for example, hides the preservation of significant coordination activities and patterns of state intervention under the *façade* of market reforms, as a result of previously shared views regarding the strategic role of the state.

In other words, history, actors and local decisions count. The point is to recognize that despite external constraints upon the integration of peripheral countries to the global economy, development remains an endogenous process. Therein lies the possibility of generating a national project capable of creating the basis for the support of various social actors (employers, workers, politicians, government technical officials etc). The implementation of a development agenda and the generation of stable institutions is the result of broad agreements that require *consensus* among the players representing social,

political and economic life. Such agreements must be honoured by participants, with the collaboration of various sectors to achieve relative stability and durability in the short and medium term. The political system becomes the key dimension in this respect. The various mechanisms for processing conflict are crucial, as already mentioned. As stressed in socioeconomic analyses, a project implies a certain direction, a choice between alternatives in which different actors and social groups are influenced in dissimilar ways. In other words, projects generate adjustments in social stratification and will find support among groups that are favoured by or have empathized with the proposal (Faletto 1996; Becker 2007). Thus, the existence of points of inflection and, consequently, of new desirable points of balance would depend on the coalitions of support for a post-neoliberal developmentalist platform. The greater or lesser ability displayed by political systems of dealing with conflict situations and generating *consensus* is a central feature of any development model.

A dimension of governance in terms of the nature of the coalitions that come to power and seek to implement a more developmentalist platform must be emphasised. The situation in this regard is quite different in each context. Political and institutional factors shaping production regimes generally make a difference in terms of economic performance. On the one hand, the Argentinian president Fernandez de Kirchner's coalition government is more homogeneous, structured on the momentarily hegemonic field of Partido Justicialista (Justicialista Party), incorporating splits of the opposing parties, not facing any strong or articulated opposition. On the other hand, Lula's first coalition government was highly fragmented and made up of parties both on the right and left of the ideological spectrum. Even with pragmatism and dogmatism making the task of defining and obtaining support for a long-term development project more difficult, though the government has managed amidst some turbulence, institutions have been reasonably effective in terms of ensuring governability.

Chile and Uruguay are perceived as examples of centrist trends. Overcoming the authoritarian Pinochet regime in Chile made it possible to create a more centre-oriented homogenous coalition that turned out to be fairly pragmatic and efficient enough to carry out a project for the country. However, since the government of Ricardo Lagos (2000-2006) under the leadership of the Socialist Party, the permanence and stability of the coalition has faced gradually more disagreement. This has constituted a straightjacket for the adoption of more progressive public policies, resulting in higher levels of social conflict, which seems to have been a key characteristic Michelle Bachelet's presidency.

The nature of the political coalition is part of a broader *axis* that includes not only the players who are in government but in the broader framework of the political system (pluralism, fragmentation, division of powers etc). The most significant difference would be in whether or not to nurture conditions for cooperation. A swinging *pendulum* between

experiences focused on projects with consensual participation of political parties as mediators contrasts with those in which the distinctive feature is the exclusion of other legitimate actors from the party-political arena in favour of social movements.

Significant differences — between dissimilar realities that range from relatively stable systems to experiences that deny any legitimacy to the government coalitions — may be observed in Latin America. These include different party models, quantity and quality of players involved in the political game and the role of institutions in reconciling interests, among others. On the one hand one has the group made up of Ecuador, Venezuela and Bolivia<sup>10</sup> where the most outstanding feature is the clear difficulty of channelling conflict through political institutions. Broadly speaking, a general denial of the legitimacy of the presidents in office is observed, with an inability to form a coherent opposition *axis* that is stable and with chances of becoming a true government alternative. Political actors tend to be embedded in a dynamic zero-sum game, where representation of interests assumes particularistic profiles. On the other hand, Uruguay, Chile, Brazil and Colombia combine a party system with alternation in the exercise of power, a certain legitimacy of the actors in the political game and an active parliament. In the middle, Argentina and Peru represent cases in which, while legitimacy of the actors in government is undeniable, the quality of political institutions is low and, additionally, there appears to be no strong opposition with the potential to become a real government alternative.

Understood as conflict-channelling and creation of dialogue bridges between conflicting alternatives, politics requires clear rules which involve not only political but, especially, economic players. A development proposal in the context of a capitalist system in constant evolution and competition, which drives states to a strong bid for resources, investment, technology and human capital, needs a strong business sector (Sicsu et al. 2005; Diniz and Boschi 2004; 2007; Boschi 2009).

In recent years, Brazil seems to be going along this path. Although central, cooperation between businesses and the public sector also depends on the way in which the state has been able to establish such cooperation. The underlying coordination dynamics between state and market are affected, firstly, by the existence of planning mechanisms and of coordination between the two areas and, secondly, by effective means of implementation, which leads us to take into account state capacities. In fact, as already emphasized, the basis for any possibility of a development proposal implies a basic agreement between politics and the economy, or between economic and political actors. The issue is not only the public administration paying attention to market signals, but also knowing when these are positive and retaining the power to control and coordinate. Only as long as these signals act as a positive link in public goods distribution and user preferences, can they act to improve the performance of public institutions (Evans 2005).

This pattern of relations between business and an autonomous yet responsive bureaucratic core would be critical to explaining the virtuous paths of “recovery” following market reforms. Resistance from bureaucratic elites, business and unions has been a key factor in the neoliberal slowdown and in the late implementation of reforms in some cases. In contrast with the cases of Argentina and Chile, where privatization was almost total, in Brazil, the privatization of Companhia Vale do Rio Doce,<sup>11</sup> emblem of the Fernando Henrique Cardoso administration, faced resistance from business and trade union sectors, which acted as a brake on future privatizations. The question is why the opposition in Argentina displayed no effectiveness in resisting privatization.

The role of business is fundamental in the analysis of the formation of a development platform. One important line of study is made up of authors who emphasize the relationship between the business sector and the State as an explanatory factor for the incidence of certain development experiences. Critical of Olson and focused on partnerships between businesses interests in East Asian and Latin American countries, these studies show that economic performance is strongly related to cooperation between private sector interest groups and the State, to the extent that class associations contribute to correct market failures, apart from being functional in solving coordination problems (Schneider and Maxfield 1997; Schneider 2005).

Corporatism, usually understood as a form of representation of interests opposed to liberal democracy because it implied working class control — and, in this vein, negatively evaluated —, can in fact be reinterpreted in terms of its positive effects, constituting grounds for cooperation between social sectors and the state. In Latin America, there have been experiences of strong (Mexico, Brazil) or weak (Chile, Venezuela) corporatism, which generated different paths of transition to market-centred coordination and from there towards a new development orientation (Boschi 1994). State corporatism was essential to counteract the tendency towards business and corporate fragmentation such as in Brazil and Mexico. In cases of weak state corporatism, such as in Chile and Venezuela, corporate hegemony was achieved through the operation of strong peak associations. Above all, as has been analysed (Boschi 1994; Diniz and Boschi 1991) in Brazil, the development and consolidation of an official structure of representation<sup>12</sup> constituted a major asset at the time of shaping the collective identity of the private sector *vis-à-vis* the state, and was essential in terms of maintaining the relative integrity of the domestic private industrial sector in the immediate post-reforms scenario.

The existence of a development agency like the BNDES and its isolation from any privatization pressure can be also explained by<sup>13</sup> the political and economic profile of the elites. Despite a change in its orientation during the neoliberal period, in which it acted as an agent of the privatization process, this agency never deviated from its



constitutionally defined role of supporting projects geared to job creation, in line with its founding aims.

## Conclusions: Uncertainty and the Development Process

Even recognizing the role of institutions in creating the conditions for a national agreement around the idea of national development — still analysing States' bureaucratic capacity to enhance the benefits and opportunities that the current moment represents —, development is far from a clear idea. At this point, attention should be drawn to micro public policies and the behaviour of policy-makers with the ability to influence key items of the new agenda.

Imponderable elements are key to the development experience. These not cognoscible — *a priori* elements are pluri-significant and their importance can vary over time. The discovery of two vast oilfields in Brazilian jurisdictional waters that could turn the country into an oil producing and exporting power is an example of how imponderables appear as an explanatory factor. While discovery is the consequence of a strategic and investment decision, its mere existence is not predictable. In this sense, uncertainty is present in any development process. Development may also be a product of certain unplanned decisions. The current Brazilian experience, displaying robust economic growth and the reversal — albeit slow — of historical social inequalities, was unthinkable in the recent past.

Development is a long-term process. Only by being successful in surviving over time, can certain policies turn into successful dynamics. The delay or relative improvement at a moment of time does not *guarantee* a stable course. For example, mid-twentieth century Argentina had a relatively advantageous position with respect to all the countries of the region and that did not ensure a sustained or continuous development process.

On the other hand, the view one has of the processes can eventually change. Patrimonialism and corporatism, which have been analysed in a negative way as an expression of private elites over public arenas, can be positively reinterpreted in the long run. Patrimonialism, which in the Brazilian experience expressed the extension of the private domain of the oligarchy, was based on a sort of competition between various regional fractions over control of the state *apparatus*, the unexpected result being the preservation of its strength and capacity to intervene over the years. Also seen in perspective, the policies carried out by the military governments can be positively reinterpreted not only for their ability to generate sustained growth rates and potential for development, but also for their consequences in terms of nation-building. A dictatorship that banned all forms of civil rights represented the element on which the elites could count to keep the State isolated from particular interests and develop a national project.



In sum, the Brazilian experience illustrates a case of solid capitalism in which the process of creating an interventionist state, since Getúlio Vargas's 1930 Revolution, can be analysed in terms of the presence of imponderable elements, combining uncertainty with determination of some elite sectors. The elites that triggered the process of national industrialization may not have been clear as to the long term consequences of their intervention but they opened up a trail that was to preserve the possibility of a development experience with an effective pattern of state intervention throughout its course.

Changes in political regime in Brazil have not meant a drastic change in the rate of accumulation or in the pattern of state intervention. Concentration of power, a strong Executive capable of implementing a development agenda over time and the strengthening of a bureaucracy with *esprit de corps*, seem to be the pillars that explain the increasing strength of the Brazilian State, the weaker penetration of the neoliberal project and the achievement of a more integrated form of capitalism in the long run.

The specific nature of development processes in Latin America clearly shows, on the one hand, the role that the state can have in them and, on the other, the concern with structural inequalities as a complex system factor in the dynamics of development. It is in the space between the State and the process of overcoming inherited inequalities that development dynamics can thrive. Only the strengthening of the State *apparatus* can act as a factor to overcome historically inherited inequalities, in an inclusive process of development that promotes the welfare of the masses. Moreover, the creation or expansion of a domestic market can promote a process of integration of historically marginalized sectors, thus constituting one of the axes for future development strategies.

The specific nature of state intervention as the basis for breaking with long-prevailing negative complementarities stemming from endemic structural inequalities has been overlooked by theories. Such is the case of the Variety of Capitalisms literature. These approaches provide an analysis of the transformation of the capitalist system based on the central countries' point of view. In this vein, the state is strategically seen as important, but is at the same time treated as an *epiphenomenon* in the productive regime, which is basically guided by firms' perspectives and complementarities in terms of financing, research and development, labour force training and others.

The capacities of peripheral and semi-peripheral states to meet social demands that precede the generation of such complementarities, as well as their capacity to face adverse conditions in the international system, would represent a turning point regarding future trends. However, it would not be possible to return to the omnipresent role of the state, without taking into account the imperatives of macroeconomic stability and its value. Neither would it be possible to continue denying the role of the state in creating the conditions for development, as became clear from the poor results of the economic reforms of the 1990s.

The more a development project involves a large number of players representing the political arena, business and other economic actors, and the more it becomes inclusive from the social standpoint, the greater the chance it will be viewed as national task worth fighting for. Equally, the possibilities for the region as a whole in the international division of labour will be enhanced, spurred by strategies of regional integration.

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## Notes

- 1 Development is a term of random biography in Latin America. Its promises dragged all sectors of society and somehow lit up one of the densest and richest debates of all times, but they were shaded in an increasingly evasive horizon and its bearers and followers were caged by disenchantment.
- 2 For Claudio Katz (2007), from the group of leftwing economists, the appropriate term is neo-developmental rather than fully developmental because it preserves monetary restrictions, fiscal adjustment, priority for exports and income concentration, whilst aiming to increase State subsidies to industry in order to reverse the consequences of extreme free-trade.
- 3 Brazil is the country of the region that has made the most progress in institutionalizing a system of science and technology. In this process, synergy between the State and national private sector seems to be a central factor in successful development experiences and in this case also appears to be an advantage in the Brazilian experience. While in Argentina the government represents 41% of financing and higher education institutions 22%, leaving 33.1% to companies, in Brazil the latter support the 39.9% of investments in research and development and universities 2.2%, leaving 57.9% for the government, which means greater integration of the research system in Brazil, where research relies on agencies specifically designed for that purpose and on the private sector. The Brazilian business sector has gone from historic R&D (investment rates of the order of 12% to a level around 40% in recent years, slightly over US\$ 2.5 billion. In Chile, institutions of higher education finance 2.2%, and government and business are responsible in almost equal parts (44% and 45.8%, respectively).
- 4 In 1960, Latin America accounted for 8%, in the 1980s this fell to under 6%, and in 1990 it reached just 3.3% (Lopez Segrera 1998). The current Latin American share of world exports stands at 3% (about US\$ 354.89 billion), thus constituting a process of marginalization (WTO, 2007). The largest country in the region, Brazil, represents 1.05% (i.e., more than one third of all Latin American and Caribbean exports), and 0.7% of world imports.
- 5 As it is an ongoing process, which recovers ECLAC's structuralist elements combined with a new direction and some new axes (in part a legacy of neo-classical paradigms), the identification of the neo-developmental agenda is not simple, but includes new forms of social policies, investment in education, science and technology, industry promotion and the diversification of the production matrix, among other aspects (Boschi and Gaitan 2008).
- 6 Hall and Taylor (1996) point out the existence of three neo-institutionalist lines: the first resumes studies of public election choice that emphasize institutions, such as rules that define the frame within which strategic interactions will take the place of rational actors and maximize utilities; the second refers to the sociology of organizations and seeks to interpret the role of institutions

in terms of standards of behaviour; the third also uses a broader definition and draws attention to the historical trajectories that resulted in certain institutional arrangements.

- 7 Under the neoliberal façade that characterized the Chilean model of development, mechanisms closer to a developmentalist form of State intervention operated. State coordination activities included public support, which acted as a catalyst for the boom in exports in sectors such as fish, fruit and timber. The preservation of State coordination mechanisms, in conjunction with the reorganization of business in support of economic reforms, made way even for the retention of the mining sector under the protection of the State and for the operation of capital-flow control mechanisms. Such elements meant that there was both an ability to deal with market failures and positive space for State intervention.
- 8 As pointed out by Rodrik and Kaplan (2002), Malaysia dealt with the Asian crisis with alternative prescriptions to the international lending institutions' proposals, achieving higher rates of recovery in a shorter period than those countries that clung to the handbook of the international community.
- 9 This author argues that cyclical capitalist crises lead to changes of economic policy (laissez-faire, mercantilism, centralized planning, demand stimulation, industrial policies) and that the resulting nature of the state is going to depend not only on those choices but also on the possibility that these will constitute the dominant model.
- 10 In theory, the governments of these countries constitute an axis that at least at the discursive level claim to be socialist alternatives. This is expressed in the formation of the Bolivarian Alternative for the Americas (ALBA), in which Ecuador refused to participate and was finally made up of Bolivia, Cuba, Dominica, Nicaragua and Venezuela.
- 11 Vale is the world's second largest mining company. It was created by president Getúlio Vargas in 1942 and privatized in 1997, during the Cardoso administration.
- 12 The degree of organization and strengthening of business associations has also been fundamental to moving processes of structural adjustment forward. Por ejemplo, las privatizaciones avanzaron mucho menos en el caso brasileño, en parte por haber sufrido oposición de sectores organizados que consiguieron atenuar el impacto de las mismas. For example, privatization progressed much less in the Brazilian case partly because of opposition from organized sectors that managed to mitigate its impact. La fragmentación del empresariado argentino y la mayor organización de sus pares brasileños, caracterizados por el fuerte pragmatismo y organizados en asociaciones corporativas y una tela de otras entidades a su margen, fueron en general receptivos a las reformas, a pesar de que las mismas impactaron diferencialmente sobre distintos segmentos de la industria. The fragmentation of Argentinian business sectors was not replicated in Brazil. This was owed to Brazilian business sectors' strong pragmatism and better organization into corporative associations and related organizations. This did not prevent Brazilian entrepreneurs from generally being receptive to the reforms, despite the fact that they had differential impacts upon the various segments of industry.
- 13 BNDES is the state-owned National Economic and Social Development Bank, created in 1952. It is the main source of credit for the private sector.

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