

## The global economic crisis as disclosure of the existence of different types of capitalism in Latin America<sup>1</sup>

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By the end of first decade of the present century the differences between Brazil and the rest of Latin America have started to appear ever more clearly to most analysts. While Brazil is expected to grow between 7.8% in 2010 and 4.5% in 2011, Argentina is supposed to grow 6.8% and 4.0%, Chile 4.8% and 5.6%, and Mexico 4.6% and 3.3% in the same years (*The Economist*, 11-17/09/2010). Nevertheless, this data has to be weighed against the performance of each of these countries during the global crisis: while Brazil grew 5.1% in 2008, and decreased by a mere -0.2% in 2009, at the height of the economic crisis, Argentina receded only -0.9% in 2009, Mexico grew a mere 1.5% in 2008 and fell by a staggering -6.5% in 2009. Chile was also badly hit as its economy strongly depends on exports: it receded -1.5% in 2009 (FMI, 2010). While Brazil recovered the level of employment it had before the crisis by the end of 2009 and in the first three months of 2010 it created 1 million new jobs and it is expected to create 2.5 million this year (*Le Monde*, 24/05/10), Mexico is grappling to fight its highest rates of unemployment in the decade: as it went from 3.7% in 2007 to 5.5% in 2009 and 5.3% in July 2010. In Argentina unemployment went from 8.7% in 2008 to 7.8% in 2010, Brazil from 9.3% in 2007 to 8.1% in 2009 and 6.2% in 2010 (ILO, 2010). Although according to the Ministry of Labor, Mexico recovered 380,000 jobs in the first 3 months of 2010, the unemployment rate went up to 5.5%. GDP per person is also telling: Brazil's increased an average of 3.3% per year from 2000 to 2009, Argentina's by 3.3% in spite of the terrible crisis it went through in 2001-2002, Chile's by 3.7%, while Mexico's increased by a mere 1.8% in the decade (*The Economist*, Op. cit., 4).

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How can we explain why Mexico, one of the countries that was markedly a model for Latin America in the nineties, is in such difficulties, while the country that was signaled to be most urgently needing the recipes of the “Washington Consensus”: retreat of the State, privatization, and deregulation, is doing so well. This apparent paradox is explained by one of the more heterodox economists of the US not as proof that the recipes were wrong but that they are too abstract (Rodrik, 2005). This implies they are right at the end of a road but that the way to arrive to them diverges from country to country. In contrast to this idea, I will try to defend that in the same way as there are different types of capitalism in the developed world, we are not dealing with different paths that lead to the same end, but that we are facing the development of different types of capitalism in Latin America. I follow the literature that considers different types of capitalism: while some are more liberal and based on the market (US), others are more coordinated (Germany, North Europe) (Hall and Soskice, 2001), in others the State has a crucial role (France, Korea), and in still others it's the conglomerates of banks and industries that play the main role (Japan) (Amable, 2005, Boyer 2005). Thus, in Latin America there would also exist different types of capitalism and not a deficient variant of the one (or ones) of the developing countries (as Schneider and Soskice, 2009 have affirmed). In at least three countries we can see that the economic structure and the socio-political conformation (basically the welfare regime and the industrial relations system<sup>2</sup>) are complementary enough to be able to construct ideal types. We can identify two types of capitalism with strong State intervention, one of them led by the internal market –IMLC- (Brazil), another led by external market –EMLC- (Chile). Another type of capitalism, albeit a disarticulated one, is the Mexican one, based on international subcontracting with retreat of the State (ISCC).

The way in which these countries faced the 2008-2009 global crisis is of crucial interest for the understanding of the types of capitalism, because it has been an opportunity to consolidate a certain type of capitalism (Brazil, Chile) or to diverge from a given economic trajectory (Argentina). The main idea of this paper is that the way countries have responded to the global crisis is related: 1. on path dependence, that is on the economic, social and political institutions and organizations created in the past; and 2. on the manner in which the countries responded to previous crises,

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<sup>2</sup> We are not able to include other relevant elements such as the educational and the qualification system nor the political system for lack of space.

transformed their economic and social institutions during the eighties and nineties and the degree to which they followed the recipes of the Washington consensus; something that in the countries we are analyzing is closely related to the political context in which they did so, whether under an authoritarian or a democratic regime.

### 1. Divergent historical trajectories

Although most of the literature on Latin America considers that all the countries of the continent followed practically the same mode of industrialization by import substitution, had the same problems and failed for more or less the same reasons, there are crucial differences between the countries. As analyzed in a path-breaking article by Marques-Pereira and Bruno Th  ret (2004), Mexico and Brazil followed a similar path of economic development based on very different socio-political conformations, until these latter began determining the economic evolution and started to function in non complementary ways in Mexico and in more complementary forms in Brazil. In effect, in the seventies when Latin America faced one of its recurrent balance of payments crises, these two countries started to diverge in important ways. Brazil, governed by the military, who founded their legitimacy on continuous economic growth, faced the crisis directly and adopted import substitution of intermediary and capital goods in order to reduce its external dependence, while it began opening its political system to solve its legitimacy problems. Mexico's fate was to find vast oil reserves and became an important exporter. The huge amounts of external credit the Mexican government acquired in view of this condition, allowed the governments of the PRI to delay the transformation of its import substitution scheme and uphold their inclusive authoritarian political regime throughout the 70's (Marques-Pereira-Th  ret, 2004).

In contrast, Argentina abandoned import substitution in 1978. The military that governed from 1976 to 1983 had as their main purpose to extricate popular pressure from politics in order to "depoliticize" the State. The fact that labor organizations in Argentina were deeply entrenched in the political system explains in part the virulence of the military as well as the predominance of political over the economic rationale. The military coincided with their liberal technocratic allies in their diagnosis of what they called "economic populism", that according to them had ruined the Argentinean

economy because it had placed industry as the core of the development mode which had led to a spiral of expectations and demands on the part of the popular sectors. Nonetheless, there were considerable tensions during the government of Martinez de Hoz between the military that defended a strategic conception according to which industrial growth was linked to the development of military capacity and the young technocrats that were endorsing the opening of the economy and setting a stable fixed rate in order to stimulate exports of commodities. From mid 1978 on, the liberal technocrats took over the economic administration and adopted an economic program based on the retreat of the State and the opening of the economy (Canelo, P, 2009). While the Brazilian military had the same purpose of “depoliticizing” the State after the intense trade union mobilizations that had characterized the Goulart presidency they had overthrown, the unions were not as deeply entrenched in the Brazilian political system as were the *peronistas* in Argentina. The political and repressive measures they took were less radical. In addition, in Brazil the military took power before the crisis of the 70's, a moment where there was still no alternative model to import substitution, or when it was still not so hegemonic as it became since the mid seventies. The Brazilian military followed many of the structuralist economic policies that had been in vogue in Brazil but reduced their redistributive impact, and especially remove these redistributive mechanisms from the unions. On the other hand, the military as much as the civilians, before and after them, had a conception of their country as a regional and international power that needed a strong economic basis, which meant self-sufficiency in heavy industry, machinery and arms (Sallum, B. 2010). This led the Brazilian military to the deepening of industrialization rather than to the opening of the economy.

One can explain the socio-political foundations of the different trajectories of ISI on the basis of: 1) the relationship between industry and the rural sector, 2) the force and persistence of the industrializing coalition, 3) the autonomy of the State.

In the first register, land in Argentina was extremely concentrated since the middle of the nineteenth century. Land owners were an oligarchy that rented very fertile land rather than producing themselves (Adelman, J., 1992). As they were also the main importers of industrialized products from England, they had little interest in the development of industry, because it would endanger their economic and political power (Teichman, 1982). Nevertheless, due to urbanization, to the international crises of the first half of the twentieth century and to the end of the special relation with

England, industry started developing in a “spontaneous” manner, based on the limited development of the internal market and dependent on the external sector. In the aftermath of the crisis of the thirties and notwithstanding the industrialization the export oligarchy recovered, albeit temporarily, its power (Cardoso y Falleto, 1969, 78-82)

The mode of development underwent a crucial transformation under Juan Domingo Perón between 1948 and 1955. Industrialization would now be accompanied by the will on the part of the government to extend the internal market through redistribution. This process would also entail the political integration of the popular sectors. After the Second World War and until the first stage of import substitution of consumer goods had been completed, industrialization was based upon a compromise between the agro-exporting sector and the industrialists (Cardoso y Falleto, 102-116). But under Perón industrialization was based on price controls that favored consumption of agricultural products against exports (Teichman, 1981) and the extraction of high taxes on agrarian production (Kay, 2002, 1091). On the other hand, the urban-popular peronist alliance became a political and economic threat to the agrarian oligarchy (Cardoso y Falleto, Op. cit.). Finally, the agrarian interests exerted their veto and supported the end of the democratic game by the military in 1955. What this basically meant it that although industrialization in Argentina had advanced faster than in Mexico or Brazil by the thirties, it was never hegemonic but was always confronted with its alternative agrarian project. In contrast to Brazil and Mexico Argentina has always shifted from protection of industrial production to liberalism and support for exports of commodities (Rapoport, 2005).

Mexico seemed better set to industrialize as the regime that emerged after the Revolution destroyed the landowner class through an extensive agrarian reform in the thirties. There was no active agrarian oligarchy to propose another mode of development. Nevertheless, the fact that it did not help the peasants to capitalize their land resulted, contrary to Korea and Taiwan, in the impoverishment of the peasants and increased inequality.

In contrast, the Brazilian State has traditionally played the role of compromise between different interests and provinces since the XIXth century. In addition, the Vargas revolution was an alliance between the oligarchy of the *Nordeste* and that of *Rio Grande do Sul*, against the interests that had been in power until then: those of Rio de Janeiro and Sao Paulo (Fausto, 1995, p.183). This character of the State translated into

a compromise between the agrarian and the industrial interests. In addition, while richer Argentinean oligarchy produced enough foreign currency and maintained a privileged relationship with England that permitted it to replenish the needs of manufactured goods of its population through imports, the Brazilian oligarchy was never so prosperous and was thus forced to start investing in industry since the late nineteenth century (Rapoport, 2005, 292). This explains why industrialization was never a contentious subject in this country. By the way, it also explains why there hasn't been an agrarian reform in Brazil, resulting in extreme income inequality and the persistence of poverty as in Mexico.

In Argentina, the peronist-industrializing coalition was formed by the urban businessmen, workers and middle classes. Although they were politically dominant as they had inaugurated modern politics in this country, they represented one pole of the Argentinean society. The other pole, the landowners, were economically powerful but had no political representation, but maintained strong links with the military. This situation permanently polarized Argentinean society to the effect that whenever legally elected governments began to hurt the interests of landowners they had the capacity to recur to the military to stop the democratic game. (Portantiero, 1982).

In Mexico, the industrializing coalition was led by the State that emerged from the revolution and that had succeeded in building its own social foundations. It delivered land and supported trade union organizations in their struggle to get better labor conditions in exchange for political support, a highly efficient system that lasted for 70 years. The coalition also included the entrepreneurs that emerged through subsidies, direct investment and protection from the State. Nevertheless, the fact that the Mexican State accomplished to institute a durable authoritarian regime to fill up the power vacuum left by the Revolution determined that its main logic became that of the preservation of the regime. The economy served as a means to continue co-opting those sectors that were inside the system and integrate those outsiders that had become strategic enough to be a threat (Bizberg, 2004).

In Brazil, the coalition was more solid because it incorporated both urban and rural interests as well as the State and more committed to industrialization as the instrument for modernizing, and uniting the country as well as for serving as a structural base for its having a regional and international impact (Sallum, 2010). In contrast to Argentina it was a unifying issue. In contrast to Mexico the economy was not subordinated to politics.

The State in these three countries differs with regards to its autonomy. The Argentinean State has always been an instrument in the hands of one sector of society against the other. The *peronistas* instrumentalized the State towards industrialization with redistribution, the agro-exporting sectors to an open economy (Rapoport, 2005). In Mexico, the State was the instrument of the political regime. This also led the State to adopt a political nationalist stance, which was basically discursive and ideological, in order to confront the economic predominance of its northern neighbor. The Brazilian State was more autonomous as it had to deal with many different actors (social and provincial) that preceded it in time and was never identified with a single political regime. It thus used economic modernization as a way of legitimizing itself. Its nationalism was more economic and pragmatic. While Mexico imposed bans on foreign capital until the eighties for discursive reasons, Brazil reached a partnership between foreign, state and national capital (Marques-Pereira and Th  ret, 2004).

## 2. The socio-political context for the transformation of the economic modes

Due to the limitations of this paper, we cannot delve into the details that would be necessary to understand why the countries we are analyzing in this text responded so differently to the crisis of 1982; we will by necessity schematize.

One of the main ideas of Haggard's comparison between Latin America and East Asia is that developing countries were obliged to modify their development model by external pressures. Recurrently, industrializing countries are confronted with the decision of how to tackle an external balance of payments crisis. The crisis of 1929-1930 and then the Second World War led many countries around the world to the import substitution model. In the 50's, the countries that had entered a virtuous cycle of internal market growth and industrialization were pressed to advance to a second stage of industrialization and to produce more complex consumer goods. During the crisis in the seventies, Brazil, Korea and Taiwan were hardly hit because they had no oil and had to upgrade to produce intermediary and capital goods and start exporting in order to acquire foreign currency (Haggard, S., 1990). The 1982 crisis put the industrial bases of the Latin American countries at stake again. In the case of Mexico, it showed the weakness of the industrial basis and the fragility of a redistributive mode based on oil exports and debt. Even if the Mexican State and

entrepreneurs also invested in steel and heavy industry, such as railcars and machinery, the fact that the crisis of the seventies coincided with the discovery of huge reserves of oil made it possible for Mexico to opt for the easy way.

There was also a political rationale for this decision. Mexico arrived to the seventies under the PRI regime, a civilian-authoritarian regime that depended on its control of the popular organizations and its revolutionary legitimacy. It was an inclusionary-authoritarian-corporatist regime in contrast to the military exclusionary regimes of the South Cone. Due to the challenge posed by the student movement in the late 60's and the labor movement in the early seventies, led the regime to be more concerned with the political stability than with the viability of the economic system (Bizberg, I, 2004). The discovery of oil reserves and the possibility of acquiring debt seemed to be a perfect solution to the dilemma of how to deepen the import substitution model while continuing to redistribute and give concessions to its protected entrepreneurs. Although the Mexican State tried to do both, it basically ended up doing the latter while expanding its petroleum platform and its debt.

This solution resulted catastrophic when in 1981, both oil prices fell and the interest rates went up. Mexico suspended payments on its debt and had to recur to the IMF that imposed draconian measures on the country. The financial catastrophe and the recipes of the international financial institution convinced many of the Mexican leaders that the country had to abandon import substitution and orient its economy towards the external market. In the span of one *sexenio*, Mexico radically opened its economy and abandoned industrial policy with practically no opposition; it was imposed on society (workers, peasants and businessmen). The new export led growth model led to an exceptional expansion of the *maquiladora* industry and the assimilation of other exporting industries to subcontracting, once the government abandoned the idea of enhancing an industrial policy to integrate local production to sectors dominated by foreign capital. A mode that has shown a very low capacity of integration of new technology and low productivity growth as it is basically (there are some exceptions) based on manufacturing segments of high concentration of labor, based on low salaries (Puyana and Romero, 2009). This situation imposed a strict salary control in order to continue being competitive. (See figure 1) The continued control of the labor unions by way of the corporatist arrangement was totally functional to this purpose (Bensusan, 2008). The only possibility of escaping this very slow upgrading would be vertical integration of the industry through the

incorporation of national providers to the export industry. Nevertheless, the different governments thought this would happen naturally and never though it necessary to apply an industrial policy.

Brazil followed the contrary path. The economic scheme implemented by the military was accelerated growth with no wealth distribution. This mode of growth reached its limits at the beginning the eighties when the financial international context reversed. At that moment Brazil had to depend on its own resources in order to confront the disequilibrium created by economic growth under an extremely unequal wealth distribution; the contrary of the fordist economic model that existed in the US and Western Europe during the thirty years following the second world war. This situation eventually led to rampant hyperinflation as the redistributive conflict could not be controlled in the context of a democratization process where social forces were very active and had no intention of accepting to pay for the adjustment. Although this situation was extremely costly in social terms, especially for the sectors that were not covered by indexation, it functioned as an obstacle against des-industrialization caused by liberalizations under external pressure. (Marques-Pereira and Th  ret, 2004) This meant that Brazil could preserve its industrial base and transit to democracy.

Contrary to the military in Brazil, the Argentinean and Chilean military opened the economy, reduced the weight of the State and limited redistribution. Both of these countries had responded to the balance of payments crisis of the seventies with the imposition of a new economic model (For Argentina: Rapoport, M. 2005, pp 600-701, for Chile: Silva, 2007). In Chile, the harsh dictatorship of Pinochet had no difficulty in extending the liberal economic agenda. It did so crushing the trade unions and imprisoning or killing even the more moderate trade union and political leaders in order to extricate the labor movement from the political parties. It institutionalized this situation in its labor law of 1979. After the economic crisis of 1981, once the government had abandoned a purely monetarist approach, it began to sustain an economy based on the industrialization of commodities (agro-industry - fish, wine, dried fruits-, wood pulp and copper) with a considerable support of the State (Rodrik, 2010). Forest products started to be subsidized under Pinochet, the government financed R&D for the development of the wine industry, while the salmon industry owes much to the support of *Fundaci  n Chile*, a semi-public venture fund. The Pinochet government preserved a majority part of the copper industry under control of the State, when in the 1981 crisis it realized the importance of an autonomous

source of foreign currency (Gaitán and Boschi, 2009, 11). The State in Chile can thus be characterized as autonomous with a cooperative relationship with the private sector (Silva, 2007, 79).

The *peronist* Menem government was able to negotiate a compromise with the trade unions in order to deepen the neo-liberal reforms, basically in the direction of privatizations and the convertibility scheme whereby the Argentinean peso was pegged to the dollar. The peronist unions would allow the government to impose its neo-liberal agenda with the condition that it did not weaken them: that they preserve their unionization hegemony and their control on the health service system: the “*obras sociales*” (Palomino, 2000, 126). These measures resulted in an intense de-industrializing process and the dismantling of State (Boschi and Gaitan, 2009). The only institutional structure that remained was the relative force of the peronist unions (although they divided on a disagreement over giving support to the Menem government or not) and the social policy instruments in the hands of the unions.

### 3. The welfare regimes

The welfare regime is not just a way in which the individual is protected from the hazards of life (disease, unemployment, old age, etc.) but it's also a mechanism to maintain the cohesion of the society (Théret, 2002, 76). On the other hand, it may be complementary to a type of capitalism. While in liberal capitalism a residual welfare State and a weak labor organization are complementary to the manufacturing of products based on radical innovation which require flexibility of the labor market, in the Statist and corporatist-European capitalisms welfare and industrial relations are very extended, but dependent on the labor situation of the individuals and that of the specific economic sectors, a condition complementary to products based on incremental innovation and high qualification. In the social-democratic capitalism, industrial relations are both centralized but flexible, while the welfare regime is universal and generous; thus complementary to competitiveness and innovations based on solving social and economic problems. (Boyer, 2005, 529-32)

Brazil, Argentina and Mexico have been considered as having corporatist, *bismarkian*, stratified welfare regimes. Although Mexico originally implemented a universalist *beveridgian* regime, where workers were to join a National Security System

that would guarantee both health services and pensions, it acquired a more corporatist character after the mobilization of some of the most strategic unions forced the government to bestow them different conditions in the 60's. The Brazilian regime was centralized by the military in 1967, in order to extricate the control of the trade unions. During the Pinochet dictatorship the Chilean pension system passed from a "pay as you go" to an individual capitalization scheme and health services were decentralized to the municipal level and workers were obliged to acquire health insurance. Finally, in Argentina, the military, Alfonsín and Menem tried all to retrieve the *obras sociales* from the unions and concentrate them in the hands of the State but failed.

Under the Pinochet regime labor was repressed, radically flexibilized and social policy transformed into a focalized assistance scheme. Although the democratic governments embraced the economic mode and the labor relations system created by the dictatorship, as they constituted the base of a consensus that according to them had permitted a smooth transition to democracy, they nevertheless adjusted social policies and managed to transform them into a liberal, albeit quite extended regime. Facing the fact that with capitalization, some workers would not get the equivalent to the minimum salary as pension, the Lagos government instituted this level to be paid by the State. On the other hand as the private ISAPRES were not covering many of the ailments common to Chileans, the two last governments set up standards to include them and extended public health services to cover 70.4% of the population, while another 16% are covered by the private ISAPRES (Mesa-Lago, C., 2009, 13). Although the democratic governments made some significant changes to Pinochet's labor law, it did not modify the crucial measure whereby collective negotiations were decentralized at the level of the firm, that considerably weakened the union force that used to organized at the branch level. Social policy is basically assistance oriented and disconnected from labor policy.

The old welfare regime in Mexico was directly linked to the needs of the PR, as it assured control of the social organizations in a corporatist scheme. Since the arrival of the "technocrats" to government and the distancing of the State from these organizations, the Welfare State started evolving towards a more universal, albeit minimalist scheme. The social programs became more clientelistic and assistance oriented, the main program being *Oportunidades* that focalizes on the poorest of the

population, and includes 5,800,000 families. It is complemented by the *Seguro Popular* that pretends to extend health coverage to the whole of the population that is not insured by any of the other public systems but has not been able to attract the great majority of the informal workers that would have to pay a variable amount for being included in the program. While Mesa Lago calculates that 45.3% of the population is covered (2009, 13), the OCDE considers close to 80%.

As in the case of Chile, in Mexico social policy is also disconnected from labor policy. During the first technocratic government (1988-1994), the resources for this program came from privatizations. After this period, the government began to dismantle the corporatist welfare system in order to finance it. It transformed the “pay as you go” pension system of the private sector workers into an individual capitalization system in 1995 and that of the public sector workers in 2007. On the other hand, the technocratic PRI governments and the *panista* governments that have followed them since 2000, continued to impose the state corporatist control over unions through a series of mechanisms: negotiation with the traditional unions the attributions of the Ministry of labor to register unions and set salaries, and the acceptance of direct control of the unions by the employers, through “protection” trade unions (Bensusan, 2008, 33).

Argentina and Brazil stand in sharp contrast to both of these cases, especially in the fact that in both social and labor policies are complementary. In Argentina the welfare regime is still controlled by the unions. Although the Menem government did succeed in adding a private pillar to the pension system and weaken the unions with its economic policies, they still control the *obras sociales*: the health service programs. The unions were successful in resisting both the intent to decentralize union negotiations, although a presidential decree in this direction was passed (Munck, 2004, 11) and to extricate the *obras sociales* from the unions. Even though the support given by unions to the Menem government resulted in the division of the *peronista* union and the liberalization in a reduction of the proportion of the active working class that it organizes (Palomino, 2000), in comparative terms the Argentinean labor organizations have been relatively well preserved, at around 37% of union density.

After the 2001 crisis, they regained force from their position (with the unemployed *piquetero* organizations) as a crucial ally of the new government of Kirchner. With the support of the *peronist* unions, this government implemented

policies to extend the coverage of health services through the *obra social* of the retired workers and reduced the population without health services, reaching a coverage of 59% (Mesa-Lago, C., 2009, 15). One of the most important social programs established in the aftermath of the crisis: *Jefas y Jefes de Hogar Desocupados*, designed to provide income to unemployed workers in exchange of work in their community was in part administered by the *piquetero* organizations. This program reached a high just after the 2001 crisis, under the Duhalde presidency, with almost 2000,000 subsidies (Delamata, 2008, 134). It benefited 11% of the active population and contributed to decrease unemployment by 2.5% (ILO, 2010, 30). Contrary to most assistance programs implemented in Latin America, such as México's *Oportunidades*, Chile's *Solidario* and Brazil's *Bolsa familia*, it was unorthodox as it was directed to the unemployed and not to the poor and it served to reinsert to a certain degree the individuals to labor; the central demand of the *piquetero* movement that forced the government to implement it was the "right to work".

Brazil is the country that has been more surely advancing towards a qualitative transformation of its welfare regime in the last decade with a definite complementarity with labor policy. The Brazilian welfare system came out from the military regime as universalist, albeit minimalist and clientelistic. In addition, Brazil did not reduce spending in health and education as most other countries in Latin America did in the 90's (Lautier, B., 2007, 53). It did not abandon the "pay as you go" pension system or even institute a mixed one. In fact, the 1988 Constitution, instituted with a very active participation of civic society, and with defined an explicit program to universalize social policies that forced governments to implement new social policies. This was especially true in the case of health with the creation of the SUS (*Sistema Unificado de Salud*). This system, based on the universal British National Health Service, extended the offer of free health services very rapidly: in 2003 79% of the population was using these health services regularly and it financed 57% of the total health acts, 26% were at least partially financed by private plans and 15% by the patient himself. Concerning hospitalization, the SUS financed 68% of the acts and the private plans 24% (Lautier, 2007, 56-7). The most important assistance program, *Bolsa Familia*, was expanded both in terms of resources and coverage, and in 2009 reached almost 50 million people. (Dowbor, L., 2009, 194) On the contrary, pensions to the rural workers were expanded: since 1991 12.8 million people get a minimum salary without ever having contributed. Another social assistance program, called the BPC (*Benefício de Prestação*

*Continuada*), covers about 2.7 million old or incapacitated individuals over 65 years which live in a home that has a revenue lower than one fourth of a minimum salary, (Lautier, 2007, 60-2). In addition, Brazil is the first important country in the world which instituted (in 2004) a basic revenue of citizenship, called *Renda Básica de Cidadania* that was supposed to cover all Brazilians by 2008 and substitute all other assistance programs and minimum pensions, but has not yet been implemented (Lautier, 2007, 54). On the other hand, the trade union movement in Brazil is quite well organized and mobilized since it played a central role in the transition to democracy. The party that has governed Brazil for the last eight years, the PT, has trade union bases and has implemented a number of negotiating institutions, such as the Economic and Social Council to discuss different social and economic measures. The level of trade union density is quite high in comparison with that of the rest of Latin America, with 17.3% in 2001, while Mexico had 10.3 % in 2002 (ILO, 2005, 157) Union rates in Chile and in Argentina have been calculated to be around 15.3%, and 37% respectively.

All this discussion can be summarized in Figure 2, where we compare State expenditure in social programs. We can see how both Brazil and Argentina are on a much higher level than Chile and Mexico. In addition, while in Brazil social expenditure has been continuously growing since the 90's, Mexico started out at an extremely low level and continues spending less than half that of Brazil although it has almost doubled. Argentina and Chile have had strong ups and downs in these two decades and have barely moved in this respect.

Where these countries depart even more radically is in their minimum salary policies, something that has an evident relation with the situation of the respective labor unions and policies. Argentina and Brazil distinguish more clearly from Chile and Mexico. During the last four years there has been a signaled will to raise minimum salaries in Brazil in order to close the gap between the best and worst paid workers; which signals a determination both to expand the internal market and increase equality. In fact, in February 2009 the minimum salary was almost twice that of 2000 in constant terms; this also affects the unemployed and the pensions. In the same period, there has been an important evolution of the expansion of occupation and formalization of employment (ILO, 2009a). In figure 3 we can see how salaries have also had significant increases in Argentina. Finally, both in Chile and Mexico

minimum salaries have been held under control, with the important difference that in Chile they are constantly above inflation, while in Mexico there has been a loss of purchasing power in many years; in both these cases it is clear that the goal is not the internal market expansion but external market competitiveness. The effects of these policies on income distribution is that while all countries are very slowly moving towards more equity, Brazil, Argentina and Chile seem to be moving a bit more decidedly than Mexico. (See figure 4).

If we now analyze the way in which salaries behave with relation to productivity we can have an indicator of the relationship between social and economic policies. In the case of Brazil we have a continuous growth and synchronization between productivity and salaries; something that characterized the fordist period in the developed countries between the end of the world war and the beginning of the seventies; where increases in salaries that were above productivity served as a stimulus for still more productivity gains (See figure 5). In the case of Argentina we can notice that productivity growth is detached from salaries, this can be interpreted as proof of the fact that although this country has seen important increases of salaries and a social and labor policy congruent with growth led by the internal market (Palomino and Trajtemberg, 2006, 50), there hasn't been a significant transformation of the mode of accumulation, real increases do not follow a coherent economic internal market growth, contrary to Brazil, capital has gained proportionally much more from this growth (figure 6). Mexico shows an almost constant slower evolution of real salaries with respect to productivity that denotes a mode of development based on low salaries, which is in return condemned to low productivity growth. Finally, in Chile we can notice a continuous growth of real salaries and productivity similar to that of Brazil, through an export oriented mode of accumulation with liberal social and labor policies (Figure 8)

#### 4. Responses to the global crisis.

In this last section we will analyze the way in which the crisis reinforces, consolidates or modifies the main characteristics of the economic and welfare regime trajectories we have been discussing. We will try to argue how the anti-crisis measures give an indicator of the consolidation of an internal market growth orientation in the

case of Brazil, the continued intent to modify the trajectory of Argentina in this same direction, the consolidation of an external market led growth in the case of Chile and a failed opportunity to modify the subcontracting mode in the case of Mexico.

For Argentina, the 2007-2008 crisis was very mild compared to the one of 2001-2002, which led the country to radically shift cap. In fact, with the arrival to the presidency of Nestor Kirchner in 2003, social and labor policies changed radically with respect to the Menem and Alfonsín years. The Argentinean government reaffirmed its alliance with the *peronist* unions and contrary to what was current during the Menem years it has promoted branch level industrial relations rather than by enterprise (Palomino and Trajtemberg, 2006, 49). In addition, union action and increased inspection by the Ministry of Labor led to a substantial increase of registered labor, that contrasts greatly with the previous tendency of informalization, flexibilization, and subcontracting. In this manner, the coverage of collective bargaining went from 1.6 million workers in 2003 to 3.5 million in 2006, raised salaries, reduced the gap between low and high salaries and boosted the resources of the pension funds; this was both a result of higher salaries and a larger extension of coverage (Ibid., 52-5)

Facing the more recent crisis, there was a sustained will to reinforce the internal market as its partner in the *Mercosur* Brazil has done; with less success as we will see below. The Fernandez-Kirchner government invested the most in Latin America to try to counteract the social effects of the crisis; in the first trimester of 2009 it increased its public investment by 5.7% in relation to GDP; it pledged to invest 30,690 million dollars in housing, hospital and infrastructure. It also announced a 15.5% salary increase for government employees and maintained a crucial measure imposed during the previous crisis: that of increasing the unemployment benefits as a way to incentivize employers to retain their personnel through the crisis (Palomino and Trajtemberg, 2006, 56). But the most significant measure was surely the renationalization, in 2008, of the pension funds that had been partially privatized during the Menem presidency. The government unified the system under a State controlled solidary regime, eliminating the segment of capitalization administered by the AFJP (Administradoras de Fondos de Jubilaciones) (CEPAL, 2010, 8-9). According to some analysts, since the year 2001, and again with measures such as the renationalization of the pension funds in the midst of the more recent crisis, there

occurred a turning point where the ancient socio-economic mode based on the external market, labor flexibilization and welfare system privatization was abandoned, in favor of a development mode that pretends to equilibrate the external and the internal market and that articulates economic and social policies in order to develop the latter (Novick, Lengyel, Sarabia, 2009, 272). Nevertheless, the data on the relation between salaries and productivity as well as the structural analysis of the economy show how the economic structure has hardly changed (Fernandez Bugna and Porta, 2008, 223).

Although in Brazil unions have also been an important actor since the seventies and eighties and during the Lula presidency they are constantly consulted in trilateral mechanisms, the State has had the main role in the face of the crisis, in absolute synchrony with its prior development. To offset the global economic crisis it has further incentivized the internal market through State investment and intervention: the Brazilian government anticipated a 12% increase in minimum salaries from April to February 2009, through the Program for the Acceleration of Growth it planned to invest more than 62,140 million dollars by 2010 in infrastructure and another 219,600 million by 2011. It also announced important tax reductions on consumer financial operations from 3% to 1.5%, the elimination of a tax on industrialized products, mainly affecting cars, as well as exempting those that earn up to 875 dollars per month. (CEPAL, 2010, 12-4).

The Chilean government adapted its liberal welfare policies to compensate for the great loopholes created by the reforms of the eighties. In the year 2008 it implemented a Welfare Reform that included the compulsory affiliation to an independent workers health system by 2016 (in contrast, in Mexico the *Seguro Popular* is voluntary) and the universalization of a non contributive pension for the poor. It also flexibilized the access of the old to contributive pensions (Mesa-Lago, 2009, 15-6). Although this reform is attuned to what the social-democratic governments that have ruled this country since the year 2000 (Lagos and Bachelet) have been doing, it was a deepening of the tendency. It also implemented actions similar to those of the more advanced liberal economies, based upon state investments and tax reduction: a fiscal countercyclical policy in the 2009 budget that implied a 2.2% increase in relation to GNP in the first trimester of 2009, which included a real increase of 5.7% in total expenditure, an even higher one of 7.8% in social expenditure, and an 8.8% in

infrastructure. In addition the government extended the unemployment insurance (El Fondo de Cesantía Solidario) to include those without a permanent contract. It also implemented an exceptional measure even for the more advanced economies: fiscal exemptions to companies that maintain and qualify their workers (CEPAL, 2010, 17). Although Chile has surely not abandoned its economic model oriented towards the external market and its liberal character, where economic rationality primes over the social one, it has certainly corrected the most unjust elements of the welfare reforms of the dictatorship (Riesco, 2009).

In contrast, the measures taken by the Mexican government appeared to be a mere time span to wait for the recovery of the US. It reacted timidly and in some cases contradictorily. In October 2008, the government announced a program to support growth and employment to the height of 6,390 millions of dollars for infrastructure and 11,680 million dollars to finance private investment. Nevertheless, at the same time it proclaimed a reduction of 6,000 million dollars in public expenditures owing to the decline of public finances due to the decrease of economic activity and lower oil prices (40% of the government's resources) (CEPAL, 2010, 34). Most of the infrastructure projects have had enormous implementation difficulties; some non official sources have affirmed that up to 28% of the resources have not been used (<http://www.milenio.com/node/372874>)

As in Mexico there is no unemployment insurance, in 2008 the government decided to implement a program for the preservation of jobs in the export sectors (automobile, auto-parts, electronic, electric and capital goods) that had seen a reduction of 11.6% in their production by May 2009. The government would compensate the salaries of the workers affected by production stops in exchange of a compromise by the enterprises not to fire them (ILO 2009b). It also extended the existing program of temporary employment (that hires workers for communitarian projects in education and health) directed to rural and urban areas where unemployment is very high (ILO, 2009c). Although these two programs were supposed to cover 500,000 workers, they were assigned a mere 140 million dollars for the first and 165 million dollars for the second. An indicator that this program was not working as it should have been is that six months later, in March 2009, and then again in May, the government announced that the rules to access it would be eased. In addition, the minimum salaries were raised by a mere 4.6% and the government

allowed workers to use part of the individual pension funds, in guise of unemployment insurance (CEPAL, 2010, 35-7).

## 5. Concluding remarks

The main idea of this article is that the manner in which countries face economic crises can be indicators of the type of capitalism that each of these countries is developing. The 1929 crisis and the Second World War gave rise to the fordist economic model in Europe and the US and the import substitution model in many of the countries of Latin America. In the first part of this paper we discussed the way in which the countries we analyzed diverged in important ways since the crisis of the seventies. Both Mexico and Brazil tried to implement a third phase of import substitution, but while Brazil was successful Mexico was less so, basically for internal political and external financial conditions. Argentina and Chile abandoned the import substitution model in order to embrace an export led growth that was successful in a small country such as Chile, but led Argentina to de-industrialization and to a disarticulated economy (Boyer, 2010).

While Brazil had the capacity to resist the economic and political pressures to totally open its economy in the 80's and 90's because it had advanced further in import substitution and had the most solid institutional structures, the other three countries were less successful. Brazil was able to implement an integrated social and wage regime, coherently articulated with its economic policies oriented towards the internal market. This explains why this country has been able to apply the most coherent countercyclical economic actions and why it is being considered as an emerging economy. We can characterize its economy as a State led capitalism oriented to the internal market (IMLC).

The 2001 devaluation generated a change in the relative prices of the Argentinean manufacturing, which together with the increased external demand for its commodities, have sensibly eased the external foreign currency restrictions it has traditionally faced. On the other hand, since the 2003, the Kirchner and Fernandez governments have effectively reoriented the social and labor policies both in response to increased social pressure (the *piqueteros* and the peronist labor unions) and to their

own ideological convictions. This has translated in important salary increases and an integrated social and wage policy coherent with IMLC (Palomino and Trajtemberg, 2006, 50). Although according to some analysts this is a significant transformation of the pattern of development, Boyer and others consider that Argentina has not been able to modify its investment and productive structure substantially, which is still based on natural resource based production (Fernandez Bugna and Porta, 2008, 223). Thus, even though the government is decidedly trying to impose IMLC, Argentina is still struggling between two different capitalist modes.

While Mexico seemed as capable as Brazil to begin substituting intermediary and capital goods in the seventies, the government chose to sacrifice growth to distribution. A less autonomous State with regards to the political system and a more political and less technocratic State elite than in Brazil chose to sacrifice economic growth for the survival of the political regime. Having lost this first opportunity to complement internal market growth with exports, in the crisis of the eighties the country was forced (by the FMI and by autochthonous elites) to shift towards the external market, consolidated with the signing of NAFTA and the conversion of the country into an international subcontracting economy. This accumulation mode is complemented by a liberal labor policy that exerts a strict control on salaries and a safety net. This economic mode can be characterized as an international subcontracting capitalism (ISC).

Chile has followed an export driven mode of development since the military coup. It has nevertheless diverted in important ways from the purely liberal market economies in that beginning in the eighties, after the liberal-monetarist model collapsed, the economy was oriented towards a capitalism strongly sustained by the State. This evolution was complemented by a fundamentally liberal-residual social model in both its labor and its welfare policies, epitomized by the total privatization of the pension system and the intention to privatize health services and a very restrictive labor law. Although the democratic governments did not modify the economic mode they have adjusted the labor and social policies in order to make them less unjust but without modifying their liberal character. In this manner, a State led EMLC has been able to finance both a residual pension system and an extensive (by Latin-American standards) public health system.

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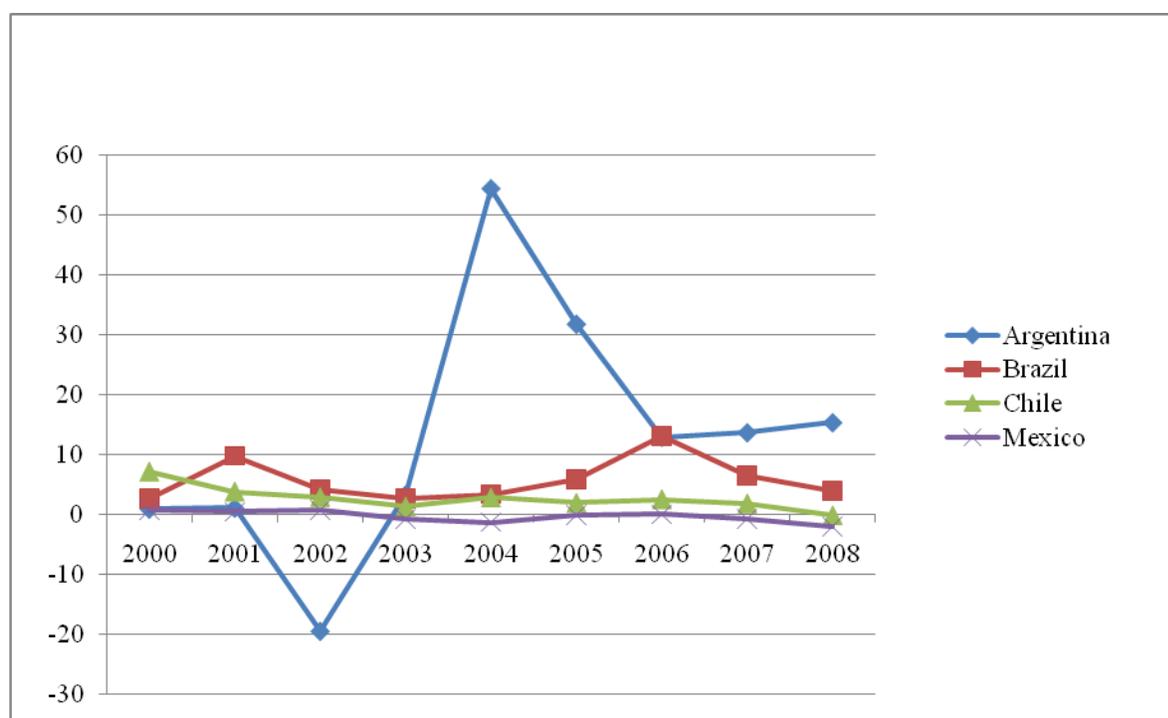


Figure 1. Rate of Variation of the minimum urban salary

Source: Becarria, Luis y Salvador Marconi, (editors), *Anuario estadístico de América Latina y el Caribe 2009*, Santiago, Naciones Unidas, 2010.

Country	Education	Health	Social Security, work and social assistance	Housing	Total
Argentina*	5.1	4.9	10.1	1.9	22.1
Brazil**	5.0	4.7	13.0	1.7	24.4
Chile	3.3	2.9	5.8	0.3	12.2
Mexico	4.0	2.8	2.4	2.1	11.2

Figure 2. Total public expenditure by program; percentage of GDP(2006-2007).

\*Includes expenditure of the national, provincial and Buenos Aires as well as the non-financial public sector.

\*\* Includes the Federal, State and Municipal expenditure.

Source: Becarria, Luis y Salvador Marconi, Op. Cit.

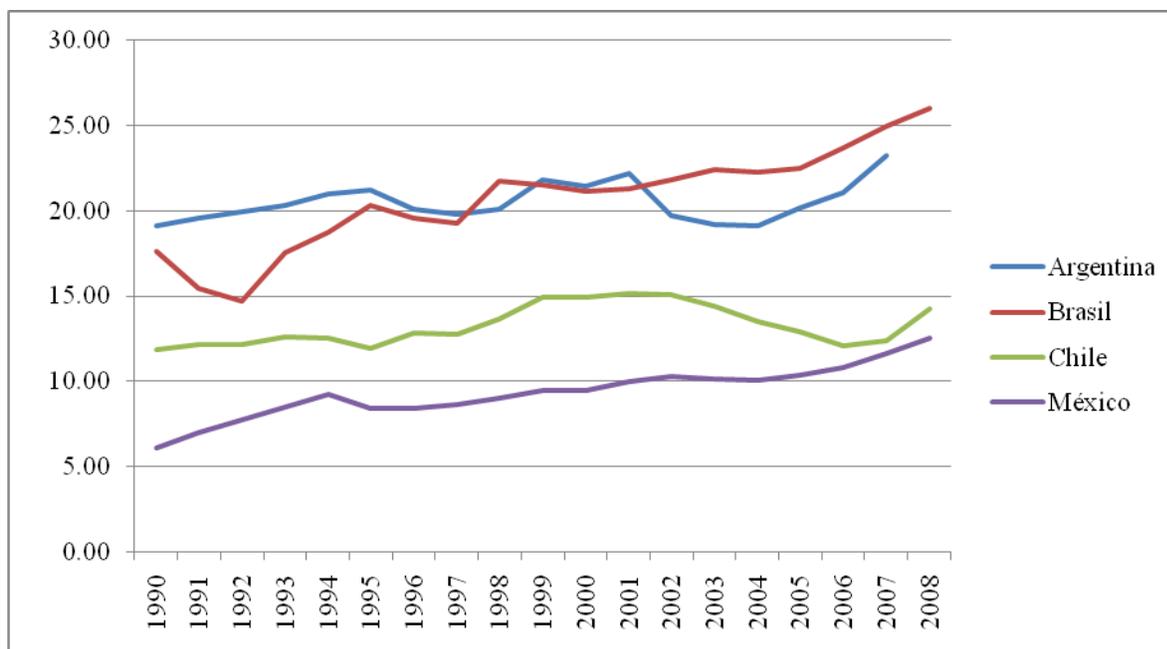


Figure 3. Total social expenditure as percentage of GNP.

Source: Becarria, Luis y Salvador Marconi, Op. Cit.

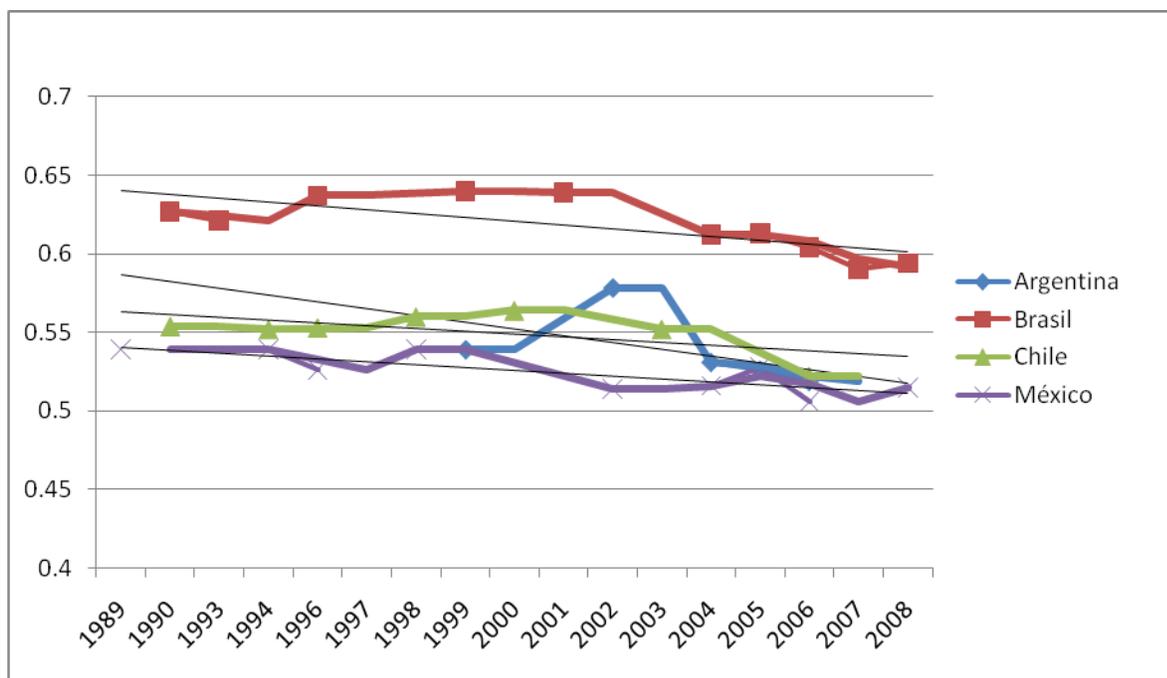


Figure 4. Gini Index

Source: On the basis of CEPAL, Panorama social de América Latina 2009,

<http://www.eclac.cl/cgi-bin/getProd.asp?xml=/publicaciones/xml/0/37840/P37840.xml&xsl=/dds/tpl-i/p9f.xsl&base=/tpl-i/top-bottom.xsl>



Figure 5. Productivity and salaries in Brazil  
Source: Boyer, R., 2009.

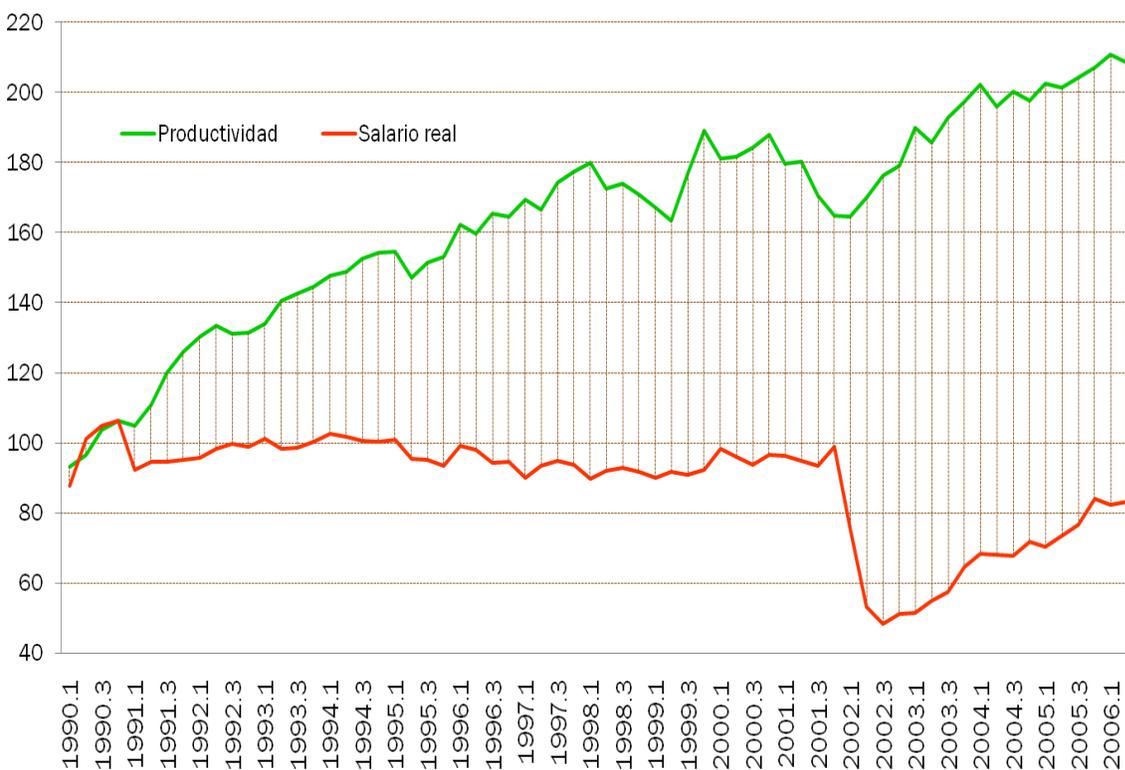


Figure 6. Productivity and Salaries in Argentina  
Source: Boyer, R., 2009.

Figur

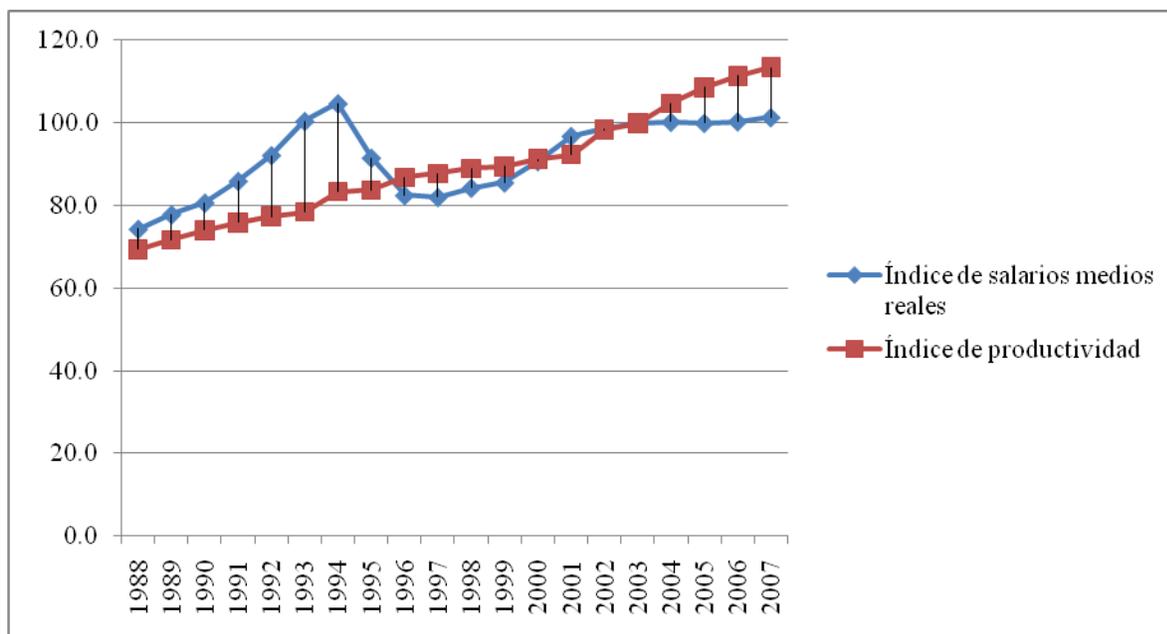


Figure 7. Productivity and real salaries in Mexico.

Source: Elaborated on the basis of *Sistema de Cuentas Nacionales*, INEGI and Centro de Estudios de las Finanzas Públicas de la Cámara de Diputados y CEPAL.

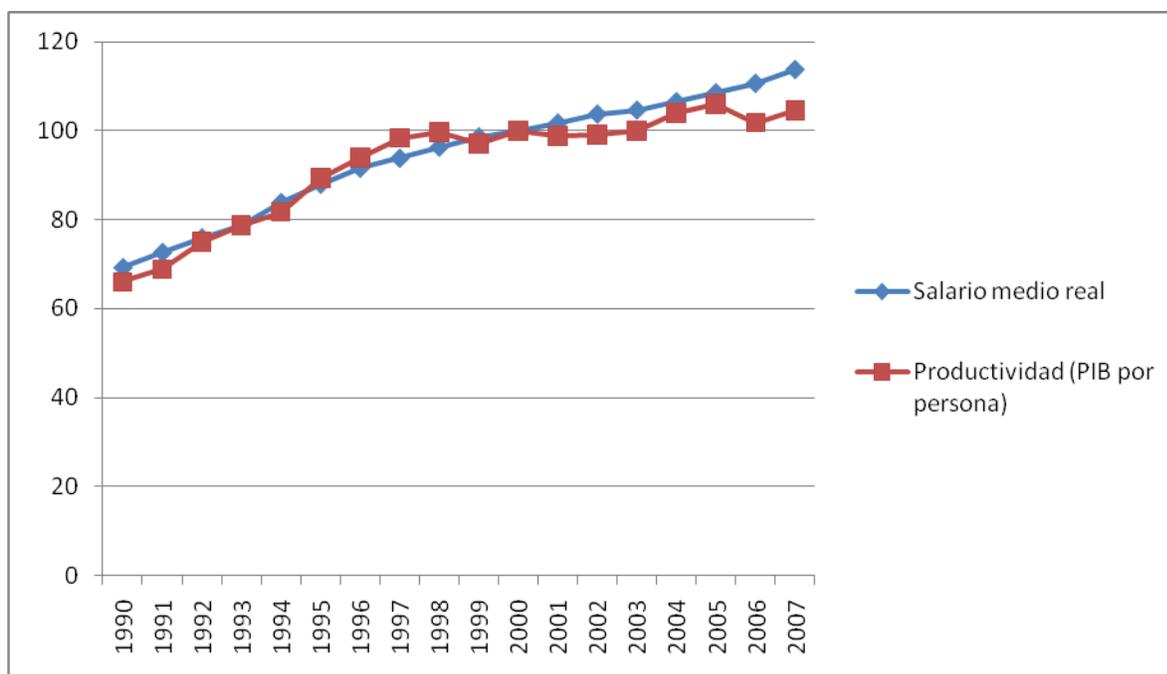


Figure 8. Productivity and Real salaries in Chile.

Source: Elaborated on the basis of Comisión Económica para América Latina y el Caribe and ILO, Key Indicators of the Labour Market. <http://kilm.ilo.org/KILMnetBeta/default2.asp>