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MODELS OF CAPITALISM

LESSONS FOR LATIN AMERICA

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CONTENTS

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Introduction: Posing the Question

EVELYNE HUBER

Latin American societies have undergone fundamental changes in the past two decades, moving from economies with very wide-ranging state intervention toward more market-driven systems. After a prolonged period of recession these changes produced some successes in the area of economic growth in the 1990s, but also many problems, particularly in the area of poverty and inequality. Moreover, there are underlying problems, such as low saving and investment rates and sluggish export growth, that are reason for concern regarding future economic growth (see, e.g., Fishlow 1995), and events like the Mexican peso crisis in 1994–95, the financial crises of 1998, and particularly the Brazilian crisis in early 1999 forcefully demonstrate the vulnerability of Latin American economies to developments in international financial markets. As the perception of a need for continuing changes in economic and social policies is widely shared, the search for solutions to the challenge of growth with equity has intensified. In this period of globalization, the experiences of countries in different parts of the world are becoming more and more accessible for comparative study, and policymakers increasingly look to a variety of experiences as potential reference points.

In comparative perspective, societies with market economies exhibit great diversity, at every level of economic development, in terms of their capacities to produce growth and equity. The obvious question is why some societies are more successful than others in achieving growth and social integration. During the 1980s, the dominant answer to this question in the debate in international financial institutions, private banking circles, and a number of powerful member governments of the Organisation for Economic Co-operation and Development (OECD) was that success varies positively with the extent to which economies are governed by markets and inversely with the extent of government intervention in the economy. Many economists studying the EANICs (the newly industrialized countries of East Asia) and most social scientists studying social policy in a wide variety of countries challenged this view throughout (e.g., Amsden 1989, Wade 1990, Esping-Andersen 1990), and by the 1990s the view that proper regulation, supervision, and—if necessary—correction of markets, along with public investment in human capital, are pivotal for sustained economic growth and social integration, asserted itself even among the international financial institutions and the more conservative OECD governments.[1]

Here we approach the question of reasons for success in growth and equity from the policy angle, asking which types of economic and social policies governments in the more successful societies pursued. We attempt to identify different models of capitalism, understood as sets of core economic and social policies in the context of market economies. We are choosing this approach because we intend to draw lessons for political action, and policies are action relevant. Geography and resource endowments did affect growth and distribution in different countries, both directly and indirectly by making certain policies likely to be successful. Certainly, a large part of the success story of the South East Asian newly industrialized countries before their financial crises was the investment from Japan, Korea, and Taiwan (Welsh's contribution to this volume; Stallings 1995). However, policymakers in charge of promoting growth and equity can rearrange neither geographic locations nor natural resource endowments, but they can use successful policy models as guides to designing policies for their own societies. Thus we attempt to understand the policy models themselves, the institutional and political conditions under which they operated, and the extent to which the effectiveness of these models is bounded by time and space.

Policies are designed and implemented by actors in given institutional configurations and thus in part depend on particular institutional prerequisites. Institutions themselves are shaped by historical legacies, past power distributions, and policy choices. Accordingly, they are to be regarded as limiting to some extent the range of present policy choices but as being malleable in the medium and longer run. It is crucial to point out here that political power distributions and political choices fundamentally shape institutions. Radical versions of the globalization thesis paint a picture of inexorable pressures toward institutional and policy convergence, toward state retrenchment in both the economic and social policy realm. Empirically, however, few if any signs of such convergence can be demonstrated. Common external pressures are filtered through domestic institutions and power distributions and thus evoke different responses. Despite some policy changes in the same direction of state retrenchment, there is little convergence, since typically the states with a more restricted role in economic and social policies to begin with contracted their role further than states with more extensive involvement in these areas. This is true for advanced industrial democracies (Kitschelt et al. 1999) and to a lesser extent also for Latin America, even though greater institutional weakness and stronger international pressures produced radical state retrenchment in some previously highly interventionist states like Chile and Argentina (Filgueira and Filgueira's contribution to this volume; Huber 1997). Thus, while we recognize the importance of pressures from international markets and financial institutions, we are interested precisely in differential responses to these pressures.

1. Wade (1996) makes clear that not only dissenting economists but also the Japanese government disagreed with the World Bank's interpretation of the experience of the East Asian NICs. For a discussion of the changes in the debate about development strategies for Latin America among multilateral institutions and supranational development agencies, see Korzeniewicz and Smith 2000.

The starting point for our investigation is the basic recognition of the need to understand the relationship between the system of production of goods and services and the distribution of life chances in a society. What is produced and how it is produced is heavily related to how material goods are distributed. The "how" refers to both the technological and the social aspects of production, that is, the relationships among capital, labor, and the state. Conceptually, models of capitalism have two essential components, growth-oriented strategies and equity-oriented strategies. The growth-oriented strategies are conventionally identified with economic policies, and the equity-oriented strategies with social policies and labor market policies. It has long been accepted that different growth strategies have different consequences for equity. By now social scientists have also come to recognize that there need not be a trade-off between growth-oriented and equity-oriented strategies, but rather that they can be compatible and that some equity-oriented strategies may actually have positive effects for economic growth. Specifically, scholars are increasingly recognizing that excessive inequality is a barrier to growth.[2] The overlap between pro-growth and pro-equity policies is perhaps most obvious in the area of labor market policy. The creation of employment to a significant extent depends on economic growth, and improvement of the qualification of the labor force supports economic growth.

Accordingly, we combine a disaggregated focus on specific policies with a systematic attempt to capture interrelationships between economic and social structures and policies. We investigate economic policies designed to stimulate growth; labor market policies designed to promote employment, a qualified labor force adequate for these employment opportunities, and labor relations allowing for improvements in productivity and wages; and

2. Birdsall and Jaspersen (1997, 4) state that "there is growing evidence that countries with the least inequality grow fastest."

social policies designed to improve general human capital and to distribute life chances among the population in an equitable way. We understand "equitable" to mean working in the direction of eliminating poverty or the exclusion of social strata from full participation in economic, social, and cultural life, and of reducing the differential in life chances between the most and the least privileged strata in a society.

Among the many economic policies that are arguably crucial for economic growth, we focus on three key policy areas: competitiveness, investment promotion, and trade. On the labor market side, we pay particular attention to active labor market policies in the form of training and placement programs, to legal parameters governing labor relations, and to measures for the general upgrading of the qualification of the labor force. Our treatment of social policies includes the entire complex of social policies subsumed under the label of welfare states, as well as education.

As noted, the selection of cases for comparison with the Latin American experience is governed by the criteria of successful performance in growth and equity. We choose Northeast and Southeast Asian countries because of their spectacular growth records, particularly in the two decades from 1975 to 1995 when Latin America was confronting enormous economic problems. In order to understand these countries' favorable performance in equity we also investigate the main characteristics of their labor market and social policies. In choosing these cases as successful examples, we clearly reject the view that the spreading financial crisis of the second half of the 1990s indicates that these growth models were inherently flawed all along. Rather, we side with those who argue that the crisis was a result of rapid financial liberalization (and thus a certain deviation from the traditional models), the rapid growth of financial markets, and panic behavior on the part of investors (e.g., Chang et al. 1998; Radelet and Sachs 1998; Chang 1999).

Additional reference cases for labor market and social policies are advanced industrial democracies, some of which have been highly successful in eliminating poverty and reducing inequality whereas others have not, despite similarly high levels of income per capita. In a parallel fashion, these countries show great differences in the maintenance of full employment both across cases and over time, in the creation of a highly qualified labor force, and in the presence of a dual labor market. These differences among countries at roughly the same levels of affluence and similar levels of competitiveness in world markets should yield important policy lessons.

We are approaching the analysis of these comparative cases with the intention to draw lessons that could help answer the following questions confronting policymakers in Latin America. At a general level, how far and

how fast should the opening to foreign goods and capital proceed? What options are available to promote domestic savings and attract foreign capital and channel them into productive investments? How can governments promote the competitiveness of firms and a move up the commodity chain? What can governments do to promote employment and improve the qualifications of the labor force and the distribution of wages? What are the most effective social policies to combat poverty, and how can they be financed in fiscally responsible ways? In all of these policy areas, what are the appropriate roles of the state and the private sector?

To approach the issues in this way is not to imply that all of these questions are being asked openly by Latin American policymakers, but it is to say that these questions are worth asking from a comparative point of view and from the point of view of appropriate policy responses to emerging problems and challenges. For instance, comprehensive and far-reaching tariff reductions have been undertaken by Latin American countries and are not being openly questioned by policymakers at this time. On the other hand, there have been voices warning of a possible backlash against the entire neoliberal project, including trade liberalization. Thus, it is appropriate for an academic project to attempt to elucidate the costs and benefits of different patterns of trade policies. Most of the other policy areas we are looking at here are being debated widely in Latin America and other parts of the world. The possibilities for designing competitiveness and technological upgrading policies that remain viable under the new world trade regime resulting from the Uruguay Round are preoccupying policymakers in a wide variety of countries. After about a decade of uncritical embrace of financial liberalization, the debate about the desirability of controls over national and international financial markets has intensified greatly in the wake of the financial crises spreading in the second half of the 1990s from East Asia to Russia and Latin America. The debate about the desirable degree of flexibility versus protection of labor rights in labor market policies is intense both in OECD countries and in Latin America. There is considerable consensus concerning the need for upgrading the skills of the labor force, but not concerning the responsibility and sources of financing for this task.

In the area of social policy, opinions differ very widely; one model assigns to the state the responsibility for providing, in partnership with employers and employees, a comprehensive social safety net and universalistic free or heavily subsidized social services, whereas a diametrically opposed model assigns only a residual role to the state, to support those who have no chance of insuring themselves through the market or of purchasing services from private providers. Moreover, the traditional conservative view has posited a trade-off between growth-oriented and equity-oriented policies, whereas the social democratic view has held that the two can be mutually reinforcing. In Latin America, the trade-off view has been dominant, and the reform debate in the past two decades has predominantly focused on growth strategies and on how to keep social and labor market policies from being barriers to growth. This book aims to shift the debate by offering insights into other existing models of capitalism, in East Asia and in advanced industrial societies, some of which have done much better than others in making economic, labor market, and social policies compatible or even mutually supportive in the dual quest for growth and equity.

We begin with six papers on Latin America. The first offers an overview of alternative models of capitalism that have been pursued in different historical periods. The next three discuss experiences with economic policies central to the promotion of growth: competitiveness policies, trade policies, and the promotion of investments. The final two analyze social and labor market policy patterns. We then turn to the experiences with models of capitalism in newly industrialized countries of Northeast and Southeast Asia. The first of this group of chapters focuses on growth-oriented policies, the second takes a more integrative view and looks at growth- and equity-oriented policies and their interaction, and the third situates social and labor market policies in the larger context of the East Asian models of capitalism. The final set of chapters analyzes social policy and labor market policy in Western Europe, the United States, and Canada. All four of these chapters ask explicitly about the impact of policy configurations on equity, and some ask about their relationship to growth as well.

In his overview of models of capitalism in Latin America (Chapter 1), John Sheahan points out that they suffered from much greater instability than models of capitalism in advanced industrial societies. None of these models had much staying power in Latin America; rather, economic and social policies were characterized by rapid and radical changes. None of them worked well in the equity dimension, and growth over the entire period since World War II has been only moderate. Sheahan classifies models of capitalism according to the degree of economic interventionism and the degree of concern with inclusion. He argues that the economically interventionist models failed largely because they were used in a predominantly protectionist fashion, rather than in a dynamic fashion to promote industrial diversification and technological upgrading. The models where the concern with equity was apparently greatest were the populist ones, but these models failed in the medium to longer run because of reckless macroeconomic policies in the form of high deficit spending and excessive monetary expansion.

Sheahan demonstrates that regional averages show no association between any particular model and a reduction in poverty. Nevertheless, countries where inclusion was pursued over relatively extended periods of time, such as in Costa Rica, Uruguay (before 1973 and after 1985), and Chile (before 1973 and after 1989), show better performance in levels or trajectories (in the case of Chile in the 1990s) of poverty rates than others. They also perform better in basic indicators of quality of life and human capital, such as basic health indicators and literacy rates. Liberal, noninterventionist models of economic and social policy do not perform well in Latin America because of several underlying structural conditions, most prominently high inequality in the distribution of human capital, weak employment in high productivity sectors, high concentration of ownership of land and capital, high economic instability resulting from reliance on primary exports and external capital, and weak democratic institutions. The general trend over the past two decades, of course, has been toward liberal models, but Chile and Brazil show traits of an emerging new model, one that combines liberal economic policies with more interventionist social policies. As Sheahan emphasizes, the advantage of the concept of models of capitalism is precisely that it overcomes the constraint of thinking in simple dichotomies of old-style, inward-looking interventionism versus new outward-oriented neoliberalism, or populism versus neoliberalism, but instead opens up other alternatives, such as outward-oriented interventionism concerned with inclusion, that is, linked to activist but fiscally responsible social policies.

Renato Baumann, in his discussion of the changes in trade policy in Latin America (Chapter 2), documents the great extent and speed of these changes, with the average tariff level having fallen from 45 percent in the 1980s to 13 percent in 1995. He argues that it is very difficult to isolate the effects of trade liberalization, because this liberalization was undertaken in the context of an entire package of structural reforms. Moreover, the first half of the 1990s was a period of favorable variation in the terms of trade of most Latin American countries. Certainly, the reform process was not smooth and involved considerable costs in the short term. In the 1990s, the share of imports and exports as a percentage of GDP increased significantly, though imports increased at a faster rate than exports. Trade policies then contributed to lowering inflation by way of greater import penetration. The 1990s also saw renewed output growth and an increase in investment levels, the latter in part caused by a greater availability of foreign resources. Again, Baumann argues that it is difficult to pinpoint what role trade liberalization played in this. If we assume that trade liberalization is responsible for export growth, we can detect an indirect effect on growth insofar as firms with higher export/output ratios tend to perform better in productivity and other indicators of competitiveness. The distributive effect of trade liberalization is even more difficult to assess. If we look at general trends, there was no movement toward a lowering of inequality. On the contrary, the disparity between professional staff and workers in low productivity sectors increased in the 1990s in the seven major Latin American countries Baumann analyzes. In addition, the most dynamic sector from the point of view of employment creation has been the informal sector, which is not affected much by export growth.

Baumann makes two additional important points. First, he argues that the agreements of the Uruguay Round leave Latin American countries some important room in which to maneuver in that (1) subsidization may be accepted as part of development programs, and (2) quantitative restrictions still may be imposed to protect a balance of payments in difficulties. Second, he points to the strong efforts at subregional integration and to the increase in importance of intraregional trade in the total foreign trade of Latin American countries. The most dynamic area is clearly Mercosur, both in trade growth and in the inflow of foreign capital, particularly foreign direct investment.

Wilson Peres traces the development of competitiveness policy in Latin America (in Chapter 3), showing that—after a decade of being banned from policy discourse under the weight of neoliberal doctrine—it has reemerged in modified form. He ascribes this renewed interest in competitiveness policy to unfulfilled promises of exclusive reliance on markets. Neoliberalism still shapes official conceptions of competitiveness policies in that they are supposed to work only horizontally, rather than targeting specific sectors as traditional industrial policy used to do, though in practice there is more direct and selective involvement, including sectoral policies. The key differences between the new and some versions of the old policies are the orientation toward accelerating rather than retarding industrial transformation, the context of adherence to orthodox macroeconomic policies, and the tendency to increase the competitiveness of already existing industries rather than creating new ones. The currently dominant policies are export promotion, support for innovation and technology diffusion, human resource development, and support for small and medium enterprises. Less accepted though still in some use are subsidized credits, direct fiscal incentives, protectionist trade management, and public sector procurement.

The main weakness of competitiveness policy as currently practiced in Latin America is deficient implementation and lack of evaluation of programs, rooted in lack of coordination among state agencies. The ministries of industry, typically in charge of elaborating the plans, do not control the policy instruments necessary for their implementation, most of which tend to be under the control of the ministries of finance. In addition, after years of budget cuts for state agencies, these agencies have lost capacity to handle complexity. A promising feature is the use of boards with representatives from both the public and private sectors, which gives legitimacy to the designs of competitiveness policy.

Robert Grosse notes (in Chapter 4) that foreign direct investment (FDI) into Latin America has grown substantially in the 1990s, but he cautions that this is probably more a result of the growth of the U.S. economy and the resumption of growth in Latin America than of specific policies to attract FDI. Still, he presents a regression which shows that FDI promotion policies did have an effect; in other words, countries that pursued such policies received more FDI than countries that did not do so. He argues that three policy areas have crucial effects on FDI: (1) policies aimed directly at FDI, such as barriers to the operation of foreign corporations or incentives provided to them; (2) macroeconomic stabilization policies that reduce the country risk for investors, such as stable monetary policy, liberalization of interest rates, privatization of state-owned enterprises, deregulation of sectors traditionally dominated by state enterprises, and conservative fiscal policies; and (3) policies that stabilize a country's international financial position, such as debt reduction, including debt-equity swaps, liberalization of international capital flows, and a stable exchange rate or access to instruments for protection against exchange rate risk. In an overview of changing policies toward foreign investment in Latin America since the 1970s he shows that liberalization has spread since the second half of the 1980s, in tandem with supportive macroeconomic and financial policies, thus providing a supportive environment for the inflow of FDI.

At the same time, Grosse points out that the average savings rate in the region actually declined somewhat from the period 1983–86 to 1993–96, from 21 percent of GDP to 19 percent, despite successful economic stabilization and the return of higher growth rates. On the positive side, he argues that the privatization of pension funds in many countries contributed to the growth of domestic long-term capital markets and thus facilitated the channeling of savings into productive investment. Still, the continued comparatively low savings rate suggests that Latin America remains highly vulnerable to external developments, particularly a downturn in the U.S. economy, which might reduce the inflow of FDI regardless of the policies pursued by Latin American governments. Moreover, a very simple regression model of unemployment with GDP growth and a dummy variable for FDI promotion policy (0 before, 1 after), for the eight largest Latin American economies, shows that FDI promotion policies are actually positively related to unemployment, though the coefficient does not reach statistical significance. Grosse interprets this result as being consistent with the critiques that policies designed to open the Latin American economies and attract FDI have a tendency to aggravate the unemployment problem rather than ameliorate it.

In their analysis of models of capitalism and welfare in Latin America, Carlos and Fernando Filgueira point out (in Chapter 5) that the dominant trend has been toward a retrenchment of welfare state expenditures and at least partial privatization of social insurance and social services. They draw our attention to the great heterogeneity of social policy regimes in Latin America as of 1980, with vast differences in public expenditures and in the proportions of the population covered by social insurance, health care, and education, and in the quality of these various programs and services. They also emphasize the structural problems of high population growth, particularly among the lower socioeconomic strata, high dependency ratios, low educational levels particularly in intermediate education, low labor force participation rates, and the high proportion of low productivity employment. They argue that the root causes of the failure of states to deal effectively with these problems were less the faulty designs of social policy than the underlying structural factors of centralizing authoritarianism, general inequality, rent-seeking political elites, and the bureaucratic weakness of the state.

Filgueira and Filgueira do point to a fundamental problem in the traditional design of social policies, though—the close link of the provision of pensions and health care to formal employment, which left vast sectors of the population uncovered in most countries and became increasingly less viable as the economic adjustment programs of the 1980s and 1990s let formal sector employment shrink even more. This situation, along with the fiscal crisis of social security programs, forced reforms, but the reforms did not result from national debates about desirable models of society to be achieved by social policy regimes; rather, they were subordinated to the goals of economic reform. Under the influence of the international financial institutions, policy shifted toward privatization of social insurance, greater reliance on private providers of services, increasing self-financing of services, and concentration of state efforts on targeted compensatory programs, many of them based on temporary external financing. The policy debate centered

around making policy instruments recommended by internation tions more efficient, not around long-term and comprehensive s strategies to reduce poverty and inequality.

Víctor E. Tokman's chapter on recent experiences with labor market policy in Latin America (Chapter 6) brings out clearly how intimately economic growth policies are related to labor markets and distribution. He points out how economic objectives have been given priority over social objectives like full employment and systemic solidarity, with the result that the spread of low-quality employment and decreasing wages, particularly minimum wages, have dominated the scene. Economic growth, and thus savings and investment, is crucial for employment creation but has been insufficient in the 1980s and 1990s to achieve significant job creation. Tokman suggests that a more favorable financial environment and stable rules of the game would be needed, along with industrial policies in the targeted forms of sectoral and local policies and support for small and micro enterprises, including the informal sector, and in the more general form of investment in education and training. He also emphasizes the importance of an improvement in productivity and thus a change in the culture of productivity among both entrepreneurs and workers, a change which could be fostered by changes in labor organization within enterprises.

The dominant trend in legislation on labor relations in Latin America has been to make contracts and bargaining more flexible. Whereas this change has certainly helped enterprises become better able to adapt to changing demand conditions, it has also created more unemployment and job instability in the short run and arguably has constituted a disincentive for improving productivity. Similarly, decentralization of bargaining improves local flexibility but bears the danger of weakening the capacity of central actors to promote solidarity and social integration. Tokman points to policy measures that could have a very favorable impact on the situation of workers in the changed environment, but so far these measures have not really reached the implementation stage. They include an expansion of unemployment insurance and recurring training, as well as an extension of protection to part-time workers and those in subcontracting and seasonal employment.

In Chapter 7 Ha-Joon Chang nicely puts into relief some major differences between the experiences of Japan, Korea, and Taiwan and those of the countries of Latin America in the three policy areas discussed in the chapters by Baumann, Peres, and Grosse. Maybe the difference most discussed in the literature is that between the Latin American strategy of import substitution industrialization (ISI) accompanied by reliance on raw material exports and the Northeast Asian strategy of infant industry protection tied to the promotion of the export of manufactured goods. Chang goes beyond this conventional distinction by highlighting how the link between infant industry protection and export promotion was used in part to address the problem of the unavailability of economies of scale for protected industries. Trade policy was used to complement industrial policy and vice versa. Other central elements of industrial policy were controls on entry and capacity in infant industries, the management of competition to avoid the waste of resources without removing the incentive for raising productivity, the regulation of the inflow of technology and of foreign direct investment, and support for domestic technology absorption capability. Chang argues that the distinction between selective versus general (or horizontal) industrial policy is misleading in that even general industrial policy is necessarily selective in some ways when resources are finite.

In discussing Northeast Asian savings and investment policy, Chang first points to the debate in the literature about the direction of causality between high savings and high investment rates and puts primary emphasis on investment rates. Northeast Asian governments, in stark contrast to most Latin American countries, promoted domestic investment by imposing very strict controls on capital flight. At the same time they controlled capital inflows. In addition, they limited luxury consumption through high tariffs, taxes, and outright bans, a policy with important implications, not only for the investment rate, but also for the creation of a sense of national community and national purpose.

Finally, Chang addresses two aspects of the crucial question of replicability of the Northeast Asian model. First, he argues against the view that their specific historical and cultural legacy endowed the Northeast Asian countries with uniquely capable bureaucracies, pointing instead to the possibility of national adaptation and innovation in institutions. Second, like Baumann, he challenges the view that the Uruguay Round of GATT eliminated all possibilities for interventionist trade and industrial policies, pointing to the balance of payments clause and a range of other policy instruments that are still viable. He ends by rejecting an interpretation of the current economic problems in Japan and the financial crisis in Korea as evidence of any inherent weakness of the Northeast Asian model, pointing to the fact that a large part of the problem stems precisely from deviations from the traditional model.

Bridget Welsh explains (in Chapter 8) the late-late developmental success of Indonesia, Malaysia, and Thailand in terms of both regional factors and specific policies, and the ethnic and political factors motivating and enabling

these policies. The regional context was crucial insofar as first Japanese firms and then Taiwanese and Korean firms began to invest massive amounts of capital in these countries, in part in order to take advantage of preferential access to the U.S. market, and in part to keep their production costs low in the face of rising wages in their own countries. Moreover, Japan, Taiwan, and Korea served as models for the later developers in the region, and some of these later developers pursued a deliberate strategy of learning from them.

The policies pursued, like those in the newly industrialized countries of Northeast Asia, were highly interventionist, at least until the late 1980s. The comparatively favorable performance in reducing poverty and keeping inequality from rising during the industrial spurt was the result of several factors: (1) strong investment in the agricultural sector, particularly from 1965 to 1975, such as in irrigation schemes and the production of fertilizers and other agricultural inputs, which greatly strengthened the peasant economy; (2) the creation of large numbers of jobs in the rapidly growing industrial sector; (3) price controls and subsidies for food and petroleum; and (4) investment in education, particularly at the primary level. In industry, the governments promoted light industry from the 1950s to the 1970s, with high protective tariffs for infant industries. The governments also expanded the public sector by investing in infrastructure and public sector enterprises. Still, they remained committed to fiscal conservatism and low inflation. In the 1970s, they embarked on an export-led growth strategy in both light and heavy industries. One component of this strategy was the introduction of export processing zones. Another was the selective attraction of foreign technology for heavy industry. A third was a gradual liberalization of the trade regime.

From the 1960s on, these countries were very open toward FDI, and FDI accelerated greatly in the 1980s along with the acceleration of export production. This openness did not entail total reliance on the market, however; rather, the governments selectively promoted certain sectors and built partnerships with foreign capital. Domestically, the governments aligned themselves with sectors of the capitalist class, creating favorable conditions for investment by these groups. The state bureaucracies performed an important developmental role, and at least initially resembled the bureaucracies of their Northeast Asian counterparts in that they were based on meritocratic criteria. Another similarity to the newly industrialized countries of Northeast Asia was the tight control on labor and the left, thus providing capital not only with a stable environment regarding property rights but also with cheap labor.

As Welsh points out, the very success of these policies in terms of growth of production, exports, and FDI led to a partial move away from their pursuit in the 1980s. The trade regime was liberalized, public enterprises were privatized, agriculture did not receive the same attention as before, and political criteria came to replace merit in recruitment and promotion in the bureaucracies. In addition, what had been an asset in the promotion of economic growth in earlier stages became a liability later, once the alliances between governments and sectors of the capitalist class provided growing opportunities for rent-seeking behavior on the part of the latter. Similarly, as the role of the private sector in the economy grew and the state retrenched, the concern with promoting equity declined and inequality increased. Finally, Welsh argues that the enormous expansion of the financial markets in the 1990s, enabling the inflow of massive amounts of short-term capital, combined with the long-standing reliance on FDI, made these countries highly vulnerable to financial crises.

The East Asian experience with labor market and social policies contrasts rather sharply with the Latin American and the European and North American ones. Whereas labor was politically incorporated to varying degrees at least in the larger Latin American countries (Collier and Collier 1991) and in North America and Europe by the middle of the twentieth century, Japan, Korea, and Taiwan built their models of capitalism on the social basis of coalitions between the state, large and small business, and agriculture, with virtually total exclusion of labor. As T. J. Pempel points out (in Chapter 9), it was only in response to democratization and increasing labor militancy and electoral challenges that these countries established any significant welfare state programs. Japan, having democratized after World War II, responded to such challenges in the 1960s and 1970s with the encouragement of company unions and company-based welfare on the one hand and national-level welfare state programs on the other. Korea and Taiwan embarked on social policy reforms, particularly in the area of medical care, as a result of political liberalization in the 1980s. Still, welfare state expenditures remained very low in comparative perspective. In Japan, the consolidation of the electoral dominance of the Liberal Democratic Party (LDP) was followed by a retrenchment of welfare state programs in the 1980s.

Japanese labor market policy was primarily proactive, focused on market-oriented labor training with cooperation between the government and the private sector. In response to the first oil shock, unions in the large companies were incorporated into a de facto bargain under which they moderated wage demands in exchange for business commitments to job security and retraining, and government promises of support for industrial restructuring and labor retraining programs, low taxes, and low inflation. What, then, accounts for the comparatively low degree of inequality and poverty in these countries despite the absence of significant redistributive tax and transfer programs? Pempel points to the land reforms in all three countries, to virtually full employment, to heavy investment in human resources, and to the distribution of company and public welfare through the extended family. However, he raises doubts about the replicability of these experiences by drawing attention to the fact that the very high growth rates achieved by these three countries have to be seen at least in part as a result of favorable international conditions, particularly the pattern of bilateral relations with the United States.

John D. Stephens elaborates (in Chapter 10) the contrasts between the different types of welfare state regimes of advanced industrial countries in terms of their basic program characteristics, their relationships to specific labor market and production regimes, their distributive outcomes, and their resilience in the new international economic environment. With the exception of Britain and Ireland, the European welfare states are of either the social democratic or the Christian democratic type. They rely much more on public funding of welfare state goods and services and accordingly provide more generous benefits than the liberal regimes, but they differ from one another in the extent of provision of universal basic transfer benefits, the public delivery of social services, and the provision of support for women's labor force participation, all of which are significantly higher in social democratic regimes. The labor market regimes associated with social democratic welfare states are characterized by high union density and union centralization, very wide contract extension, and high centralization of collective bargaining, the combination of which results in comparatively low wage inequality and the absence of a dual labor market, in stark contrast to the labor market regimes in countries with liberal welfare states, which have the opposite characteristics and outcomes. Labor market regimes in countries with Christian democratic welfare states occupy intermediate positions in union density and centralization, contract extension, and centralization of collective bargaining, as well as in wage dispersion; the countries in northern continental Europe are much closer to the social democratic than the liberal types of labor market regimes.

The different welfare state and labor market regimes are embedded in different production regimes, understood as patterns of relationship among employers and between employers, the government, banks, and labor that shape financial relations, macroeconomic and trade policy, vocational training, and industrial relations. In coordinated market economies, the various actors work together to design and implement policies oriented toward medium- and longer-term favorable results in investments, industrial competitiveness, productivity, and so on; in uncoordinated market economies these actors work largely individually according to shorter-term market logics. Liberal welfare state regimes are embedded in uncoordinated market economies, social democratic and Christian democratic welfare state regimes in coordinated market economies.

The different labor market and welfare state regimes effect markedly different degrees of redistribution and thus significant differences in poverty levels. The social democratic welfare state regimes are most redistributive and have the lowest poverty rates, followed closely by the Northern European Christian democratic welfare state regimes. The most redistributive policy design is a combination of public universal basic flat rate with public income-related benefits in transfer programs (simply because all private alternatives are more inegalitarian), and the main factor accounting for differences in poverty rates among the elderly is the level of minimum pensions. The key policies to protect another highly vulnerable group from falling below the poverty line, single mothers, are universal child allowances and policies supportive of mothers' employment.

Since the 1980s European welfare state and labor market regimes have clearly come under pressure, and all of them implemented some cuts in major programs. Higher levels of unemployment and thus lower contributions to social security schemes accompanied by greater demand for unemployment benefits simply forced either increases in taxes or cuts in benefits. However, in none of the social democratic or Christian democratic regimes can we speak of a real welfare state regime shift. Deregulation of national and international financial markets made the pursuit of a number of policies to maintain full employment more difficult, and the internationalization of production shifted bargaining power from governments and labor to capital, but the basic parameters of the coordinated market economies and labor market regimes remained in place as well. In fact, it was in the liberal welfare state and labor market regimes that cuts were most severe.

Stephens points to two important lessons: First, the European experience shows that it is possible to pursue growth and equity in the context of highly open, export-dependent economies. Second, welfare state and labor market regimes that invest in youth, labor mobilization including female labor, and human capital, and that promote cooperation between labor and capital at a variety of levels are better able to maintain a competitive position in world markets, high levels of employment, and thus a generous social safety net. He ends with a caution against too holistic and deterministic interpretations

of the connection between welfare state, labor market, and production regimes. Production regimes do not exert inexorable pressures toward given welfare state regimes; rather, and here his argument squares fully with John Myles's (in Chapter 11), within these basic regimes there is room for choice of social policy designs that offer more or less generous and redistributive benefits.

The comparison between the United States and Canada, two cases of liberal welfare state regimes, in John Myles's chapter nicely underscores the importance of welfare state policy designs for distributional outcomes. Both countries have comparatively highly inegalitarian labor market outcomes, but whereas poverty and inequality have risen in the United States, income distribution and poverty rates have remained relatively stable in Canada. The liberal welfare state regimes of the United States and Canada are characterized by heavy reliance on the market for social insurance and by low welfare spending. Myles argues that the overall amount of spending on welfare state programs clearly matters for poverty and inequality, but in addition the type of design of welfare state programs is of importance. Compared to Europe, welfare state spending in both Canada and the United States has been low, but Canada has universal coverage in health care and predominantly public delivery of health care, as well as a strong tradition of universal basic benefits based on citizenship for children and the elderly. This tradition of universalism favored the reorientation of all cash transfer programs toward a negative income tax (NIT), beginning in 1978, and this new system proved comparatively resilient in the period of welfare state retrenchment. This NIT system provides subsidies to poor and low income households at a rate that declines with rising incomes, but—in stark contrast to traditional social assistance schemes—it declines at less than 100 percent so that it preserves a substantial incentive to increase earnings. A similar program was established in 1973 in the United States, the Earned Income Tax Credit for working poor families with children, but it is much more restricted in scope and the bulk of spending for the poor of working age continued to follow the traditional means-tested social assistance model.

Social assistance, or "welfare as we know it," of course came under heavy attack, and benefits were severely limited in duration in the United States in the 1990s, in contrast to the Canadian NIT program, which continued to grow in a political context that was similarly oriented toward budgetary austerity. Myles offers several reasons to account for the different fate of these two types of programs. First, the support coalitions for the NIT programs are broader, including those interested in controlling public expenditures by turning all transfer programs into targeted programs, those interested in increasing labor market flexibility and having work incentives for low income recipients, and those interested in increasing the incomes of poor and low income households. Traditional social assistance programs tend to have very narrow support coalitions, largely confined to the last of the three groups mentioned. Second, politicians prefer NIT programs because of their comparatively low transparency, which makes it easier to disguise cutbacks and avoid blame. Cutbacks in universal, flat-rate benefits for instance, such as basic pensions and child allowances, are much more visible. Nevertheless, Myles does end on a note of caution, pointing out that the savings achieved from a reduction of benefits to upper and middle income earners due to the transition, savings that were allocated to lower income families, have come to an end, and the future capacity of the NIT program to keep poverty and inequality from rising will depend on the willingness of politicians to put the program on a permanent and adequate financial basis.

Thomas Janoski and Antonio Alas's chapter on labor market policies in Europe (Chapter 12) further underlines the extreme status of U.S. labor market policies. The chapter begins with an overview of the wide variety of labor market policies, both active and passive, that have been pursued in different countries, and it points out that hardly any of them have been pursued in the United States. It then goes on to a comparison of active and passive labor market policies in Britain and Germany, the former close to the noninterventionist/weak labor market policy pole, the latter close to the interventionist/strong labor market policy pole. Essentially, active labor market policies are aimed at preventing or reducing unemployment through job placement, job training, and job creation, whereas passive labor market policies are aimed at protecting workers through a variety of measures, among them unemployment insurance, job protection, and minimum wage legislation. In the 1980s and 1990s, the amount of money spent on passive labor market policies has been roughly double the amount spent on active labor market policies in the OECD / European Community area, but there have been significant differences among countries in this ratio. As Stephens points out in Chapter 10, social democratic governments have emphasized active labor market policies, whereas Christian democratic governments have relied more on passive ones.

To some extent, both varieties of labor market policy require strong labor market institutions, primarily strong unions and employer organizations, capable of representing and coordinating the actions of their constituents to be effective, but active labor market policies require such institutions to a greater extent. Unions have been of moderate strength in Britain if measured by union density, but they have been highly decentralized and incapable of

extending contract coverage to a very large part of the nonunionized labor force, in contrast to Germany. There is no tradition of centralized tripartite negotiation; Conservative governments have consistently opposed such corporatist practices, along with other kinds of government intervention into the labor market. Accordingly active labor market policies have been weak, poorly funded and coordinated, and of generally short duration. In contrast, in Germany unions and employer organizations have been stronger and have long been involved in coordinated bargaining. Both the Social Democratic Party and the labor wing of the Christian Democratic Party have supported active labor market policies, which resulted in strong emphasis on such policies in the early 1950s and then again after the return of the Social Democrats to power in the late 1960s. The initial job training system in Germany is extremely strong, but the government also supports retraining for redundant workers and advanced training, as well as job placement and employment creation. The high unemployment in the former East Germany after unification has greatly strained resources for both active and passive labor market policies, and some cutbacks in unemployment insurance benefits have been imposed, but the basic commitment to active labor market policy remains.

Janoski and Alas end with a discussion of the effectiveness of active labor market policies. They point out that there are problems with evaluation research because of different assumptions regarding the displacement and substitution effects of job creation policies, and because of the fact that spending on labor market policies automatically goes up with unemployment, as long as the rules governing policies remain unchanged. However, there are two solid results. First, countries that do pursue active labor market policies have lower levels of unemployment than similarly situated countries that do not pursue such policies. Second, increasing the ratio of spending on active to spending on passive labor market policies has a strong negative effect on long-term unemployment rates and a smaller positive effect on short-term unemployment rates, which indicates that maintaining a high ratio of active to passive labor market policy expenditure supports flexibility and labor mobility. Finally, the policies that seem to work specially well are those targeted at particular kinds of unemployed people.

Among the developed countries, the U.S. experience with labor market policies is closest to the East Asian one in terms of the restrictions imposed on organized labor. As David Robertson makes clear in Chapter 13, employers in the United States have unusual freedom to hire, fire, and control the terms of employment. U.S. trade union law helps to fragment and decentralize union power and makes it costly and difficult for workers to act collectively. As a result, collective bargaining agreements covered less than 20 percent of American workers at the beginning of the 1990s, compared to more than double this rate in Canada (Myles, this volume) and 60–95 percent in Europe (Stephens, this volume). The legislature has let the minimum wage fall in real terms since the 1960s by regularly delaying adjustments to inflation. American expenditures on passive and active labor market policies are extremely low compared to European expenditures, and private employment agencies play a much more important role than public ones. Federalism plays a major role in keeping rights and benefits for labor low, because companies can put state governments under competitive pressure to provide a "favorable business climate" as a precondition for investment and thus job creation in the state. For instance, unemployment and work injury insurance are the responsibility of the states and have been kept very low by pressures to reduce tax burdens on employers.

U.S. labor market policies have been held up as a model by international institutions, including the OECD, as supposedly responsible for very strong total employment growth in the United States, reaching 40 percent between 1970 and 1990, compared for instance to 10 percent in Germany. However, Robertson raises some serious doubts about this interpretation. First, there are other reasons that may account for the difference in employment growth between the United States and Western Europe, such as the rate of growth of the labor force, which was twice as high in the United States, and the expansionary fiscal policy of the 1980s. Second, there are serious issues about the quality of employment, such as the fact that more than 7 million Americans held more than one job by the end of the 1980s, wage dispersion is the highest among the advanced industrial democracies, and the number of working poor has been comparatively very large. Third, the difference between American and European unemployment levels disappears when the American prison population is included in the calculations.

The conclusion attempts to answer the question whether an identifiable new model of capitalism is emerging in Latin America, and it attempts to pull the insights from the different chapters together in order to extract some guidelines for designing policy patterns and constructing institutions that could improve Latin America's performance in both growth and equity. It offers some reflections about the interconnectedness of policy patterns and about path dependency versus room for choice in policy design, accepting the importance of both dynamics but emphasizing the need to concentrate on the latter. Then it proceeds to review debates and establish lessons from the various experiences in the individual policy areas that are the focus of this volume. After this exercise in analytical separation, the discussion of transferability of policies comes back to a more holistic view of models of

capitalism and argues for the superiority of production, labor market, and social policy regimes that integrate all major actors and social strata.

As noted earlier, it is in this emphasis on growth-oriented and equity-oriented policies as the two essential components of models of capitalism, or on the connection of labor market and social policies to growth policies, that the specific contribution of this volume lies. Studies of East Asian development and comparisons of East Asian and Latin American development have attracted considerable attention since the 1980s when the divergence in the experiences of the two areas became particularly pronounced. Several conferences and volumes have been dedicated to these issues, such as Gereffi and Wyman 1990, World Bank 1993, Stallings 1995, and Birdsall and Jaspersen 1997. However, all of them focused on growth patterns and policies, offering some comments on different patterns of distribution, but without a systematic examination of the causes of the latter. This volume, then, is innovative in two respects. First, it explicitly connects the discussion of growth policies with an analysis of labor market and social policies, and second it introduces a new set of comparisons by including Western European and North American experiences with labor market and social policies. We have only begun to develop an understanding of the systematic interrelationships between production, labor market, and social policy regimes. There are collective efforts under way to improve our understanding in this area for advanced industrial democracies and their more stable policy regimes;[3] for newly developed or developing countries, even more research is needed on concrete experiences with their labor market and social policy regimes before we can more systematically connect them to growth patterns and policies. Here we are making a step in this direction by introducing into the discussion of Latin American models of capitalism examples of policy patterns from East Asia and advanced industrial democracies that were successful in reducing poverty and inequality while promoting growth.

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3. For instance, one such project is being coordinated by Jelle Visser and Philip Manow at the Max Planck Institut für Gesellschaftsforschung in Cologne, another one by Paul Pierson at Harvard University.

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PART ONE

An Emerging Model of Capitalism in Latin America?