PART I

INTRODUCTION AND ARGUMENTS

1

Patterns of Business Politics in Latin America

> A landed interest, a manufacturing interest, a mercantile interest, a moneyed interest with many lesser interests grow up of necessity in civilised nations and divide themselves into different classes actuated by different sentiments and views. The regulation of these various and interfering interests forms the principal task of modern legislation and involves the spirit of party and faction in the necessary and ordinary operations of government.
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> James Madison, 1788[1]

Variations in Business Organization

Patterns of business organization and relations between business and government varied widely across Latin America in the twentieth century. Coffee provides an early and illustrative example. By the middle of the twentieth century, Brazil and Colombia were the largest coffee producers in Latin America and coffee generated most of their export revenues, yet the economic and political organization of coffee growers in the two countries differed remarkably. The Colombian coffee sector had by the 1960s been thriving for decades and pulling much of the rest of the economy along with it. The association of coffee growers, Federacafe (Federación Nacional de Cafeteros de Colombia), had firmly established Colombian coffees in the high-quality, high-price segments of the world market, and coffee overall accounted for over two-thirds of Colombian exports.[2] The political power of the coffee elite and their association matched their economic clout. Federacafe was influential in a wide range of economic

[1] *The Federalist Papers*, no. 10, cited in Wilson (1981, 2).
[2] See the List of Abbreviations for English translations.

policies, and the head of Federacafe was viewed as the second most powerful man in the country after the president (Urrutia 1983, 116).

By comparison, the marginal situation of coffee growers in Brazil, the world's largest producer, would probably have dismayed the Colombian elite. Brazilian coffee exports had also grown dramatically and by 1960 represented about half of Brazil's exports.[3] Brazilian coffee, though, filled the lower end of the market, and politically the organized, collective power of coffee growers was rarely mentioned. Of course, coffee was not economically as dominant in the larger and more diversified Brazilian economy, and the geography of coffee cultivation varied notably between the two countries. However, the major differences in the political economy of the two coffee sectors derived largely from the institutional and organizational legacies of the 1920s and 1930s. In 1924 state officials in Brazil created the Coffee Institute, which took over many functions of sectoral governance without the organized participation of coffee growers.[4] In Colombia in 1928, state actors delegated these governance functions (such as marketing, infrastructure, and credit), as well as control over an earmarked tax, to a new association of growers, Federacafe, that subsequently became a major institutional actor. Any general book on Colombian politics or development in the second half of the twentieth century devotes substantial attention to Federacafe; similar books on Brazil make no mention of a national organization of coffee growers.[5]

In the 1990s, to take a more recent example, quite different patterns of business–government relations emerged in the large countries of Latin America in their respective negotiations over regional economic integration. Strong business associations in Mexico and Chile collaborated closely with government negotiators in devising the terms of regional integration. In Mexico representatives of government and business associations met literally thousands of times to exchange information, reconcile conflicting preferences, and work to reach consensus positions for Mexican officials to take into the negotiations over Nafta (North

[3] Coffee accounted for 59 percent of Brazilian exports in 1955 and 56 percent in 1960, then dropped to less than a quarter in the 1970s (Baer 1983, 162).

[4] Font (1990, Chapter 3) provides the full story. Overall, Font concludes, "Big Coffee elites sought, considered vital, and largely failed to get, direct control of a regulatory mechanism not subservient to other policy objectives. This amounts to one of the most interesting cases on record of the failure of private corporativism in Latin America" (271).

[5] Contrast, for example, Skidmore (1967, 1988) on Brazil with Thorp (1991) on Colombia. See Bates (1997) for an extended comparison of the political economy of coffee in the two countries.

American Free Trade Agreement). In Brazil and Argentina, in contrast, government officials negotiated largely in isolation the terms of integration into their common market, Mercosur (Mercado Común del Sur). Other political factors influenced business–government relations in these trade negotiations, but policy options for negotiators in Brazil and Argentina were generally constrained by the fact that business associations, especially in industry, were weak and unrepresentative.

The cases of coffee and regional integration are only two examples of many wide variations in the organization of business and in business–government relations in Latin America. These variations have profound consequences for the kinds of issues business brings to policy making, what political channels they use to push their preferences, and what, if any, contributions they can bring to policy making and governance overall. These issues have become ever more important in recent decades as states have relinquished economic controls, greatly extending the realm of business discretion in the economy, and as democratization has generated new opportunities for open, organized participation by business in politics.

Why does the organization of business vary so dramatically across the large countries of Latin America? In this book I argue that most major variations in patterns of business organization – weak versus strong, rich versus poor, encompassing versus narrow, politicized versus neutral – can be traced back to actions of state actors and the cumulative effect of these actions over the twentieth century. In other words, states organized or disorganized business. This argument holds not only for the obvious cases where government decrees forced business to belong (state corporatism) but also for a range of formally voluntary associations. Especially in the case of voluntary associations, existing theory is poorly equipped to explain variation over time and space since much of it neglects the state and focuses instead on economic characteristics of the firms involved or, sometimes, on political factors like development strategies or regime type. A good deal of mythology, derived in part from overly simple economic models, sustains the mistaken impression that collective action is mostly the spontaneous, short-run result of individual calculations largely in isolation. In Latin America, capitalists did seem to weigh rationally the costs and benefits of investing in associations, but when they invested or disinvested, it was usually in response to prior actions by state officials and after evaluating other opportunities for political investment. State actions ranged from direct decrees outlawing some associations or obliging firms to join new state-chartered organizations to more indirect measures such as granting associations public resources or special access to policy makers. A core theoretical challenge is to explain how various types of state incentives for business to act collectively generate diverse organizational responses and how these responses cumulate over time into institutional capacity within associations.

An additional theoretical challenge is to specify when and why state actors are likely to want to organize business.[6] Historically in Latin America, as traced out in Part II, state actors sought to organize business in periods of economic and political crisis. The exact timing and nature of these crises varied country by country, but crises clustered across the region in the 1930s and 1940s and later in the 1980s and 1990s. In periods of crisis, state officials sought ways to reduce their vulnerabilities and bolster political and administrative support. So, for example, economic ministers caught in the middle of deep economic crises were likely, other things being equal, to solicit business support and to help business organize in order to manage the crisis. Other things were, of course, not always equal, especially over time, and successive teams of economic officials confronted evolving sets of associations. In the crisis years of the Depression and World War II, business associations were generally weak, if they existed at all, and state actors across all the major countries of Latin America intervened strongly to shape the organization of business. By the time of the crisis decade of the 1980s, the incentives for state officials to intervene in business organization were again strong, but state officials were constrained by variations in how the organizational space for business had in the intervening half century become more crowded and less malleable.

A cursory glance at the full range of business associations in the major countries of Latin America reveals a bewildering array of hundreds of associations, and larger businesses belong to several of them. The vast majority of these associations are similar across Latin America: they are small and narrow, and often consist of little more than a letterhead and a telephone. Where the differences are more striking and more relevant for policy and politics, as well as theory building, is in the voluntary associations that organized broad segments, or all, of the private sector. Table 1.1 lists major voluntary, encompassing associations in five countries of Latin America and divides them between countries with strong

[6] As specified further in Chapter 2, state actors are top officials in the executive branch. Generally I subscribe to Stepan's definition of the state as "the continuous administrative, legal, bureaucratic, and coercive system" and to his three-way distinction among the state, civil society, and political society (that includes parties, electoral rules, and legislatures) (2001, 100–1).

TABLE 1.1 *Voluntary Encompassing Associations in Five Countries of Latin America*

	Association	Scope	Staff
Strong Encompassing Associations			
Mexico	Coparmex (1929–)	Economy-wide	30
	CMHN (1962–)	Economy-wide	0
	CCE (1975–)	Economy-wide	80
Chile	CPC (1933–)	Economy-wide	8
	Sofofa (1883–)	Industry	50
Colombia	Federacafe (1927–)	Coffee	3,500
	ANDI (1944–)	Industry	150
	CG (1991–)	Economy-wide	3
Weak Encompassing Associations			
Argentina	ACIEL (1958–73)	Economy-wide	0
	APEGE (1975–6)	Economy-wide	0
	CGE (1952–)	Economy-wide	10?
	UIA (1886–)	Industry	50
	CEA (1967–)	Economy-wide	2
Brazil	UBE (1987–8)	Economy-wide	Few to none
	IEDI (1989–)	Industry	8

Note: See appendixes for sources and further basic information. Figures for staff are rough estimates for average total employment in the last quarter of the twentieth century.

encompassing associations – Mexico, Colombia, and Chile – and countries with weak associations – Brazil and Argentina (where several of the ephemeral associations listed in the table survived for only a few years).

The mere existence of voluntary encompassing associations is one good indicator of the amounts of money and time that prominent capitalists invest in collective action. The rough estimates of staff are a further proxy useful for comparing across countries the material investments members make in their associations. Other indicators of organizational strength include the time capitalists invest in associations and the quality of internal representation (indicators considered further in Chapters 3 to 7). Although they cannot be summarized in a table, historical instances of organizational capacity to aggregate or reconcile members' interests were more common in the histories of encompassing associations in Mexico, Chile, and Colombia than in Argentina and Brazil. "Institutional" or "organizational strength," in my usage, refers always to these internal characteristics – material resources and internal intermediation – not to the amount of power or influence of the association in the political system.

This book focuses largely on economy-wide associations (that organize most of industry, commerce, agriculture, and finance) and encompassing industry associations representing most subsectors of industry.[7] These associations were generally most prominent after the 1940s and eclipsed associations in other sectors. The analysis sometimes also incorporates agricultural, commercial, and financial associations when they developed significant institutional capacity, as for example the coffee association in Colombia, or when they help generally to fill out the arguments. Absent from Table 1.1 are the state-chartered, nonvoluntary associations in Brazil and Mexico that were major political players in the mid-twentieth century and that receive more attention in later chapters. The primary focus of the book is on voluntary associations because they raise so many theoretical and comparative questions. Theoretically, voluntary, encompassing associations, with many members with diverse interests, are anomalous. Prevailing theories predict that they should be rare, weak, and short-lived. This was sometimes true but often not, and the analytic challenge is to explain why.

Of the large countries of Latin America listed in Table 1.1, big business in Mexico was the best organized, mostly through two voluntary, encompassing, and interlinked associations, CMHN (Consejo Mexicano de Hombres de Negocios) and CCE (Consejo Coordinador Empresarial). Formed in the 1960s, the CMHN was an exclusive club of 40 or so of the most prominent capitalists who collectively had business interests in all major sectors of the economy. The CCE is an economy-wide peak association established by seven member associations that formally represented nearly a million firms from all sectors of the economy. By the 1980s the CCE had a large staff of about 80 people and a budget of $2 million. In Chile and Colombia economy-wide associations were not as institutionally developed; however, industry associations were strong and over time became even more encompassing by attracting members from outside industry. In addition, Federacafe, Colombia's powerful coffee federation, acted more like an encompassing association because its leadership had diversified business interests.

At the other end of the spectrum, in Brazil and Argentina, voluntary encompassing associations were weak or nonexistent, but for different

[7] By my definition, in encompassing or multisectoral associations, member firms do not have common market or technological relationships with one another. So, for example, an association that represents both paper and auto parts firms is encompassing. My focus is primarily big business. "Encompassing" refers to multisectoral, not inclusive, associations, and most small firms did not belong to voluntary encompassing associations.

reasons. Brazil had no lasting economy-wide peak association, and the appearance of strength in other associations was deceptive. In industry, the compulsory associations were among the largest and best funded in the region, but corporatist statutes severely distorted internal representation. For example, voting in the national association for industry was by state, so that federations of industry of tiny rural states had the same vote as the industry federation of São Paulo, whose members generated half or more of total industrial output. The problem for business in Argentina was less the absence of encompassing associations or the distortions of corporatist regulation and more the multiplicity, rivalry, and politicization of the numerous fleeting associations that have existed. For example, UIA (Unión Industrial Argentina) was a voluntary, encompassing association for industry that had grown quite strong by the 1940s. However, President Juan Perón outlawed the UIA and created rival associations in the 1950s. For the rest of the twentieth century business representation was divided along multiple cleavages, and one set of associations or the other was periodically repressed by alternating governments.[8]

Explaining Collective Action by Business

The analysis of business politics and organization intersects with three broad literatures on civil society, corporatism, and collective action. Chapter 2 provides further coverage of these contending approaches, but it is useful to introduce them briefly here and summarize their differing explanations for the emergence of strong associations in order to set up and distinguish my own statist argument. The explanatory power of each approach is limited on its own, but particular conceptual tools of each can be reconfigured to use in building my arguments on how and why state actors help organize business. Let me start with the limitations.

8 For making shorthand distinctions and comparisons, I sometimes revive Schmitter's original categories of pluralism, state corporatism, and societal corporatism (1974, 103–5). Where voluntary associations were strong – in Mexico, Chile, and Colombia – corporatism was more societal. In Brazil business organization was dominated by state corporatism. Lastly, Argentina had neither form of corporatism (outside of a few years of state corporatist experimentation in the early 1950s), but rather a polarized, politicized kind of pluralism. Although Schmitter devised his concepts to categorize countries, the distinctions are also useful for comparing associations within the same country (Mexico's voluntary, societal associations versus compulsory, state-chartered associations, for example) or for comparing periods in particular countries: Brazil and Argentina, for example, started in the 1930s and 1940s with something closer to societal corporatism that subsequently degenerated.

In the diffuse literature on civil society, and on the related concept of social capital, there is little agreement on just what civil society is and where it comes from. Despite this conceptual dispersion, nearly all definitions include business associations as a part of civil society. On the theoretical challenge of explaining variation, many scholars, Robert Putnam (1993) prominent among them, view strong civil societies as the result of centuries of evolution that are embedded in broader social, political, and cultural transformations. Change in civil society, if it happens at all, is glacial and part of overall systemic change. Government policy, or human agency of any sort, has little impact.[9] Jonah Levy sums up the literature: "civil society is inherited, not constructed" (1999, 4). On the whole, this perspective offers little in the task of explaining shorter-term variations in business associations, primarily in the second half of the twentieth century in my case, in societies that share a common heritage and broadly similar political and economic challenges. Finally, in contrast to my statist argument, scholars of civil society consider the state as essentially a threat and argue that the best thing the state can do to promote civil society "is to get out of the way" (Levy 1999, 6).

The somewhat faded literature on corporatism does not have much more to offer to general causal explanations for the emergence of various forms of business organization in Latin America. Both literatures, on corporatism and on civil society, focus in fact more on the consequences of variations in organizational strength than on the origins of variation. Although organizations are not as immutable as some analyses of civil society, change in the corporatist literature is slow and constrained. Most analyses are thus historical and contextualized; explanations for collective action by one group, say business, are related to other groups, political actors, and institutional constraints. Most corporatist analyses also weave the state back in but usually only as structure and monolith. The state was central to Philippe Schmitter's (1974) foundational analysis of corporatism, even societal corporatism, though the distinctions were more descriptive than causal. In another influential review, Schmitter and Wolfgang Streeck (1999) identified over a dozen hypotheses on characteristics of states that affect business organization, yet most of these features are relatively constant, such as the level of government centralization or the degree of professionalization of the state bureaucracy, and are not

9 There are, of course, some exceptions in the diverse literature on civil society. See, for example, Evans (1996), Friedman and Hochstetler (2002), Encarnación (in press), and others considered in Chapter 2.

subject to strategic manipulation by political actors who might want to change business organization. Overall these literatures on civil society and corporatism have, to borrow a phrase used in Latin America, "too much architecture and not enough engineering."

The emphasis is reversed in the literature on collective action, where scholars are first (and often exclusively) interested in engineering: namely, the causal dynamics that lead individuals to create and contribute to organizations like business associations. For Mancur Olson (1965), collective action is likely when the numbers are small and the members homogeneous, or when the association offers selective benefits to members. For most Olsonian analyses, the calculus of collective action is immediate and largely unaffected by past investment in collective action (and the resulting constellation of civic organizations) or by much of the general context. For example, Jeffry Frieden's analysis of collective action by business in Latin America focuses primarily on the economic characteristics of business and rarely mentions pre-existing associations.[10] The neglect of context often includes an explicit rejection of the state. Frieden specifies: "I downplay the possibility that a significant set of pressures may have emanated from the bureaucratic or political institutions of the government itself." The economic bureaucracy may have interests of its own, but it is "essentially a reactor to private demands" (Frieden 1991, 39).

My argument is the opposite of Frieden's: when it organizes, the private sector is essentially a reactor to government actions. Historically state actors were, of course, the proximate cause of corporatist associations they created by fiat, but state actors were also the central protagonists in encouraging the formation of voluntary, encompassing associations, sometimes unintentionally (as when they threatened business with reformist policies) and, more importantly, intentionally by offering associations selective benefits such as representation in policy forums or authority over public functions or funds. Moments of conflict between business and government over reformist policies were often important in the initial creation of encompassing associations, but these associations became strong institutions only if they received further encouragement and benefits from the government. From my perspective, business associations in Latin America

[10] Frieden does sometimes bring in contextual factors, such as levels of class conflict, but his point of departure is that the organization and lobbying activities of business depend primarily on the economic characteristics of their sectors: "individuals or firms tend to come together with others holding similar assets" (1991, 23). Using economic criteria, Frieden further claims that "the more concentrated the industry, the easier we would expect it to be able to exert political pressure" (24).