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## The Global Economic Crisis as Disclosure of Different Types of Capitalism in Latin America<sup>1</sup>

Ilán Bizberg\*

### 1 Introduction

By the end of the 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 7.2% in 2010 and 4.5% in 2011, Argentina is supposed to grow by 6.8% and 4.0%, Chile by 4.8% and 5.7%, and Mexico by 4.6% and 3.0% in the same years (*The Economist*, 2010, 110). Nevertheless, this data has to be weighed against the performance of each of these countries during the global crisis: while Brazil grew by 5.1% in 2008, and decreased by a mere –0.2% in 2009, Argentina grew by 6.8% in 2008 and 0.9% in 2009, Mexico grew a mere 1.5% in 2008 and fell by a staggering –6.5% in 2009. Chile grew by 3.7% in 2008 but, badly hit due to its economy's strong dependence on exports, receded –1.5% in 2009 (IMF, 2010, 80 and Appendix p. 1). GDP per person is also revealing: Brazil's increased by 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*, 2010, 4).

How can we explain why Mexico, one of the countries that was markedly a model for Latin America in the 1990s, is in such difficulties, while Brazil 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 better? 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, 2007). This implies they are right at the end of a road but that the approach to them varies from country to country. In contrast to this idea, I will try to defend the idea 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 witnessing the development of different types of capitalism in

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Latin America. I follow the literature that considers different types of capitalism: while some capitalist regimes are more economically liberal and based on the market (US), others are more coordinated (Germany, North Europe) (Hall and Soskice, 2001), while in others the State has a crucial role (France, Korea), and in still others it is the conglomerates of banks and industries that play the main role (Japan) (Amable, 2005; Boyer, 2005). Thus, in Latin America one also expects different types of capitalism to exist, and not merely a deficient variant of the one (or ones) of the developed countries (as Schneider and Soskice, 2009 have affirmed). In at least three countries we can see that the economic structure and the socio-political configuration (basically the welfare regime and the industrial relations system<sup>2</sup>) are congruent enough to be able to construct ideal types. We can identify two types of capitalism with strong State intervention, one led by the internal market – IMLC – (Brazil), the other 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 (ISC). Argentina is a hybrid: a commodity-exporting economy re-orienting itself towards the internal market.

The way in which these countries faced the 2008–2009 global crisis is crucial to 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: 1. characterized by path dependence, that is, dependent on the economic, social and political institutions and organizations created in the past; and 2. related to the manner in which the countries responded to previous crises, transformed their economic and social institutions during the 1980s and 1990s 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.

## 2 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 (ISI), had the same problems, and failed for more or less the same reasons, there are crucial differences between the countries. As analyzed in a groundbreaking article by Marques Pereira and Th  ret (2004), Mexico and Brazil followed a similar path of economic development based on very different socio-political configurations, until these began determining their economic evolution and started to function in

2 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.

non-complementary ways in Mexico and in more complementary forms in Brazil. In effect, in the 1970s, 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 so to become an important exporter. The huge amounts of external credit the Mexican government acquired on this basis allowed the governments of the PRI to delay the transformation of its import substitution scheme and uphold their inclusive authoritarian political regime throughout the 1970s (Marques Pereira and Théret, 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 economic rationales. The military coincided with their liberal technocratic allies in their diagnosis of what they called "economic populism", which according to them had ruined the Argentinean economy because it had placed industry at the core of the development mode which had led to a spiral of expectations and demands on the part of the popular sectors. Although there were considerable internal tensions in the government of Martínez de Hoz, 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, 2009).

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, and 3) the autonomy of the State.

Land ownership in Argentina had been extremely concentrated since the middle of the nineteenth century. As land owners were 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 relationship with England, industry started developing in a spontaneous manner, based on the limited development of the internal market and dependent on the external sector (Cardoso and Faletto, 1969, 78–82). The mode of development underwent a crucial transformation under Juan Domingo Perón between 1948 and 1955. Industrialization was now accompanied by the will on the part of the government to extend the internal market through redistribution. This process also entailed 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. But once the urban-popular Peronist alliance became a political and economic threat to the agrarian oligarchy (Cardoso and Faletto, 1969, 102–116) the agrarian interests supported the end of the democratic game by the military in 1955. What this basically meant is that although industrialization in Argentina had advanced faster than in Mexico or Brazil by the 1930s, it was never hegemonic but was always confronted with an alternative agrarian project. In contrast to Brazil and Mexico, Argentina has repeatedly 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 though an extensive agrarian reform in the 1930s. 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, in contrast to developments in Korea and Taiwan, in the impoverishment of the peasants and increased inequality.

In contrast, the Brazilian State has traditionally sought to arrive at compromise between different interests and provinces since the nineteenth 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 Sao Paulo and Minas Gerais (Fausto, 1995, 183). This character of the State translated into a compromise between the agrarian and the industrial interests. In addition, while the richer Argentinean oligarchy produced enough foreign currency and maintained a privileged relationship with England that permitted it to meet the demand for manufactured goods among its population through imports, the Brazilian oligarchy was never so prosperous and was thus forced to start investing in industry from the late nineteenth century (Rapoport, 2005, 292). This explains why industrialization was never a contentious subject in this country.

In Argentina, the Peronist-industrializing coalition was formed by urban businessmen, workers and the middle classes. Although they were politically dominant, since they had inaugurated modern politics in that country, they represented only one pole of Argentinean society. At the other pole, the landowners were economically powerful and, while they had no political representation, they maintained strong links with the military. This situation permanently polarized Argentinean society, with the result that whenever legally elected governments began to hurt the interests of landowners they had the capacity to turn 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 obtain

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 the foundation of a durable authoritarian regime to fill 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. It was also more committed to industrialization as the instrument for modernizing and uniting the country, as well as for serving as a structural base for the regional and international impact it had (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. While the Peronists instrumentalized the State towards industrialization with redistribution, the agro-exporting sectors did so to promote an open economy (Rapoport, 2005). In Mexico, the State was the instrument of the political regime. The Brazilian State was more autonomous as it had to deal with many different actors (social and provincial) that preceded it and was never attached to a particular political regime. It thus always used economic modernization as a way of legitimizing itself (Marques Pereira and Théret, 2004).

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

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 1950s, 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 1970s, Brazil, Korea and Taiwan were hit hard because they had no oil; they had to upgrade to produce intermediary and capital goods and to start exporting in order to acquire foreign currency (Haggard, 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 base and the fragility of a redistributive mode based on oil exports and debt. Although the Mexican State

and entrepreneurs also invested in steel and heavy industry, such as railcars and machinery, the fact that the crisis of the 1970s 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 at the 1970s under the PRI regime, a civilian-authoritarian regime that depended on its control of popular organizations and its revolutionary legitimacy. The challenge posed by the student movement in the late 1960s and the labor movement in the early 1970s led the regime to become more concerned with political stability than with the viability of the economic system (Bizberg, 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 had a catastrophic result in 1981, when both oil prices fell and the interest rates went up. Mexico suspended payments on its debt and had to turn to the IMF, which 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. The new export-led growth mode led to an exceptional expansion of the assembly *maquiladora* industry. It also led to the orientation of other exporting industries to the same subcontracting mode once the government gave up all industrial policies to enhance the integration of local production to the export sectors. This is 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, which in turn is based on low salaries (Puyana and Romero, 2009). This situation demanded strict salary control to continue being competitive (see Figure 1). The continued control of the labor unions by way of the corporatist arrangement perfectly served this purpose (Bensusan, 2008).

Brazil followed the contrary path. The economic scheme implemented by the military was one of accelerated growth with no distribution. This mode of growth reached its limits at the beginning of the 1980s when the international financial context changed. At that moment, Brazil had to depend on its own resources to confront the disequilibrium created by economic growth combined with 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 paying 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 deindustrialization caused by liberalization under external pressure (Marques-Pereira and Théret, 2004). This meant that Brazil could preserve its industrial base while moving to democracy.

In contrast 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 1970s with the imposition of a new economic model (for Argentina: Rapoport, 2005, 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 by crushing the trade unions and imprisoning or killing even the more moderate trade union and political leaders in order to eliminate 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 promote 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). The Pinochet government retained a majority part of the copper industry under the control of the State when in the 1981 crisis it realized the importance of an autonomous source of foreign currency (Boschi and Gaitán, 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 its neo-liberal reforms, basically in the direction of privatization and the convertibility scheme whereby the Argentinean peso was pegged to the dollar. The Peronist unions allowed 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 deindustrializing process and the dismantling of the State (Boschi and Gaitán, 2009). The only institutional structures that remained were the relative force of the Peronist unions and the social policy instruments in the hands of the unions.

#### 4 The welfare regimes

The welfare regime is not merely a way in which the individual is protected from the hazards of life (disease, unemployment, old age, etc.) but is also a mechanism to maintain the cohesion of a society (Théret, 2002, 76). In addition, it may be complementary to a type of capitalism. In liberal capitalism a residual welfare State and a weak labor organization are complementary to the manufacturing of products based on radical innovation, which requires flexibility of the labor market. In the Statist

and corporatist-European capitalisms, in contrast, welfare and industrial relations are very extended, a condition complementary to products based on incremental innovation and high qualification (Boyer, 2005, 529–32).

Mexico, Brazil, and Argentina have all been considered as having corporatist, Bismarkian, stratified welfare regimes. Although Mexico originally implemented a universalist Beveridgian regime, where workers were to join a national social 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 grant them different conditions in the 1960s. The Brazilian regime was centralized by the military in 1967 in order to eliminate 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, health services were decentralized to the municipal level, and workers were obliged to acquire health insurance. In Argentina, the military, Alfonsín and Menem tried everything 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 and radically flexibilized, and social policy was transformed into a focalized assistance scheme. Although the democratic governments embraced the economic mode and the labor relations system created by the dictatorship, 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 receive 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 did not cover many of the diseases commonly occurring in Chile, the last two 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, 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, which considerably weakened the union force that used to organize 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 clientelist and assistance-oriented, the main program being *Oportunidades*, which focuses on the poorest of the population and includes 5 800 000 families. It is complemented by the *Segur popular*, which pretends to extend health coverage to the fraction of the population that is not insured by any of the other public systems. However, it has not been



able to attract the great majority of the informal workers, who would have to pay a variable amount for being included in the program. While Mesa Lago (2009, 13) calculates that 45.3% of the population is covered, the OCDE considers the proportion to be close to 80%.

As in the case of Chile, in Mexico social policy is also disconnected from labor policy. The government of Zedillo began to dismantle the corporatist welfare system. It transformed the “pay as you go” pension system of the private sector workers into an individual capitalization system in 1995 and did the same to 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 have continued to impose the state corporatist control over unions through a series of mechanisms: negotiation with the traditional unions, the powers 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 that social and labor policies are complementary in both. 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 weakening the unions with its economic policies, they still control the *obras sociales*, the health service programs. The unions were successful in resisting both the attempt to decentralize union negotiations (Munck, 2004, 11) and to eliminate union control from the the obras sociales.

After the 2001 crisis, the unions (with the unemployed *piquetero* organizations) regained a measure of influence from their position 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* for retired workers and reduced the population without health services, reaching a coverage of 59% (Mesa-Lago, 2009, 15). One of the most important social programs established in the aftermath of the crisis, *Jefes y Jefas 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 (Delamata, 2008, 134). It benefited 11% of the active population and contributed to decreasing unemployment by 2.5% (ILO, 2009, 31). In contrast to most assistance programs implemented in Latin America, such as Mexico’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 individuals to labor to a certain degree; 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 most surely advancing towards a qualitative transformation of its welfare regime and its linkage to labor policy since 2002. The Brazilian welfare system emerged from the military regime as universalist, albeit

minimalist and clientelist. In addition, Brazil did not reduce spending in health and education as most other countries in Latin America did in the 1990s (Lautier, 2007, 53). It did not abandon the “pay as you go” pension system or even institute a mixed one. In fact, the 1988 Constitution defined an explicit program to universalize social policies which forced governments to implement new social policies. This was especially true in the case of health with the creation of the SUS (*Sistema Único de Saúde*). 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 its health services regularly and it financed 57% of the total health acts, while 26% were at least partially financed by private plans and 15% by the patient himself. Concerning hospitalization, the SUS financed 68% of the cases and the private plans 24% (Lautier, 2007, 56–57). The most important assistance program, *Bolsa família*, was expanded both in terms of resources and coverage, and in 2009 reached almost 50 million people. (Dowbor, 2009, 194) At the same time, pensions to rural workers were expanded: 12.8 million people receive a pension equivalent to the minimum salary without ever having contributed (Lautier, 2007, 60–62). In addition, Brazil is the first important country in the world to have instituted (in 2004) a basic revenue of citizenship, called *Renda Básica de Cidadania*. This was supposed to cover all Brazilians by 2008 and replace 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 as 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 (Lawrence and Ishikawa, 2005,

Table 1 Total public expenditure by program (percentage of GDP), 2006–2007

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

\* 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 and Salvador Marconi (Eds.). 2010. *Anuario estadístico de América Latina y el Caribe 2009*. Santiago: Naciones Unidas.

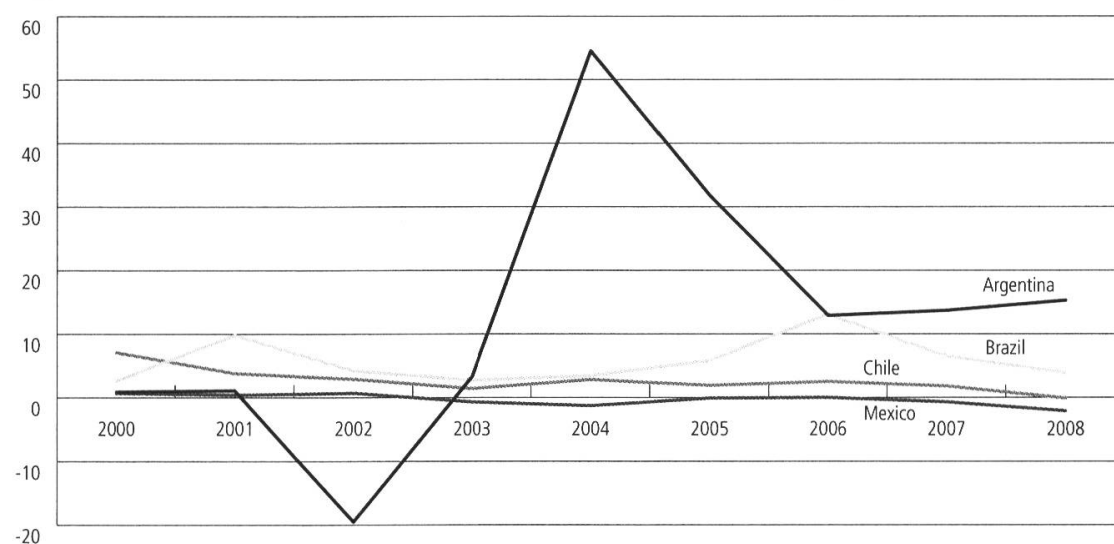


157). Union rates in Chile and in Argentina have been calculated to be around 15.3% and an exceptionally high 37% respectively.

All this discussion is summarized in Table 1, where I compare State expenditure in social programs. We can see how both Brazil and Argentina are at a much higher level than Chile and Mexico. In addition, while in Brazil social expenditure has been continuously growing since the 1990s, Mexico started out at an extremely low level and continues spending less than half that of Brazil, although its rate 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 each country's labor unions and policies. Argentina and Brazil are clearly distinguishable from Chile and Mexico. During the last four years, there has been an explicit 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. In the same period, there has been an important expansion of the occupation and formalization of employment (Berg, 2009). In Figure 1 we can see how salaries have also increased significantly in Argentina.

Figure 1 Rate of Variation of the minimum urban salary



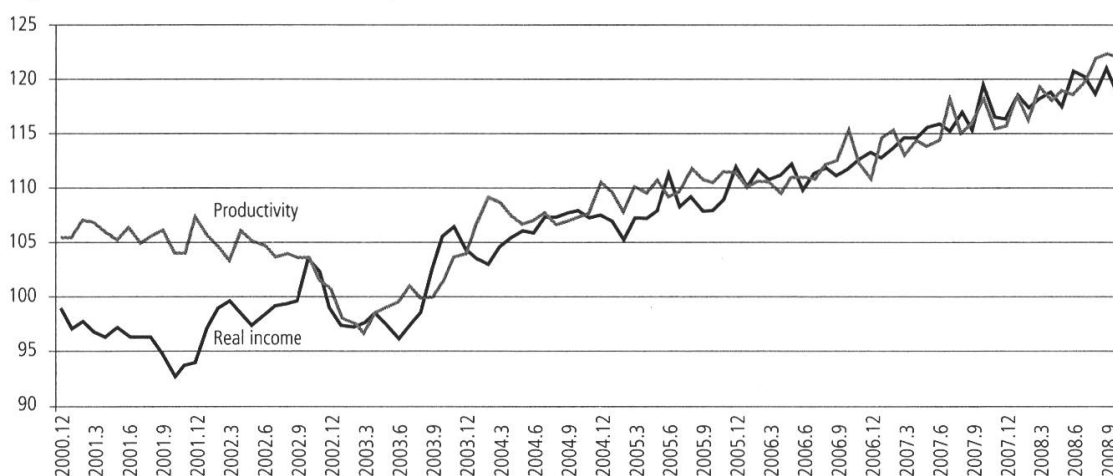
Source: Becarria and Marconi (2010).

Finally, minimum salaries in both Chile and Mexico 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 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 rather more decisively than Mexico.

If we now analyze the way in which salaries behave in relation to productivity, we can have an indicator of the relationship between social and economic policies. In the case of Brazil, we find a continuous growth and synchronization between productivity and salaries, something that characterized the Fordist period in the developed countries, where increases in salaries that were above productivity served as a stimulus for still more productivity gains (see Figure 2).

Figure 2 Productivity and salaries in Brazil



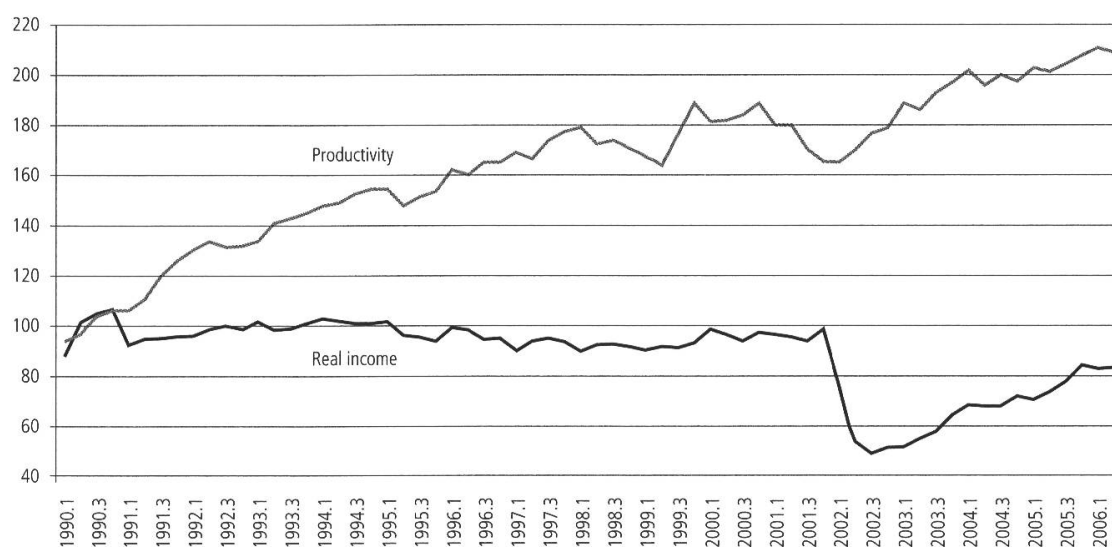
Source: Boyer (2009).

In the case of Argentina, we can notice that productivity growth is detached from salaries; this can be interpreted as a demonstration 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 has not been a significant transformation of the mode of accumulation. Real increases do not follow a coherent economic internal market growth, in contrast to Brazil, in Argentina capital has gained proportionally much more from this growth (Figure 3).

Mexico shows real salaries almost always lagging behind productivity growth, which denotes a mode of development based on low salaries (Figure 4).

Finally, in Chile we can observe 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 5).

Figure 3 Productivity and Salaries in Argentina



Source: Boyer (2009).

Figure 4 Productivity and real salaries in Mexico

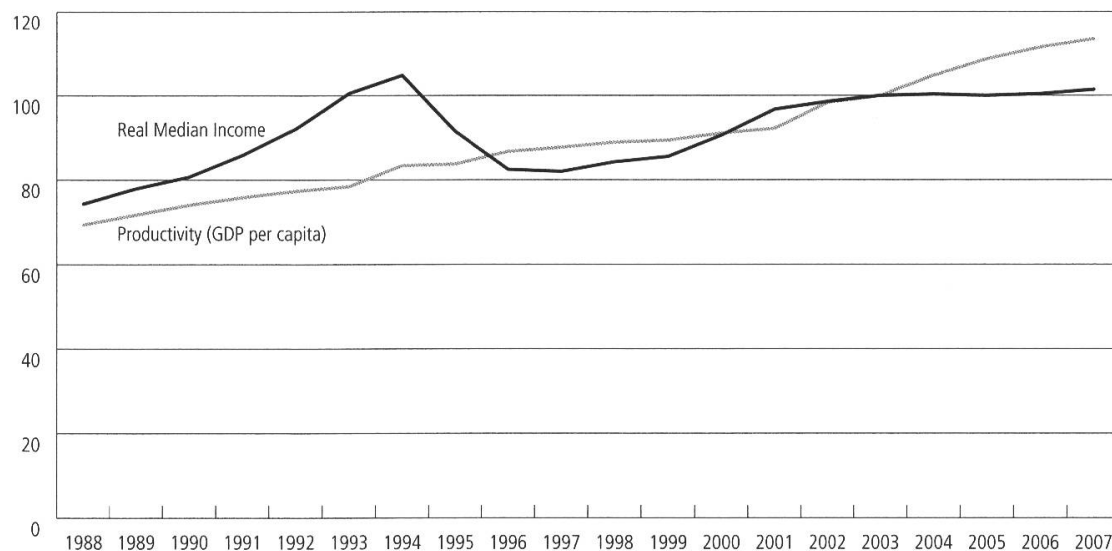
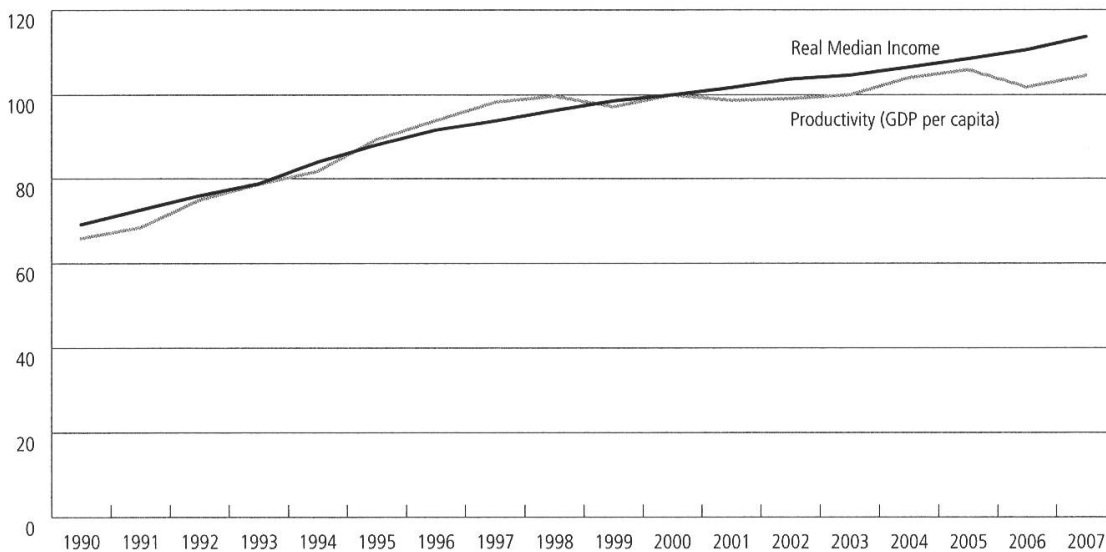
Source: Elaborated on the basis of *Sistema de Cuentas Nacionales*, INEGI and Centro de Estudios de las Finanzas Públicas de la Cámara de Diputados y CEPAL.

Figure 5 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>.

## 5 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. I 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 that of 2001–2002, which led the country to radically change the orientation of its economy. 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, in contrast to what was current during the Menem years, has promoted branch-level industrial relations rather than by enterprise (Palomino and Trajtemberg, 2006, 49).

Facing the more recent crisis, there was a sustained will to reinforce the internal market. The Fernandez-Kirchner government invested massively 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 also announced a 15.5% salary increase for government employees and increased 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 re-

nationalization, in 2008, of the pension funds that had been partially privatized during the Menem presidency. The government unified the system under a State-controlled regime, eliminating the segment of capitalization administered by the AFJP (Administradoras de Fondos de Jubilaciones) (CEPAL, 2010, 8–9). According to some analysts, all these measures signal a decisive shift to a development mode that attempts to equilibrate the external and the internal market and that articulates economic and social policies in order to develop the latter (Novick et al., 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 1970s and 1980s and during the Lula presidency they are constantly consulted in trilateral mechanisms, the State has had the main role in confronting 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, and 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, and excepted those that earn less than 875 dollars per month (CEPAL, 2010, 12–14).

The Chilean government adapted its liberal welfare policies to compensate for the great loopholes created by the reforms of the 1980s. In the year 2008 it implemented a welfare reform that included compulsory affiliation to an independent workers' health system by 2016 (in contrast, in Mexico the *Segur popular* is voluntary) and the universalization of a non-contributory pension for the poor. It also flexibilized the access of the old to contributory pensions (Mesa-Lago, 2009, 15–16). In addition the government extended unemployment insurance to include those without a permanent contract. It also implemented a measure exceptional 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 an economic model oriented towards the external market and its liberal character, in which economic rationality trumps social priorities, 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 appear to be merely marking time while waiting 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 on the scale of 6,390 million 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 expenditure 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>).

Since 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 for a promise from the enterprises not to fire them (Galhardi, 2009a). It also extended the existing program of temporary employment (which hires workers for communitarian projects in education and health) directed to rural and urban areas where unemployment is very high (Galhardi, 2009b). Although these two programs were supposed to cover 500,000 workers, they were assigned a mere 140 million dollars and 165 million dollars respectively. An indicator that this program was not working as it should have been is that six months later, in March 2009, the government announced that the rules to access 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 (CEPAL, 2010, 35–37).

## 6 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, I discussed the way in which the countries we analyzed diverged in important ways since the crisis of the 1970s. Both Mexico and Brazil tried to implement a third phase of import substitution, but while Brazil was successful Mexico was less so, basically because of 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 deindustrialization and to a disarticulated economy (Boyer, 2009).

While Brazil had the capacity to resist the economic and political pressures to totally open its economy in the 1980s and 1990s 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 2003, the Kirchner and Fernandez governments have effectively reoriented the social and labor policies both in response to increased social pressure and to their own ideological convictions. This has been translated into 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 (2009) and others consider that Argentina has not been able to substantially modify its investment and productive structure, which is still based on natural resource 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 1970s, 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 1980s the country was forced (by the IMF 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 1980s 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, 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 without modifying their liberal character. In this manner, a State led EMLC has been able to finance both a residual pension system and a, by Latin-American standards, extensive public health system.



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