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CORPORATIST TRANSITIONS IN THE ECONOMIC REFORMS OF CHILE AND ARGENTINA

by

Jeremy Williams

A Thesis Presented in Partial Fulfillment
of the Requirements for the Degree
Master of Arts

ARIZONA STATE UNIVERSITY

December 2002

CORPORATIST TRANSITIONS IN THE ECONOMIC REFORMS

OF CHILE AND ARGENTINA

by

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ABSTRACT

Overcoming political obstacles in the implementation of economic reforms is of paramount importance for developing nations. Scholars in comparative politics and political economy study these obstacles in order to give policymakers a better understanding of what is necessary to successfully reform economic policy and practice. Leaders in Chile and Argentina introduced economic reform in 1974 and 1989 respectively, and until now Chile has been very successful, while Argentina has for the most part failed. What accounts for the difference in outcomes? While similar in many ways, the two countries have different experiences with the form of interest representation known as corporatism. Prior to reform, Chile's system represented a fairly sound balance of power between the state and interest groups representing business, while Argentina's history is characterized by the state's absolute control over interest representation of all kinds. This study examines both cases in depth, using the comparative method and process tracing to determine what role corporatism plays in their respective reforms.

Chile experienced initial success with its reforms, only to falter after less than ten years, which prompted adjustments to the manner and extent that business groups cooperated in the policymaking. Whereas initially all but a few very large corporations were completely left out of the process, after 1984 organizations representing all types of business were made an important part of economic decisions. Argentina also experienced initial success with its reforms, and followed Chile's example in only allowing the largest conglomerates access to policymakers. The economic crisis at the end of 2001 illustrates the failure of this system, but unlike Chile, Argentina has not

adjusted its methods to overcome crisis. This study finds that corporatist structures and relationships, both historically and in practice, can have a significant effect on the effectiveness of economic reforms in developing states. Despite their many similarities, these two cases have divergent outcomes because they differ in corporatist structures and relationships. These findings offer lessons from the two cases that can be applied more broadly as more states attempt to reform their economies.

Disclaimer: The views expressed in this article are those of the author and do not reflect the official policy or position of the United States Air Force, Department of Defense, or the U. S. Government.

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"I've gone to more than 20 teller machines, and not one of them has a single cent. What kind of country is this that there is no money anywhere?"[1]

Introduction

These words, spoken by a middle-class Argentine citizen, epitomize the failure of that country's economic policy, which was implemented in 1989. After riots in December 2001 that killed 27 people, the nation went through a period in which five presidents held office in less than two weeks.[2] Drastic measures, such as freezes on all banking transactions like the one that sparked the critical remark above, threaten to hurl the South American nation into another round of rioting and chaos. Since the reform period began, Argentina has registered 6 years of negative growth, and this year the economy threatens to shrink by 16% (see Table 1). The trend in average yearly growth since reform is negative, and per capita GDP is only slightly higher than it was in 1980, having increased only 50% since 1960 (see Table 2 and Figs. 1,2, 3). All things considered, the outlook for this once wealthy nation is bleak. The current situation in Argentina stands in stark contrast to that of Chile, its Andean neighbor to the west.

Chile began economic reforms similar to those of Argentina in 1974, in the wake of the political turmoil that led to the military coup of 1973 and the installment of Augosto Pinochet as president. Since that time, Chile has experienced almost uninterrupted growth of its GDP and a return to the relative political calm of democracy that reigned prior to 1970 (see Table 1). The trend of average yearly growth is very positive, and per

---

[1] Quote of the Day, *New York Times* Direct, 25 April 2002. Accessible from http://www.nytimes.com.

[2] Larry Rohter, "Bank Holiday and Creditors Add to Crisis in Argentina," *New York Times,* 22 April 2002.

capita GDP has increased 70% since 1980, and has doubled since 1960 (see Figs. 1,2, 3). These statistics are good reasons to label Chile an economic success.

Table 1. Indicators of Restructuring and Stabilization for Argentina and Chile

	Argentina		Chile	
Year	GDP Growth	Inflation	GDP Growth	Inflation
*1975	-1.9	182.4	-13.1	374.7
1976	-2.9	443.1	4.5	211.9
1977	4.7	176.1	8.6	92.0
1978	-3.2	175.5	6.0	40.1
1979	8.5	159.5	10.4	33.4
1980	1.0	100.8	6.5	35.1
1981	6.0	104.5	5.3	19.7
1982	-5.4	164.8	-14.3	10.0
1983	3.1	323.6	-0.8	27.4
1984	2.4	626.7	6.3	19.9
1985	-4.5	672.1	2.0	30.7
1986	5.8	90.1	5.6	19.5
1987	1.6	131.3	5.7	19.9
1988	-0.7	342.5	7.3	14.8
*1989	-4.5	3079.2	8.4	17.1
1990	-0.2	2314.0	2.0	26.1
1991	6.4	172.8	6.0	21.8
1992	11.1	24.9	12.3	15.6
1993	6.0	10.6	6.0	12.1
1994	7.4	4.2	4.2	12.0
1995	-4.6	3.4	8.5	7.9
1996	4.3	0.2	7.2	7.3
1997	8.1	0.5	7.6	6.3
1998	3.9	0.7	3.4	5.1
1999	-3.0	-1.8	-1.1	2.3
2000	-0.5	-0.5	8.8	4.6
2001	-4.4		4.3	
**2002	-16.3		4.2	
Average	0.7	357.7	4.35	41.82

Source: Inter-American Development Bank Annual Report, selected years.

For 2001 and 2002: Ministerio de Economia, Republica de Argentina; Banco Central de Chile

Note: Inflation measures are based on the Consumer Price Index (CPI)

* indicates first year of reforms; 1975 for Chile, 1989 for Argentina

**estimate based on first quarter reports

Table 2. Per Capita GDP and Growth Rates

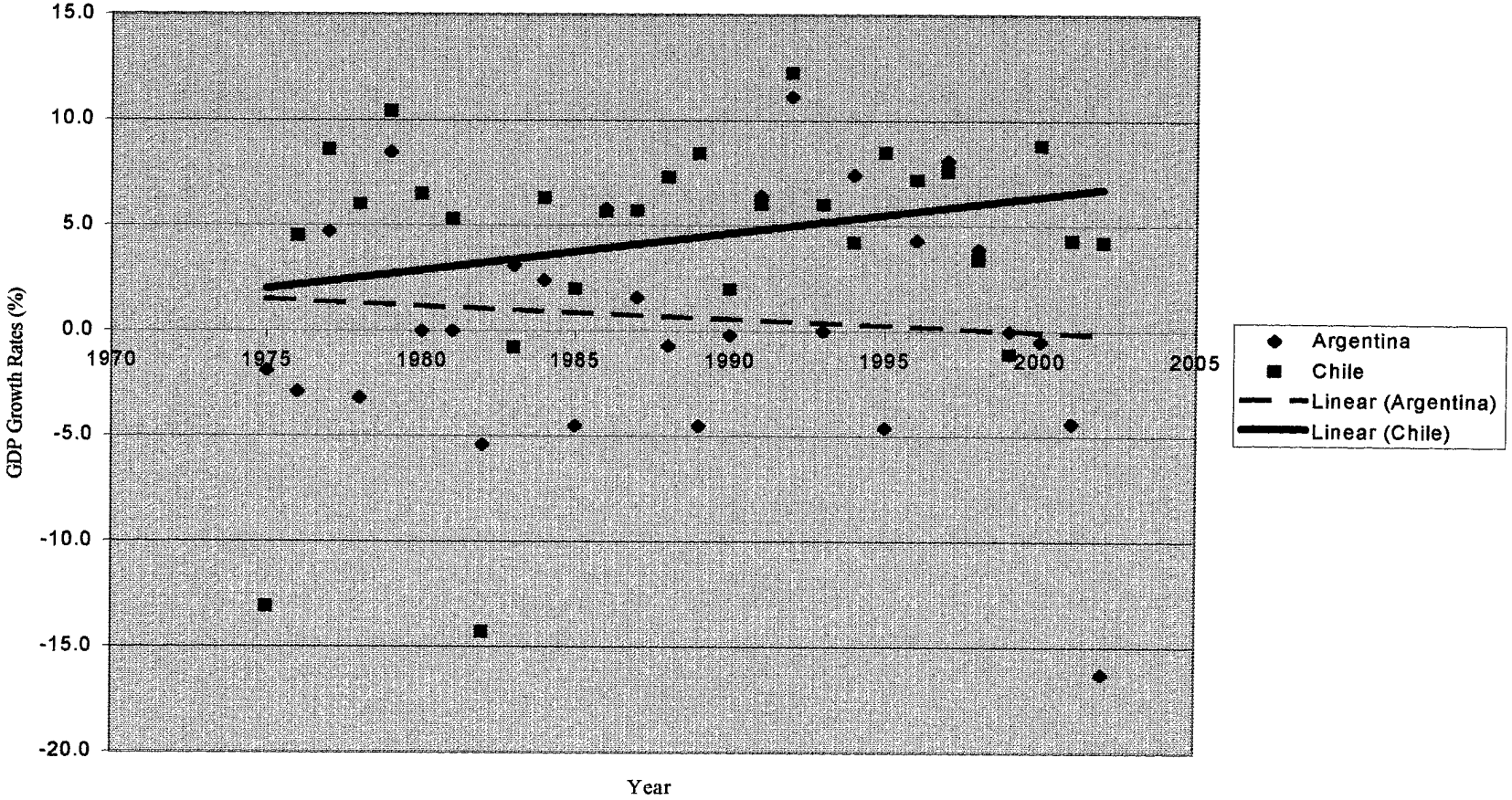
	Argentina		Chile	
Year	Per Capita GDP*	% change**	Per Capita GDP*	% change**
1960	4402		1677	
1970	5685	29.1	2033	21.2
1980	6162	8.4	2226	9.5
1990	4710	-23.6	2529	13.6
1999	6412	36.1	3974	57.1

Source: Inter-American Development Bank Annual Report, selected years

* All values for per capita GDP are in 1990 US Dollars

** % change is calculated from previous decade's value

Figure 1. Trends in Annual GDP Growth Rates for Argentina and Chile, 1975-2002



Source: Inter-American Development Bank Annual Report, selected years

Note: The cited source provided the raw data only. The graph and trend-lines were not published by the Inter-American Development Bank, and are creations of the author.

Figure 2. GDP Per Capita for Argentina and Chile, 1960-1999 (in 1990 US Dollars)

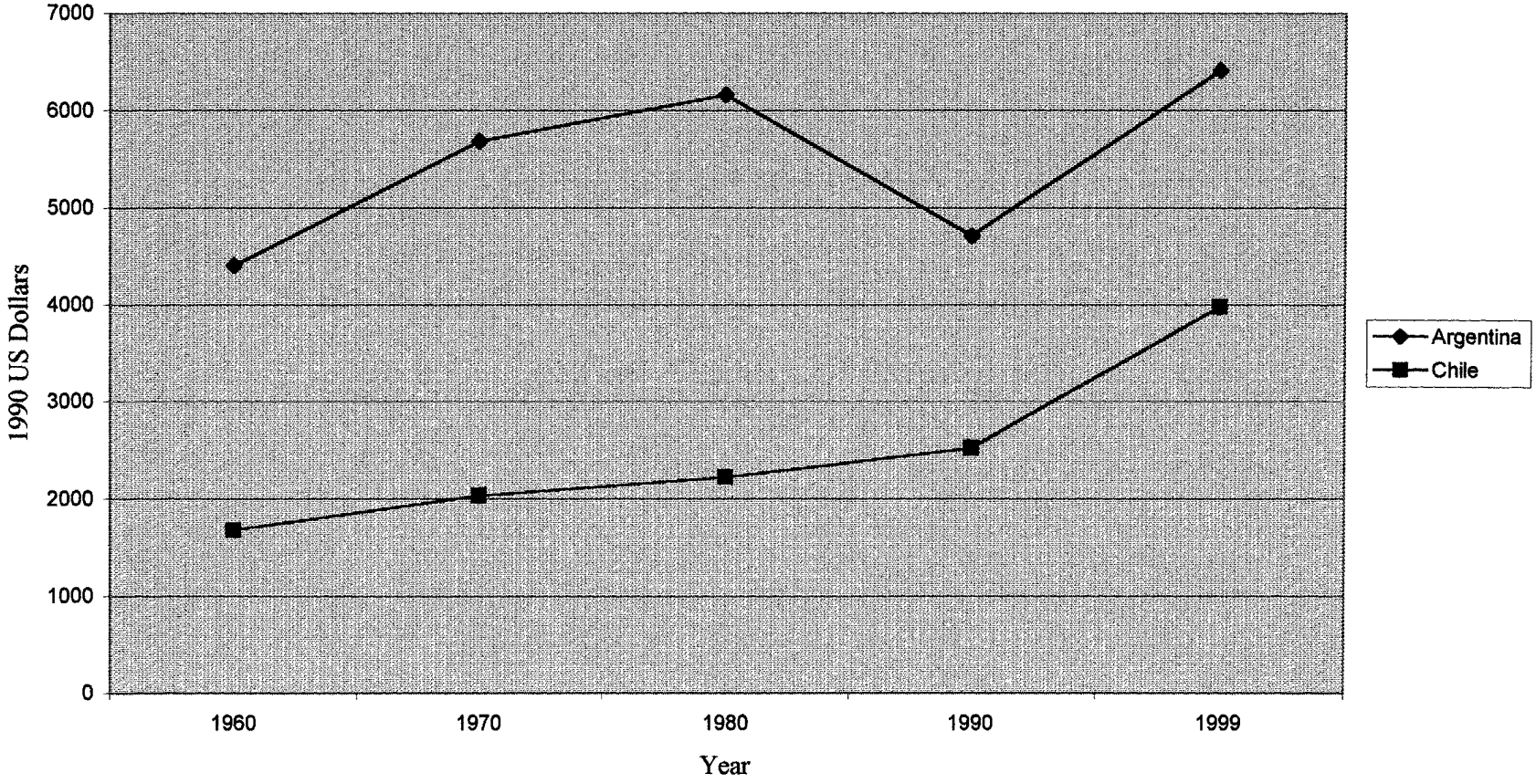


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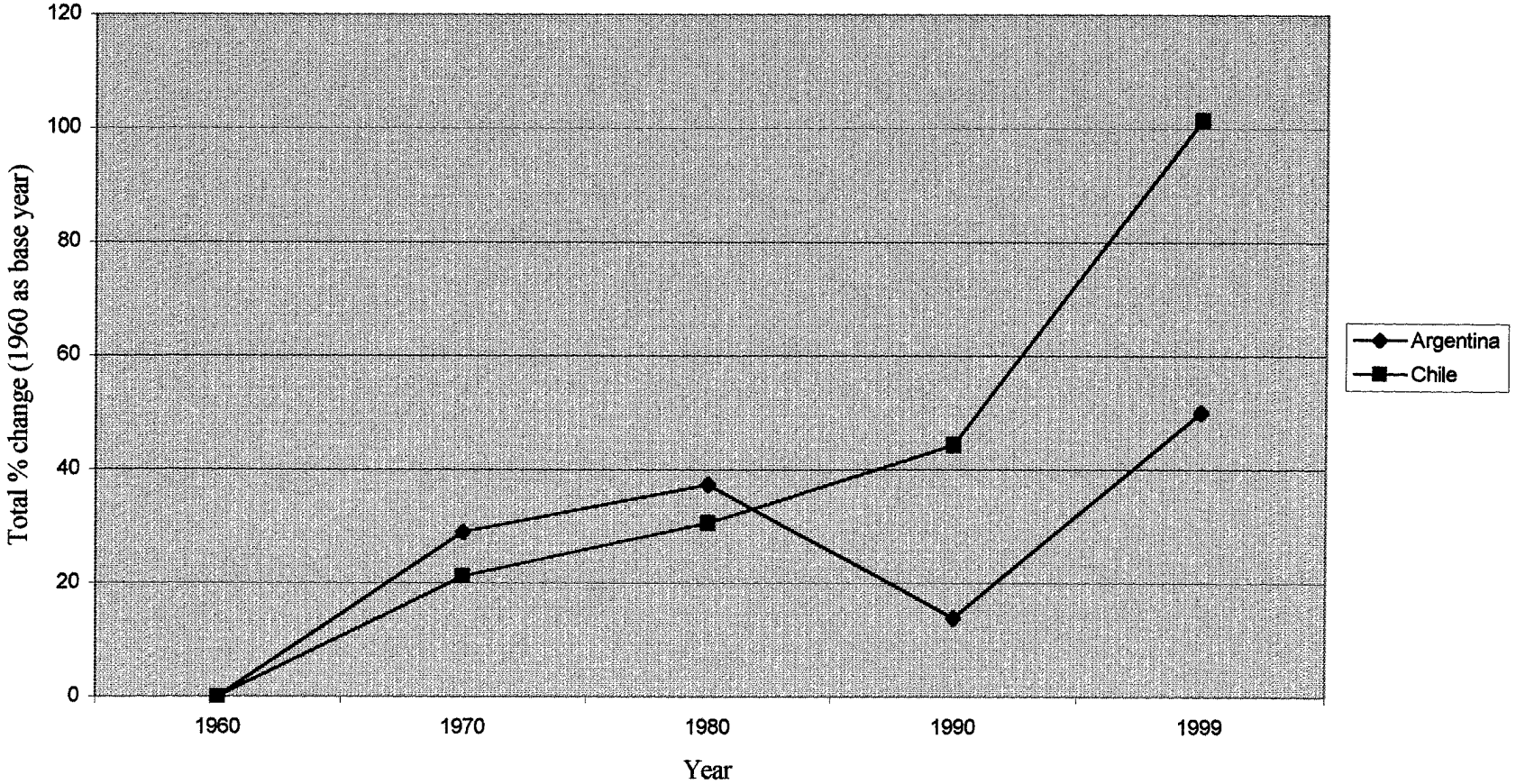
Figure 3. Aggregate Per Capita GDP Growth for Argentina and Chile, 1960-1999



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Presenting the profiles of these two countries in a side-by-side comparison raises an interesting question: What accounts for the drastic politico-economic differences between the two? Both have been following an economic strategy known as neoliberalism in an effort to foment economic growth. This being the case, there must be something more to economic reform than the reforms themselves. If this is true, then the importance of identifying what that "something" is cannot be understated. Economic reform is sought throughout the developing world, and lending organizations such as the IMF and World Bank almost require liberal market strategies as a prerequisite to assistance. If other countries are to implement neoliberal reform successfully, Chile and Argentina can serve as examples of *what* and *what not* to do. This paper is an attempt to provide some insight into the question at hand.

I hypothesize that the evolution of *corporatism* plays a central role in the success or failure of these two cases. Economic performance, measured by growth in total GDP, constitutes the dependent variable in this study. The other economic data presented here, such as per capita GDP growth and inflation rates, serve to forcefully demonstrate the different economic paths being traveled by the two countries at the current time. The independent variable is the particular nature of corporatism before and during the reform processes. Chile is successful in part because of a progressive corporatism that allows for bi-directional cooperation between powerful peak business groups and the state in forming and implementing economic policy. Argentina has failed due to a stagnant, and even regressive, corporatism that includes at best private collusion between key policymakers and big business, and at worst uni-directional pressures from the state to business groups. This study supports these conclusions.

This paper proceeds in six parts. First is a brief discussion of economic strategies, namely import substitution and neoliberalism, followed by a short introduction of the two cases and their paths to neoliberal reform. I follow that with a presentation of the methodology employed in case study research and in this paper, with a treatment of the strengths and weaknesses of such methods. Next I review what has been said regarding the politics of economic reform in general, followed by the literature on my explanatory variable. Finally, I offer a detailed empirical study of the cases and draw several conclusions.

Review of Cases

Import Substitution and Neoliberalism

In the 1940s and 1950s, both Argentina and Chile implemented import substituting industrialization (ISI) strategies.[3] The general goal of ISI is to level the economic field for the domestic producers of a given country. Because of insufficient capital or low demand for their products, domestic producers in a developing state are not able to implement the latest technology and innovations. Foreign producers who have the comparative advantage in key industries enter the country's domestic market and sell higher quality, lower priced goods than the domestic producers. Consumers purchase these better, cheaper products over domestically produced alternatives. In a short time, sagging sales and inefficient production processes lead to the demise of domestic

[3] Eva Paus, "Economic Growth through Neoliberal Restructuring? Insights from the Chilean Experience," *The Journal of Developing Areas* 28 (October 1994): 32.

producers, resulting in layoffs and the loss of an industry. After World War II, the nations of Latin American increasingly found themselves in the above situation, and import substitution became popular precisely to avoid such a predicament.

Import substitution effectively closes a given country's markets to foreign producers in selected vital industries where the determination has been made that domestic players in that industry need state intervention to survive. Once policy makers recognize that foreign producers threaten vital industries to extinction, measures are taken to protect those industries. Under ISI, trade barriers, including high tariffs, are implemented. The domestic producers, because of high tariffs on foreign products, now offer the cheaper product. Consumers, though they may desire the higher priced product for its quality, are often forced to buy the cheaper one because of exorbitant prices on imports or simple unavailability of the imported alternative. Domestic players now have the entire population of that nation as their market, regardless of what foreign competition has to offer. The industry survives, jobs are maintained, and the economy thrives for a time.

After years of such policies, experts began to recognize several negative consequences of ISI. "Market distortions resulting from government intervention [were] the main reasons for the inefficiency, the lack of international competitiveness, and the economic stagnation in countries that have followed ISI policies."[4] A new economic paradigm, known as neoliberalism, emerged as a remedy to the problems of ISI.

The thrust of neoliberalism is to open a given economy to the forces of the market by taking government intervention out of the equation. General prescriptions of

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[4] Paus, "Economic Growth," 32.

neoliberalism include the reduction of trade barriers, privatization of state-owned industries, deregulation of industry in general, and dramatic fiscal and monetary policy reform.[5] Such reforms should lead "to a more efficient allocation of resources and the exploitation of a country's 'true' comparative advantages. The export sector eventually becomes the basis for renewed and sustained growth."[6]

Chile's Success and Argentina's Failure

In September 1973, Chile's political system changed violently, as the military overthrew a democratically elected president in a bloody coup and General Augosto Pinochet ascended to power as the country's first dictator. A principle motivator of the coup was the meltdown of the Chilean economy in general, and the political change opened the door for economic transformation. Using the repressive and coercive measures characteristic of authoritarian rule, the regime reestablished political order and turned to the economic problems as the focus of policy, as early as 1974. Economists educated in the "Chicago school" of economics were quick to suggest neoliberalism as the answer to Chile's economic woes, not the least of which was hyperinflation.[7] Liberal reforms were adopted and, with two exceptions, Chile has been able to maintain positive

---

[5] For a detailed description of neoliberal reforms, specific to the Argentine case but applicable generally, see Felix A. M. de la Balze, *Remaking the Argentine Economy* (New York: Council on Foreign Relations Press, 1995) Chapter 3. See also Stephan Haggard and Robert Kaufman, eds., *The Politics of Economic Adjustment*. (Princeton: Princeton University Press, 1992).

[6] Paus, "Economic Growth," 32.

[7] Carlos Hunees, "Technocrats and politicians in an authoritarian regime. The 'ODEPLAN Boys' and the 'Gremialists' in Pinochet's Chile," *Journal of Latin American Studies* 32 (2000), 461-501.

economic growth for the past 25 years (see Table 1). Such results have caused some to call it the Chilean "Economic Miracle."[8]

Argentina's experience is altogether different. At the beginning of World War II, it ranked as the fifteenth richest nation in the world. After a short boom during the war resulting from the selling of grain and other products to the warring nations, a gradual decline in relative wealth began that was to last for the next several decades. By 1965, Argentina had fallen to nineteenth place as it became increasingly isolated due to the adoption of import substitution policies.[9] When Carlos Menem came to power in 1989, the nation was in crisis. The failure of economic reforms under the previous president had ignited hyperinflation at the rate of 200 percent per month. Investment in the economy was dangerously low and capital flight reached enormous levels. Such problems caused some political destabilization as well, ultimately leading to Menem's early ascension to the presidency as Alfonsín resigned six months early. The crisis forced Menem to implement harsh neoliberal reforms similar to those already outlined in the Chilean case. Thus, the reform period in Argentina began in earnest in 1989. A comparison of the performance of these two economies can be seen in Figures 4, 5, and 6.

GDP growth is a measure of the effectiveness of restructuring in an effort to increase productivity and efficiency. Annual inflation rates indicate the effectiveness of stabilization processes, namely monetary adjustments and fiscal reform. The data

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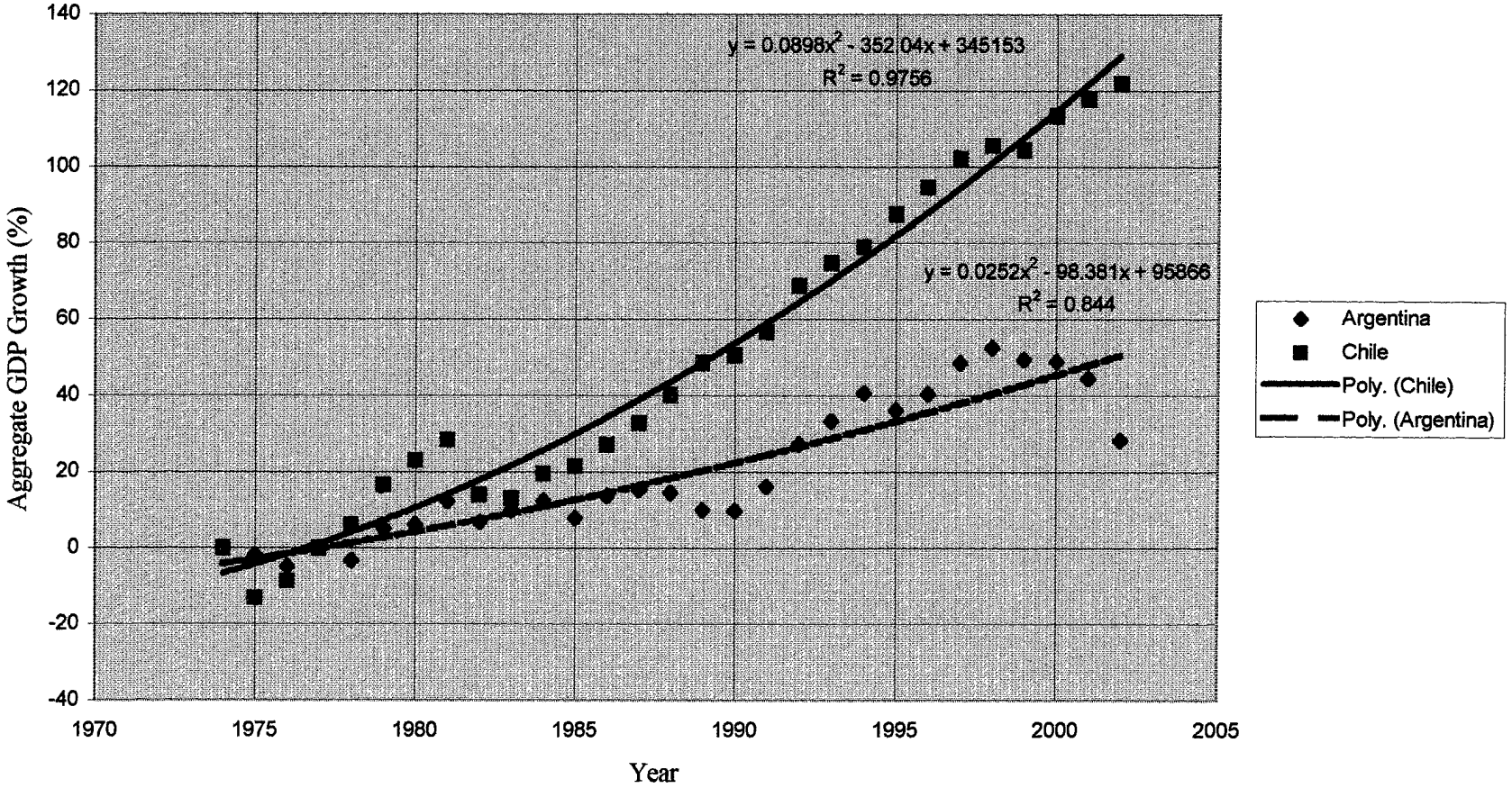
[8] Michael Duquette, "The Chilean Economic Miracle Revisited," *Journal of Socio-Economics* 27, no. 3 (1998): 299.

[9] De la Balze, " Argentina's Economic Performance from 1870 to 1989," in *Remaking the Argentine Economy.*

represented in the figures, as well as those figures and tables earlier presented, clearly demonstrate Chile's sustained success over the past twenty-five years, which has resulted in a total growth of over 120% since reform started. Argentina experienced negative growth in six of the thirteen years since reform, growing a total of 50% in the last twenty-five years, and was the victim of very high inflation during the initial stages of reform. Inflation did come under control relatively rapidly and has held at tolerable levels since the early nineties. However, very recently Argentina defaulted on its debt, and the country is mired in a deep recession, causing one to conclude that reform ultimately failed. These two cases illustrate that homogeneity of policies is not enough to achieve the same result.

Figure 4. Trends of Aggregate GDP Growth for Argentina and Chile, 1974-2002



Source: Inter-American Development Band Annual Report, selected years

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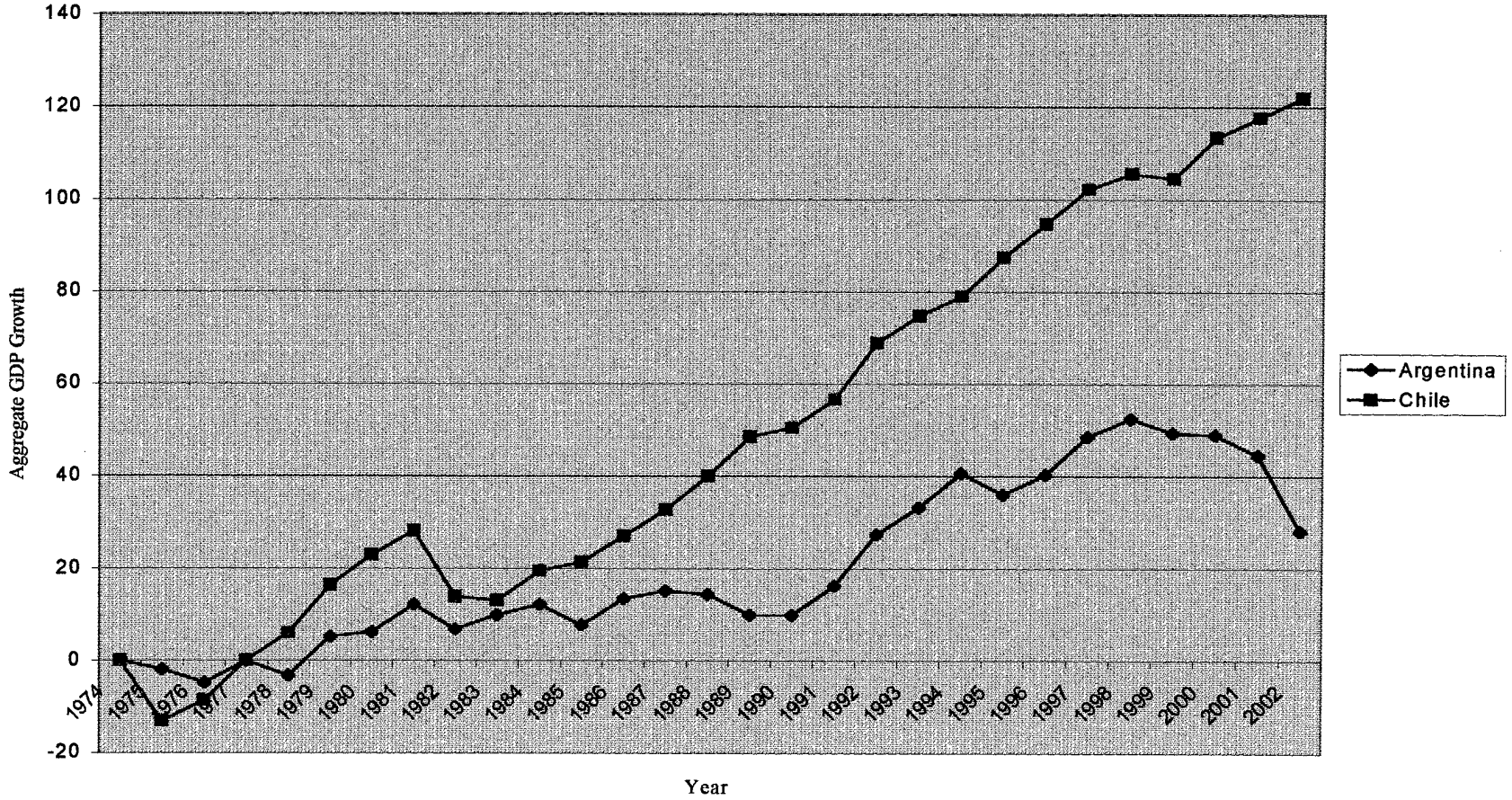
Figure 5. Aggregate GDP Growth for Argentina and Chile, 1975-2002 (1974 as base year)



Source: Inter-American Development Band Annual Report, selected years

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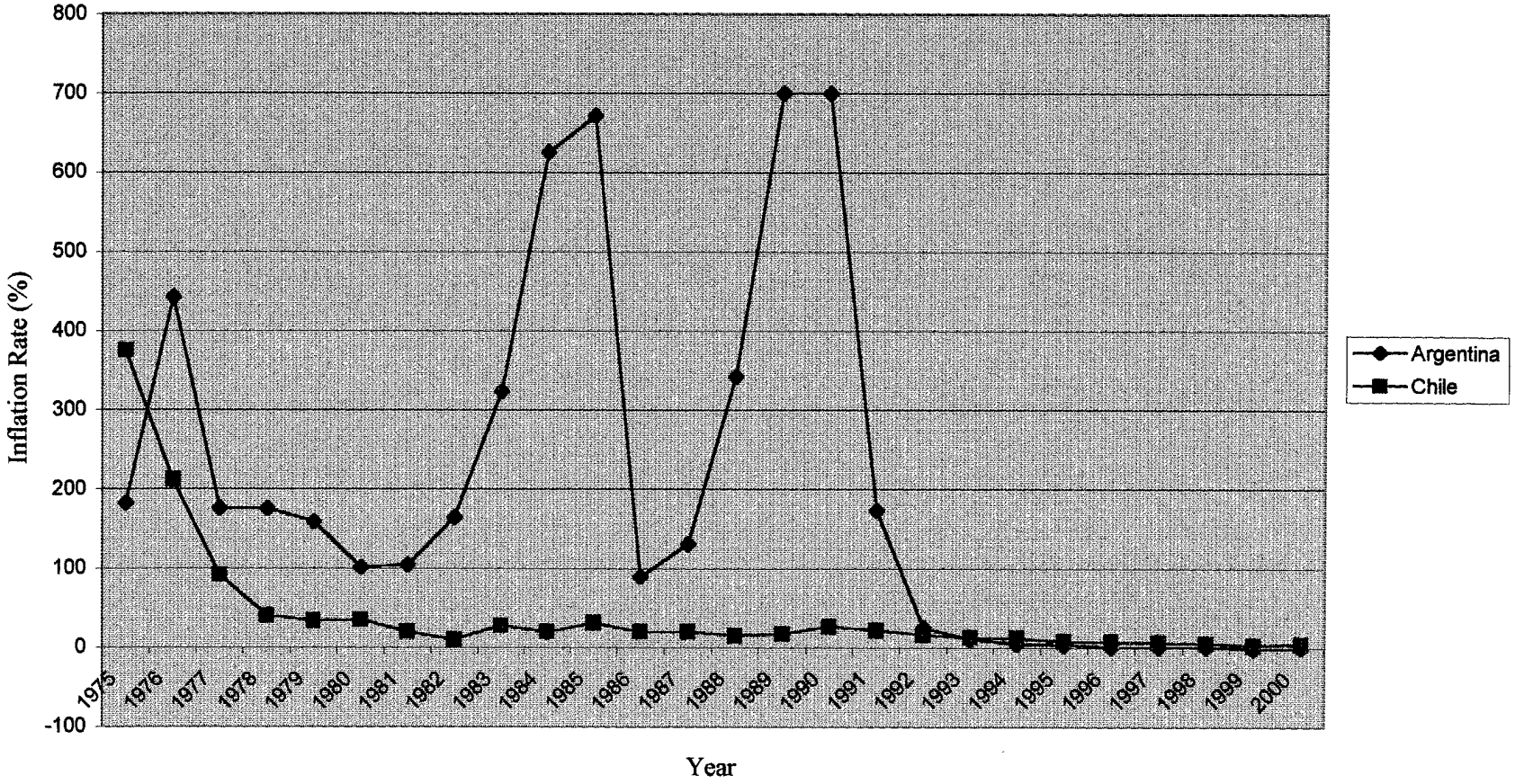
Figure 6. Annual Inflation Rates for Argentine and Chile, 1975-2000



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Methodology

The project at hand is a qualitative two-case comparative study. Studies and experiments concerned with "real life" face a set of challenges unique from those faced in instances where experiments can be run over and over in a lab, in exactly the same manner, with changes to one isolated variable. In all of science, researchers are faced with the task of establishing a causal link, or making causal inference, between a given independent variable and the dependent variable. In social science in particular, there is one transcendent problem with causal inference, known as the "fundamental problem of causal inference," referred to above, which dictates that one "can never know causal inference for certain."[10] An example using the variables in this project illustrates the problem well.

Under examination here are Chile and Argentina and their respective economic reform processes. The key economic indicator used to measure reform success is GDP growth and the independent variable under examination is corporatism applied to business/state relations. In the most general sense, the assertion is that GDP growth changes as the type and extent of corporatism changes during the reform process. In this example, Argentina will be a case of economic failure, and this paper asserts that if corporatist elements had been different, failure would not have resulted. Unfortunately, we cannot go back in time and rerun Argentina's reforms, while only altering our independent variable of corporatism in order to see the effects of a change in that single

[10] For a detailed discussion of this problem, see Gary King, Robert Keohane, and Sidney Verba, *Designing Social Inquiry* (Princeton: Princeton University Press, 1994), 76-82; Andrew Bennett and Alexander George. "Causal Inference in Case Studies: From Mill's Methods to Causal Mechanisms" (paper presented at the American Political Science Association Conference, Atlanta, Georgia, 1999); available from http://www.asu.edu/clas/polisci/cqrm; Internet.

variable, thus conclusively establishing causal inference. We can take an instance of economic success, Chile in this case, where the value of the independent variable is different than in the Argentine case, but we run into the same problem again since we cannot rerun its reforms to see if changing the independent variable leads to failure.

If we were able to rerun experiments in such a manner, the result would be a conclusive finding on the causal effect, or the difference between what really happened and what would have happened had the causal variable changed. The counterfactual element inherent in finding the causal effect is obvious, and counterfactuals are the key contributor to this "fundamental problem of causal inference." Thus, by its nature this paper runs into difficulty, which I recognize and deal with to the extent possible. Scholars of methodology are clear in stating that of paramount importance is recognizing such a weakness and doing whatever possible to deal with it. One way of lessening the impact of this problem is by choosing cases that allow for the establishment of *unit homogeneity*.[11]

Because of the impossibility of observing a separate processes taking place in the same unit over the same span of time, the next best thing becomes finding units that would very likely produce the same outcome, or variation on the dependent variable, given the same variation on the causal, or independent variable. In our example above, if we establish that Argentina and Chile are homogenous, this means that the former would have met with success had the value of the independent variable of corporatism been the same as it was in the case of the latter. Of course, there may always be some unknown difference that would bias our causal inference. Nevertheless, *unit homogeneity* must be

[11] King, Keohane, and Verba, *Designing Social Inquiry*, 91-94.

established using the best of the knowledge at hand, and then research can proceed and conclusions can be made. In short, *unit homogeneity* exists when two cases are carefully selected based on their similarities in all but the independent variable. Argentina and Chile are two such cases, as this study illustrates. Such comparisons have long been valued as powerful sources of causal inference, but are open to possible errors in inference as well. Examples of this method of inference and some known errors include John Stuart Mill's "method of agreement" and "method of difference."[12] They are important in this discussion to illustrate different methods of comparison, as well as what elements should be dealt with in order to overcome inherent weaknesses of comparisons generally.

Mill's method of agreement requires the researcher to look for similar, if not identical, causal antecedent conditions between two cases that have the same outcome. These conditions would ideally be "necessary" conditions; otherwise their importance in the process would suffer inevitable downgrading, since it cannot be assumed that their presence or absence in a similar, isolated process would have significant effect. Thus, the method of agreement relies on cases that have the same antecedent causal conditions, followed by a chain of variables that are not particularly alike, and resulting in the same outcome. Bennett and George illustrate the process nicely as follows:[13]

	Independent Variables → Dependent Variable	
Case 1	A B C D E	→ Y
Case 2	A F G H I	→ Y

[12] Bennett and George, "Causal Inference in Case Studies," 16.

[13] Ibid., 17.

Examination of these two cases leads the investigator to conclude that the variable A, the independent or causal variable, is the cause of outcome Y, the dependent variable, since it is the only variable common to both cases.

Mill's method of difference requires the researcher to look for antecedent conditions that are different in two cases that have different outcomes. Unlike the method of agreement, the method of difference relies on similarities in the chain of variables proceeding from the antecedent variable. Once more, this chain of variables would need to qualify as necessary; otherwise they could be altered in any given case, which tarnishes the entire comparison. Again, an example from Bennett and George:[14]

	Independent Variables	→	Dependent Variable
Case 1	A B C D E	→	Y
Case 2	a B C D E	→	X

These two cases have all variables in common except the antecedent independent variables A and "a," and the outcomes, or dependent variables Y and X. We can easily conclude that the differences between A and "a" caused the differences between Y and X, meaning that A and "a" become the causal independent variables.

Mill's methods of agreement and difference seem fairly foolproof, at least on the surface. But, in order to function perfectly, they rely on some assumptions that are "demanding and unrealistic."[15] First, "the causal relations being investigated must be deterministic regularities involving conditions that are either necessary or sufficient for a

[14] Bennett and George, "Causal Inference in Case Studies." pg. 17.

[15] Ibid.

specified outcome."[16] The reason for this condition, as discussed previously, is that if those causal relations are not necessary, there is no guarantee they will be repeated as part of another, separate process. Secondly, "all causally-relevant variables must be identified and included in the analysis."[17] Going back to the diagrams outlined earlier, if one or more variables were not identified, the researcher could never be sure that his causal chains fit the pattern required by Mill's methods. An additional, overlooked variable-in-common or variable-in-difference invalidates the methods of agreement and difference respectively. In complex cases such as the ones examined here, the difficulty, if not impossibility, of meeting this requirement is obvious. Finally, "there must be available for study cases that represent the full range of all logically and socially possible causal paths."[18] Thus, ideal studies would involve large numbers of cases covering the entire spectrum of causes and outcomes. In most instances, inference is made using just a few cases, simply because there are only a few to be examined. In a world of limited observations, there has to be a way around this particular assumption. Fortunately, social scientists have innovated a method known as "process tracing" to overcome the restrictions applied by these three unrealistic assumptions. Case comparisons are greatly strengthened when process tracing is added. Mill's methods provide a starting point, a clear picture of how to compare two cases, and process tracing compensates for the weaknesses inherent to those methods.

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[16] Bennett and George, "Causal Inference in Case Studies," 17

[17] Ibid.

[18] Ibid.

Process tracing involves the careful examination of smaller unit variables in order to arrive at a conclusion concerning the dependent variable of interest. Detailed studies of the links between different causal variables, or causal mechanisms, allows for researchers to ultimately make connections between the initial independent variable and the dependent variable of interest, however great the distance that separates the two. In other forms, process tracing has been called "historical analysis" and "detailed case studies."[19] When broken down, process tracing can be approached from two different angles, namely "process verification" and "process induction." The first is useful when observed processes are tested against those predicted by "previously designated theories," while the second comes into play when inductive observations of "apparent" causal mechanisms are introduced in an effort to form hypotheses for future testing.[20] This project is an exercise in process induction rather than verification, since no prior theories or hypotheses are being specifically applied.

In sum, the two cases examined here are good for comparison because they achieve unit homogeneity. Using Mill's Methods and process tracing aids in overcoming the fundamental problem of causal inference, which says that one can never really be sure about inference because of the impossibility of running the exact same process in the exact same conditions and the same time. Marked similarities in reform processes and similar antecedent political and economic circumstances mean that both cases start from

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[19] King, Keohane, and Verba, *Designing Social Inquiry*, 86. For a detailed discussion of process tracing, see pages 224-229.

[20] Andrew Bennett and Alexander George, "Process Tracing in Case Study Research" (paper presented at the MacArthur Foundation Workshop on Case Study Methods, Belfer Center for Science and International Affairs (BCSIA), Harvard University, October 17-19, 1997), 5; available from http://www.asu.edu/clas/polisci/cqrm; Internet.

the same place, and then proceed forward according to characteristics unique to each, principally variations on the independent variable of corporatism.

Competing Explanations in the Literature

The literature concerning variables that contribute to success or failure of economic reform is vast. Reasons for success or failure can be political or strictly economic. My case selection allows me to control for variation in economic policy, as the economic policies of the reform periods in question were for the most part homogeneous. After a study of the empirical details of each case, I will argue that corporatism, present in varying degrees and forms in both cases before, during, and after the reform periods, explains a great deal about the variance in outcomes. What follows is a brief treatment of a number of competing causal variables for successful reforms found in the literature, as well as why I conclude that each variable is subordinate to my chosen independent variable. These variables are alternative explanations for explaining reform success or failure in a general sense, and are not specifically argued in the cases of Argentina and Chile, though they certainly apply in these cases as well. In presenting them generally, I hope to make the work more applicable to a universe of cases, while at the same time explaining what happened in the cases of choice.

Poverty and Inequality As Obstacles to Growth

A common characteristic among developing nations is extreme inequality between the wealthiest and the poorest. As the "Washington Consensus" crystallized in the 1980's, part of which included the advocacy of neoliberal reform for developing nations,

debates began concerning the social costs of harsh economic adjustment and reform. Advocates of neoliberalism admitted that their policies would initially lead to a decline in output and overall standards of living, but were nonetheless confident that long-term growth would eventually benefit all sectors of the population, from the workers to the rich.[21] Contemporary research has shown that, at least up to the present, even robust economic growth does not lead to a significant reduction in poverty or inequality. This literature proposes that long-term growth cannot be sustained unless there is some equalization of wealth. As long as the top quintile controls over fifty percent of the wealth, as opposed to the less than five percent controlled by the bottom quintile, there is very little incentive for the state to invest in that bottom twenty percent of the population.[22] This disincentive to invest becomes apparent in services such as education and health care. If an entire fifth of the population is left out of development, the long-term productivity of the country is severely handicapped. Poverty and inequality are only solved by government intervention in a redistributive process, which runs counter to the *laissez faire* recommendations of the neoliberal school. Thus, the debate becomes one concerning the right mixture of state and market. Lessons from East Asian successes teach the importance of "land reform and asset redistribution, investments in infrastructure and human capital, and institutional arrangements reducing transaction costs."[23]

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[21] Roberto Korzeniewicz and William C. Smith, "Growth, Poverty and Inequality in Latin America: Searching for the High Road," (Rights vs. Efficiency Paper #7 for the Institute for Latin American and Iberian Studies, Columbia University, May 7, 1999), 5; available from http://www.ciaonet.org/wps/smw01/index.html; Internet.

[22] Duquette, "The Chilean Economic Miracle," 313.

[23] Korzeniewicz and Smith, "Growth, Poverty and Inequality," 9.

One possible variable then is the extent to which one state is able to find this "middle ground" compared to another. Actual reform policies take on a new importance, not in their content, but in the extent to which the "hands-off" approach is taken. Social investments are likely to vary from one case to the next, giving credence to poverty and inequality as variables of some importance.[24] However, according to the United Nations Development Programme Annual Report for 2001, 17.6% of Argentina's population lives below the national poverty line, compared to 20.5% of Chile's population living under its poverty threshold. Although dollar values for the respective poverty lines are not given, it is safe to assume that since Argentina is a wealthier nation in terms of per capita GDP, its poverty line is higher than Chile's. Therefore, if the same poverty line were applied to Chile, it is likely that yet a higher number of Chileans would fall under it. Thus, since Argentina has significantly lower poverty rates, it should be economically more successful, according to those who emphasize the particular variables of poverty and inequality as important in economic growth. Since the reverse is true, poverty and inequality can be discarded as variables with little power.

Reform Success as a Function of Culture

Cultural arguments have a place in the question of economic success. From Max Weber's well-known discussion of the "Protestant ethic", to recent articles on "American exceptionalism," there is endless debate about whether culture plays a significant role in

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[24] Some scholars question the real success of reforms if poverty is not reduced, regardless of GDP growth and inflation rates. See Joseph Collins and John Lear, *Chile's Free-Market Miracle: A Second Look* (Oakland: Institute for Food and Development Policy, 1995).

determining outcomes.[25] Robert Samuelson states that human nature "is not uniform, [but] molded by history, geography, religion, climate, and tradition—all the influences that create culture."[26] However, measuring culture is very difficult to do and problematic in its application. By establishing unit homogeneity as part of my methodology, my case selection allows me to control for this variable. Argentina and Chile are very similar in the cultural elements mentioned by Samuelson. Both were colonies of the Spanish empire and won their independence at approximately the same time. Catholicism is the dominant religion in both nations, and Spanish is the national language. Each has a long history of immigration from Europe, creating in each country a European homogeneity uncharacteristic of Latin America. Both are located in the southern cone of South America, which accounts for similarities in climate and geography.

However, one could point out that there are significant differences in natural resources, etc., which may account for varying economic outcomes. Once again, if these differences are examined, Argentina should have the advantage. Argentina has vast amounts of fertile land and healthy endowments of natural resources, such as oil and mineral ore. Chile has very limited arable land and very little oil. There is a thriving copper industry in Chile that does not exist in Argentina, but that is not for lack of ore to mine. Given that the shared border between the two is formed by the Andes mountains, and those very mountains house the large Chilean copper mines, one can assert that ore can be found on the Argentine side just as easily. Therefore, Chile has no geographic or climatic advantages over Argentina, but instead the latter is favored over the former.

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[25] Seymour Martin Lipset, "Still the exceptional nation?" *Wilson Quarterly* (Winter 2000): 31-45.

[26] Robert J. Samuelson, "The Spirit of Capitalism," *Foreign Affairs* 80 (January-February 2001): 205-211.

Despite these differences, Chile is the more prosperous. In all other cultural respects, I treat the two as homogenous.[27]

The Overstated Influence of International Factors

Concerning relatively small economies such as those being studied, to ignore the influence of external factors would be a grave error. Barbara Stallings suggests that, when examining reform, "international factors are crucial in explaining broad shifts in policy and...in accounting for variations across countries."[28] There are a number of examples of how the international community can influence domestic reform. Consider the loan binge of the 1970's. Wealthy nations and lending organizations were extraordinarily generous during the seventies and early eighties, making large loans at low interest rates to nations needing relief from foreign exchange constraints and pressures from multinational corporations.[29] After the debt crisis of the early eighties, these loans dried up, forcing needy countries to petition private banks for loans, at higher interest rates.[30] In the East Asian cases, a favorable strategic position, namely proximity to the former Soviet Union and China, made success of their reforms of paramount

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[27] In doing this, I follow what has been done in other studies comparing these two countries. See Anthony Gil, *Rendering Unto Caesar: the Catholic Church and the State in Latin America* (Chicago: The University of Chicago Press, 1998), 121.

[28] Barbara Stallings, "International Influence on Economic Policy: Debt, Stabilization, and Structural Reform," in *The Politics of Economic Adjustment*. ed. Stephan Haggard and Robert Kaufman (Princeton: Princeton University Press 1992), 43.

[29] Stallings, "International Influence," 47.

[30] For a detailed explanation of what happened during this period, see Edwin Williamson, *The Penguin History of Latin America* (London: Penguin Books, 1992), 313-377.

interest to the United States. Large assistance loans and gifts were given, including exclusive access to the large U.S. markets that were not normally available. Such variations in international influence can have a marked effect on the level of success reforms achieve, or how dismally they fail.[31]

Similarities in the geostrategic importance of Argentina and Chile negate any advantage that was enjoyed by the East Asian cases. Chile did implement initial policies in the seventies, versus a late eighties start for Argentina. However, Pinochet's violations of human rights and increasing defiance of U.S. requests did not help Chile's case for foreign assistance. Equally important is the state of the global economy during initial restructuring, especially when the focus is on exports. During a global slowdown, even high quality, competitively priced products may not find a large market, whereas in prosperous times the product can be marketed and sold with greater success. Thus, it is evident that international influences have an affect on the degree of success in any restructuring. I do not believe that it is a strong enough variable to cause complete failure, only how successful one is. This belief is supported by the success of the Chilean case and the failure of the Argentine case. Chile depends on copper as its primary export, and therefore is very vulnerable to swings in the highly volatile world market. Argentina relies on more stable exports such as beef and grain, in addition to oil and other natural resources. Suffice it to say that the Argentine economy, because of its size and diversity of exports, should be more resistant to whatever influence the international market has.

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[31] Stallings, "International Influence," 47.

But, given that despite the odds, Chile is succeeding and Argentina is failing, one can conclude that international volatility does not play a dominant role.[32]

The Minor Role of Democratic Institutions

Conventional modernization theory suggests that the institutionalization of certain political elements will lead to eventual economic advancement. There are certain steps that all modernizing states must pass through and once that is accomplished, they arrive to where the more advanced nations are. This process has steps in areas such as values, institutions, organization, and individual motivation.[33] These "values, institutions, and organization" are epitomized in the concept of the "modernizing leadership," often found in a democracy.[34] According to some scholars, "the most dramatic of the crises of political modernization are those concerned with the transfer of power from traditional to modernizing leaders."[35] This transfer and consolidation of power are the immediate prerequisites of economic modernization, where a society moves from the traditional into what modernization theory calls the modern, industrialized world. Modernization theory also claims that movement through these steps is unidirectional. Since the richest nations of the world, with few exceptions, are democracies, it has been posited that this

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[32] For additional insights into international influence on market reform, see Miles Kahler, "External Influence, Conditionality, and the Politics of Adjustment" in *The Politics of Economic Adjustment*. ed. Stephan Haggard and Robert Kaufman (Princeton: Princeton University Press 1992).

[33] Thomas R. Shannon, *An Introduction to the World-System Perspective*. 2nd ed., (Boulder: Westview Press, 1996), 4.

[34] Cyril E. Black, *The Dynamics of Modernization* (New York: Harper and Row, 1966), 71-75.

[35] Black, *The Dynamics of Modernization*, 71.

"modernizing leadership," as well as the values and motivations necessary for modernization mentioned previously, are most often found in a democracy. The obvious push then has been toward democratization, with the promise of the economic success sure to follow. The policies undertaken in the former Soviet Union are good examples of this thinking.

While there may be some evidence that long-term economic success is more likely in a liberal democracy, the claim that democracies provide a better environment for implementing reform is unfounded. If democratic institutions really had the positive affect just set forth, Argentina should have been the more successful case. Menem was democratically elected, while Pinochet was not. The initial period of Chile's success took place while Pinochet was in power, and although growth has continued under the new democracy, there is no cause to believe that similar growth would not have continued under Pinochet. Present day Singapore is another good example of economic success in a non-democratic environment.

In fact, there is good evidence showing that authoritarian regimes may be better at force-feeding painful reforms, simply because they are not dependent on popular support for re-election, since they draw their power from other sources, usually the military.[36] Recognizing this causes some questions to arise concerning whether or not regime type should be considered when looking at reform success. If authoritarian regimes are in fact better at implementing reform, which runs counter to the belief that democracy is the

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[36] Stephen D. Wrage, "Examining the 'Authoritarian Advantage' in Southeast Asian Development in the Wake of the Asian Economic Failures" (Conference Proceedings, International Studies Association); available from http://www.ciaonet.org/conf/wrs01/index.html; Internet; accessed 14 March 2002; Glen Biglaiser, "Military Regimes, Neoliberal Restructuring, and Economic Development: Reassessing the Chilean Case" *Studies in Comparative International Development* 34 no. 1 (Spring 1999).

necessary antecedent condition, then maybe the difference in regime type between Chile and Argentina is the real explanatory variable. Once again, my case selection allows for me to control for this difference. On paper, Menem was an elected president in a democratic society. But, in the implementation stage, which is where an authoritarian regime would have some advantage because of coercion, Menem was granted extensive powers to change the economy due to the economic crisis at hand. He acted unilaterally in many instances, thus giving him authoritarian-like qualities. Certainly, political structures have an influence over economic policy and its success, but maybe not in the way originally suspected. This leads to the following discussion, which addresses my independent variable.

Corporatism

Contrary to the aforementioned explanations, I argue that the particular modality of corporatist arrangements can explain economic success or failure. I focus on two scholars who have pioneered the corporatist scholarship: Philippe Schmitter and David Collier.[37] While each one acknowledges the importance of using corporatism to understand Latin American politics, each represents a unique position on the categories, or subtypes, of the concept, thus increasing or expanding the limits of its use.

Before examining the evolution of the concept of corporatism, it is requisite that it be defined and set in historical context. "The intellectual origins corporatism are

[37] Philippe Schmitter. "Still the Century of Corporatism?" *Review of Politics* 36 (January 1974): 85-130; David Collier, "Trajectory of a Concept: "Corporatism" in the Study of Latin American Politics" in ed. Peter H. Smith, *Latin America in Comparative Perspective: New Approaches to Methods and Analysis* (Oxford: Westview Press, 1995).

predominately German, Belgian, French, and Austrian and, secondarily and belatedly, English, Italian, and Romanian."[38] It entered into the study of Latin American politics during the 1960's as political scientists attempted to understand interest representation in an increasing number of authoritarian regimes, and soon became an alternative to a North American concept relating to interest representation and interest politics in general, namely *pluralism.*[39] Schmitter defines pluralism as follows:

> A system of interest representation in which the constituent units are organized into an unspecified number of multiple, voluntary, competitive, non-hierarchically ordered and self-determined (as to type and scope of interest) categories which are not specially licensed, recognized, subsidized, created or otherwise controlled in leadership selection or interest articulation by the state.[40]

In contrasting this definition with that of corporatism, as commonly understood, the differences become obvious. Corporatism is:

> A system of interest representation in which the constituent unites are organized into a limited number of singular, compulsory, noncompetitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) by the state and granted a deliberate representational monopoly within the respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports.[41]

Therefore, both pluralism and corporatism are concepts created to cope with structural differentiation and interest diversity within a modern polity, though they differ in the political remedies and the form that the system of interest representation will take. Pluralism suggests "spontaneous formation, numerical proliferation, horizontal extension

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[38] Schmitter, "Still the Century?," 90.

[39] Collier, "Trajectory of a Concept," 137.

[40] Schmitter, "Still the Century?," 96.

[41] Schmitter, "Still the Century?," 93.

and competitive interaction," and is found in predominately democratic systems.[42] Corporatism advocates "controlled emergence, quantitative limitation, vertical stratification and complementary interdependence," and is a common element of authoritarianism.[43] With the passage of time and increased application and scrutiny of the concept, corporatism has come to have a variety of shades.

As is the case with many paradigms, theories, and concepts in political science, corporatism has been the victim of considerable dilution over the course of its existence. Collier identifies this phenomenon as "conceptual stretching."[44] While Schmitter recognizes the danger of dilution if corporatism is applied to broadly, he also understands that over-specificity inhibits the usefulness of the concept in general. Recognizing the need to avoid overly specific application springs from the equally important recognition that no state is purely corporatist. Because there are degrees or levels of corporatism in practice, there must in turn be variation in the definition of the concept, giving rise to the "subtypes" mentioned earlier. Thus, Schmitter's mission is two-fold. First, he seeks to set the bounds of where corporatism can be stretched. Having done this, he provides the subtypes that cover all the ground under the canopy of corporatism as an overarching concept.

When it was first conceptualized, corporatism applied to a specific ideology or system of ideas, namely those accompanying authoritarianism.[45] A new group of

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[42] Schmitter, "Still the Century?," 97.

[43] Ibid.

[44] Collier, "Trajectory of a Contept," 150.

[45] Schmitter, "Still the Century?," 87.

corporatist theorists, referred to as neocorporatists, recognized that application to different motives and interests was in order. This conceptual evolution also provided an exit from the long-held assumption that corporatism was somehow cultural, an unavoidable companion of the Iberian heritage. Schmitter welcomed this exit, and in doing so set the stage for rethinking the concept. For him, there are two useful variants of corporatism, *state corporatism* and *societal corporatism.*[46] The statist variant is basically a renamed version of the traditional corporatism, where the interest representatives are "created and kept as auxiliary and dependant organs of the state, [and are] dependant and penetrated."[47] Societal corporatism is seen as the higher life form, a progressively evolved version of state corporatism, and is defined as a system of "singular, noncompetitive, hierarchically ordered representative 'corporations' [that are] autonomous and penetrative."[48] The two are contrasted as follows:

> Societal corporatism is found embedded in political systems with relatively autonomous, multilayered territorial units; open competitive electoral processes and party systems; ideologically varied, coalitionally based executive authorities—even with highly "layered" or "pillared" political subcultures.[49]

These characteristics, common to states where societal corporatism exists, are very evidently democratic. Thus, as previously stated, societal corporatism can only exist in states where democracy is consolidated. The competitive, non-coercive nature of the political scene is applied to the interest representation scene in a move to optimize the

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[46] Schmitter, "Still the Century?," 104-5.

[47] Ibid., 103.

[48] Ibid.

[49] Ibid., 105.

political environment. State corporatism exists in a different political atmosphere, described by the following:

> State corporatism tends to be associated with political systems in which territorial subunits are tightly subordinated to central bureaucratic power; elections are nonexistent or plebiscitary; party systems are dominated or monopolized by a weak singly party; executive authorities are ideologically exclusive and more narrowly recruited and are such that the political subcultures based on class, ethnicity, language, or regionalism are repressed.[50]

In other words, state corporatism does not, or cannot exist in a capitalist, democratic society simply because the coercive power needed to maintain such a system runs counter to the principles of democracy. Schmitter sums it up nicely, placing each strand of corporatism in their respective political contexts:

> Societal corporatism seems to be the concomitant, if not ineluctable, component of the post-liberal, advanced capitalist, democratic welfare state; state corporatism seems to be a defining element of, if not structural necessity for, the anti-liberal, delayed capitalist, authoritarian, neomercantilist state.[51]

Thus, as polities become more diverse and interests begin to vary, a system of interest representation is established. In the case of progressively democratic states, pluralism was initially adopted. A pluralist history establishes the foundation for eventual societal corporatism, which according to Schmitter has been achieved in Sweden, Switzerland, the Netherlands, Norway, and Denmark, and is emerging in previously pluralist societies such as Great Britain, Western Germany, France, Canada, and the United States.[52] Some states, even if they are established on democratic principles, regress into authoritarianism, and thus state corporatism replaces pluralism.

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[50] Schmitter, "Still the Century?," 105.

[51] Ibid.

[52] Ibid., 104.

In cases of progression instead of regression, state corporatism is not simply replaced by societal corporatism once authoritarianism is replaced by democracy, but instead a transition through pluralism needs to take place. This is the case with many Latin American countries.[53] Whether or not we agree with Schmitter's conclusions concerning the progression of corporatism, his argument illustrates the utility of establishing variations on the original concept. Collier builds on Schmitter's bi-level creation and provides a much larger and more varied set of sub-types to work with.

The most important tool that Collier uses in delineating his multiple sub-types of corporatism is the balance of power between the *state* and interest *groups,* or in other words, where the "locus of power" lies.[54] As power shifts toward the state, we encounter state corporatism, but if it moves too far toward the state, to the point of completely subordinating the groups, then it becomes nothing short of totalitarianism, or an absolute domination of groups by the state. As we progress toward group power, we eventually come into contact with societal corporatism, but if that power becomes too great, then central coordination, a necessary element of corporatism, becomes "fundamentally weakened."[55] Thus we see multiple shades of gray from one extreme to the other, which forces the creation of multiple sub-types in an effort to span the gap between Schmitter's two alternatives. The only danger is that "conceptual stretching" will occur to such a degree that the concept loses all explanatory power.

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[53] Schmitter, "Still the Century?," 127.

[54] Collier, "Trajectory of a Concept," 144.

[55] Ibid., 139.

Collier engages in a discussion of how different types of corporatism may be conceptualized. He identifies differences in four categories in order to draw boundaries around these "mini-corporatisms." These categories include the creative source or origin, the direction of penetration (state into groups or groups into state), level of state elites' dependence on support or acquiescence of groups, and state-offered inducements versus direct control or coercion.[56] For the purposes of this study, only the first two delineating elements are of concern. Acknowledging this list of differentiating factors again serves to illustrate the importance of allowing for a larger canopy of corporatism that permits application to a greater number of cases.

As stated, I am concerned with the origin of creation and the direction of penetration in my analysis of the Argentine and Chilean cases. Establishing the origin of creation allows for a distinction between state and societal corporatism, as discussed at length by Schmitter. The direction of penetration helps identify the active evolution of corporatism in a given state, which can be either *privatizing* or *statizing*.[57] Privatizing corporatism exists when interest groups begin to penetrate the state in a move toward pluralism to eventual societal corporatism, effectively placing certain areas of the state and policymaking under group control.[58] From this, we can deduce that this particular sub-type can only exist when the statist element is weak or non-existent, assuming either

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[56] Collier, "Trajectory of a Concept," 145

[57] Ibid. Guillermo O'Donnell was the first to make this distinction. It is especially applicable in the cases of Argentina and Chile since it applies to business groups and the process of privatization, a key element of neoliberal reform. In addition, this "radial pattern" of creating sub-types of corporatism is a way of avoiding the dreaded "conceptual stretching" already mentioned. By creating ever-larger rings around the original concept, one avoids ruining the original concept and at the same time allows for application to cases that the original concept may not be able to fully explain.

[58] Ibid.

a situation of pluralism or partial societal corporatism. Collier synthesizes societal and privatizing corporatism well in saying, "O'Donnell's privatizing corporatism involves the penetration of selected areas of policy and of state bureaucracy by groups that function in the framework of Schmitter's version of societal corporatism."[59] Therefore, a state previously categorized as "state corporatist," whose groups exhibit a penetrat*ing* tendency instead of a penetrat*ed* tendency, is privatizing. The locus of power is shifting toward non-state groups. A state that previously progressed into pluralism and toward societal corporatism, but whose groups now exhibit more of a penetrat*ed* than a penetrat*ing* tendency, is statizing. Thus, privatizing and statizing corporatism are transitory regions between state and societal corporatism, which lie at the ends of the spectrum, with pluralism being the transition point in the middle.

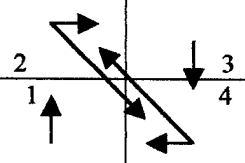
Having engaged the literature on the concept of corporatism, the depth and breadth of the concept is obvious. The following figure illustrates the dynamic set up in this section. Quadrant 1 contains state corporatism, as defined by Schmitter. The progression arrow shows movement into quadrant 2, which contains the middle ground of pluralism, halfway between state corporatism and societal corporatism. Such progression is a form of *privatizing corporatism*, or the active process of groups moving away from state control. From here, states can either progress forward to societal corporatism, shown by the arrow to quadrant 3, or they can regress to quadrant 4 and eventually back to the state corporatism of quadrant 1. Such regression is the epitome of *statizing corporatism*, or that active process of groups moving toward more control by the state. Quadrant 4 then is the intermediate step between pluralism/societal corporatism as a state regresses to the

[59] Collier, "Trajectory of a Concept," 145.

detrimental state corporatism. Thus, the diagonal arrows illustrate that it is possible to jump back and forth, from quadrant 2 to quadrant 4, without ever fully returning to full-blown state corporatism. The arrows from quadrant 1 to quadrant 2, and from quadrant 4 to quadrant 2, illustrate privatizing corporatism, where penetration is toward the state and the locus of power begins to shift toward groups. The arrows from quadrant 4 to quadrant 1 and from quadrant 2 to quadrant 4 illustrate statizing corporatism, or the penetration of groups by the state, and a shifting of the locus of power toward the state. From this toolbox of sub-types, I will draw specifically on privatizing and societal corporatism as independent variables and also discuss state and statizing corporatism in my historical discussions and empirical examinations.

Figure 7. The Dynamics of Corporatist Evolution

Direction of Penetration		Origin: State	Origin: Non-state
	Toward State (Penetrating)	Organizations or groups created by the state move from state control to non-state control, and work to satisfy internally set agendas instead of agendas set by the state. Systems that fit in this quadrant are generally systems in the early stages of democracy, having made the transition from authoritarianism. This quadrant makes up the middle ground of **pluralism** discussed by Schmitter, and is reached through the process of **privatizing corporatism**. **Hypothesis**: States will progress through here to arrive at societal corporatism, but may cross directly to quadrant four in a regressive pattern.	Organizations are created, or re-created, by non-state entities, and penetrate the policy-making process in an effort to influence policy in their favor. Agendas are set internally. Systems that fit in this quadrant are modern, advanced-capitalist, democratic welfare states. This is the "end-state" of corporatist progression, or **societal corporatism**, as outlined by Schmitter. States need not arrive here before economic prosperity can result, since the previous "pluralist" system ensures adequate cooperation. Although very unlikely, regression can occur from here as political systems degenerate and allow for more state penetration.
	Toward Groups (Penetrated)	Organizations or groups created by the state serve state agendas. The relationship is one of penetration of groups by the state. Systems that fit in this quadrant are either authoritarian, or populist democracies where power is concentrated in the executive and economies are tightly controlled by the government. This is **state corporatism** as outlined by Schmitter. **Hypothesis**: States must progress from here toward societal corporatism if liberal reforms of the economy are to be made in order to allow for the "free" operation of business and labor.	Organizations or groups may initially exist independent of the state, but political systems can regress to allow for state control of such groups, exhibiting **statizing corporatism**. Regression occurs from this quadrant into quadrant 1, and progression, or **privatizing corporatism** again occurs once the necessary political changes have occurred. Generally speaking, a state residing in this quadrant is experiencing **statizing corporatism.** **Hypothesis**: States will either progress back to quadrant two on the way back to quadrant three, or further regression will place them in quadrant one.



The Two Cases

The following two sections contain historical background on each case relevant to the research objective at hand. In terms of methodology, what follows is an exercise in *process tracing*, which has already been discussed. Each case study includes a look at the history of corporatism in the country under examination, the circumstances that led to economic reform, examples of how corporatism evolved and influenced economic results, and a presentation of those specific results. The empirical presentations that follow firmly establish the movement inside the two-by-two schematic of Chile and Argentina, historically and during the reform process.

Reform, Learning, and Reforming the Reforms: The Chilean Case

"Chilean society is criss-crossed by an elaborate and extensive network of voluntary associations with purposes ranging from the defense of economic interests to cultural edification." Such is the observation of one scholar writing in the mid-1960s.[60] In this vast network one could also find a large number of formal organizations organized by businessmen representing the whole spectrum of the Chilean economy, from shoe retailers to advertisers.[61] The four largest groups, referred to as "peak organizations," included the *Sociedad Nacional de Agricultura* (SNA), the *Sociedad de Fomento Fabril* (SFF), the *Cámara Central de Comercio* (CCC), and the *Sociedad Nacional de Minería* (SNM). The oldest of these, the SNA, was established as early as 1838, and each has

[60] Constantine Menges, "Public Policy and Organized Business in Chile," *Journal of International Affairs* XX no. 2. (1966): 344.

[61] Menges, "Public Policy," 345.

been organized with the express purpose of serving as public representatives and spokesmen for the private interests of their members.[62] Thus we see that business groups have existed in Chile from the very earliest stages of statehood, and it now becomes necessary to discover what their corporate nature was.

The earlier quotation from Menges's article leads one to believe that these associations were voluntary. In addition, they do not appear to have been creations of the state. In fact, each of the four peak associations started as a narrowly focused interest group and eventually gathered together similar, smaller groups under its umbrella in an effort to concentrate power in order to be more effective in wielding influence over policy. As the political system evolved and these groups became more powerful, their relationship with the state became more institutionalized. They had memberships on key advisory committees and also voting membership on a number of important policy-making boards. Additionally, there existed informal points of contact with the executive, consisting of close contact with various ministries that were all part of the executive branch. These large peak organizations were often the source of specialized information on policy issues to understaffed government bureaus and ministries. Such information was at times provided at the invitation of government, and at others as the result of some impetus from inside the particular peak organization.[63] Committees commissioned to draft new legislation were often made up of representatives from these groups, sometimes is surprisingly high numbers. One such board consisted of fifteen lawyers from public agencies (the state), fifteen from the peak business organizations, two engineers, and two

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[62] Menges, "Public Policy," 345-346.

[63] Ibid., 352.

accountants.[64] Such a system has been termed *quasi-corporatism* by some, and closely resembles the pluralist system outlined in quadrant 2 of Figure 7, because the locus of power was obviously on the side of groups.[65]

There seems to be very little known about the actual relationship between these groups and the state, for it is quite possible that these privileged contacts were no more than a mechanism for the state to influence the groups toward its specific preferences. However, recognizing the intimate access to policy makers given to these groups is to also recognize that there was great *potential* for power in these groups.[66] Given the description of these groups' activities, it is not unreasonable to classify them as influential actors in Chilean economic policy, meaning that policy was not made in a vacuum, isolated from any input from the private sector. While this was the case, business group presence and influence in national policy was not a foregone conclusion. As late as 1965, there raged a debate between populist and corporatist factions of the Christian Democrats concerning interest group representation. The latter favored "state-sponsored, -financed, and –promoted trade union activity as a means to integrating the lower classes." The former thought that this would mean a loss of union independence.[67] While this particular debate concerned labor, it was no doubt applied to all manner of economically important associations. The nature of the relationship between the state and peak business organizations was a mix of these two extremes, which allowed for

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[64] Menges, "Public Policy," 352.

[65] Ibid., 348.

[66] Ibid.

[67] James Petras, *Politics and Social Forces in Chilean Development* (Berkeley: University of California Press, 1969), 215.

some state control and some group control. As far as the selection of leaders, it seems that they were drawn from the most successful businessmen in each realm, indicating that the selection was based on merit and not on state sponsorship. Peak organizations were important and autonomous enough to draw real economic leaders into the action.[68] So, as illustrated above, these groups were important. But, were they corporatist? If so, where did they fall on the spectrum laid out for us between state corporatism and societal corporatism?

These peak organizations were not state-organized, sponsored, or funded. In addition, their leadership was independently selected, and they had privileged access to the government that seems to have been bi-directional. However, during the period after 1930, when elements of import substituting industrialization (ISI) policy were implemented, the locus of power, by necessity, gravitated toward the state. This necessary power shift came by virtue of the fact that radical economic reform can only be carried out by a state apparatus, and is often accompanied with vigorous opposition from one group and hardy support from another. Reform, by its nature, is only carried out when conditions call for it. Thus, those who are not prospering will support change, while those who are succeeding are likely to favor the *status quo*. With regard to business groups, and the specific policies of ISI, the former were small business owners who could not compete against foreign producers with more resources and better production processes. The protection offered by ISI policies favored this segment of the business population. The latter, those succeeding at the time of reform, were owners of large corporations that had a significant portion of the domestic market and were able to

[68] Menges, "Public Policy," 347.

compete internationally as well. Protective measures decreased their overall market because of the inevitable restrictions applied to their products abroad by foreign governments in an act of reciprocity. Thus, during reform, governments do well to take advice from outside groups as needed, but because the final policies are likely to hurt a number of influential businesses/groups, they must be made independent of specific interests.

The debate inside the Christian Democrats in the mid-1960s came at a time when the virtues of ISI were few and there was increasing support for change, whether to socialism or market-based reform. It seems that the best classification to give the Chilean system of interest representation in general prior to the reform period is pluralist, which fits the model set by other democracies. Thus, interest groups in Chile occupied that "middle ground" discussed by Schmitter between state corporatism and societal corporatism, or quadrant 2 of Figure 1. At times, when statist elements had greater influence, it may have shifted briefly to quadrant 4, but never to a great degree. Once again, this classification only applies to business organizations, not to organized labor or other elements of civil society. This is a safe bias since we are dealing with economic reform, in which business plays the central role.

With the coup of September 1973, the authoritarian dictator Augosto Pinochet replaced Chile's democratically elected president Salvador Allende. Although there were many reasons for the coup, principal among them was the collapsed state of the economy. Allende had attempted a socialist transformation of the previously ISI dominated economy and the resulting chaos became the justification for violent change. Shortly after taking power, the military junta, led by Pinochet, adopted an economic regime based

on the teachings of University of Chicago economics professor Milton Friedman, who taught the neoliberal model already presented. During the years leading up to the coup, a small group of young, talented Chileans completed graduate study under Friedman. They returned to their homeland eager to implement the policies of neoliberalism, and the regime change was their chance. They convincingly presented their plan to Pinochet and his associates, and it was soon decided that the economy needed neoliberal restructuring. Inflation was very high (see Fig. 6), and production was way down. The "Chicago boys" went to work.

Initially, neoliberal reforms had little support outside the small group surrounding Pinochet. As the new technocrats, the Chicago economists requested significant latitude in the policy making process. The highly autonomous nature of Pinochet's system of one-man rule allowed for the insulation of handpicked policy makers from all opposing pressure groups.[69] This isolation shielded them from reactions to unpopular or harmful policies. Policies were initially aimed at stabilizing the rampant inflation, which decimated domestic savings and slashed real wages. Stabilization was mainly a function of the implementation of a fixed exchange rate, a "shock therapy" of sorts that resulted in automatic economic adjustment. The liberal element of "neoliberal" reform included opening capital markets, prices, and trade to international market forces, with little regard for sectors that had difficulty adjusting. Peak business groups made their complaints known, but the policy-making elite felt that after initial adjustments, their role "would be to act as gatekeepers against interest groups that wanted to change the rules of the

[69] Eduardo Silva, "From Dictatorship to Democracy: The Business-State Nexus in Chile's Economic Transformation, 1975-1994," *Comparative Politics* (April 1996): 306.

game.[70] This attitude further alienated business interest groups, as well as ministries that represented the interests of small businesses. Thus, initial reforms were made largely independent of external inputs or pressure, but instead followed theoretical models based on more on paper and than experience.

The previously described chain of events nullified any beneficial pluralist elements that existed in Chilean society prior to the coup. Although the network and system were in place, Pinochet's ability to govern independent of popular support did not allow for them to function properly. This inability to affect policy pushed the once powerful peak organizations into the margins, but other interests soon filled the vacuum left by their departure. Many of the technocrats had close ties with a few very large conglomerates, which allowed the directors of these huge companies privileged access to policy processes. In an effort to raise capital and decrease government intervention in the economy, state industries were privatized at a rapid rate. As the state privatized an increasing number of industries, the only companies with the resources to buy them were the large conglomerates. The deals were sweetened by the fact that inside information was available to them concerning the specifics of each sale.[71] Pluralist representation had effectively disappeared under Pinochet, only to be replaced by a corrupt system of private collusion between top economic technocrats and business elites. The result was a situation that does not specifically fit into any quadrant of the schematic. In most cases, the state ignored groups, as stated. But, in instances where groups could not be ignored, they were influenced by the state through coercion, not the method of inducements and

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[70] Silva, "From Dictatorship to Democracy," 304.

[71] Ibid., 306-7.

payouts characteristic of state corporatism. Thus, the system under Pinochet achieved the same results as state corporatism, as far as forcing groups to accept state policy, but was in reality a hybrid formed by the rare combination of the regime's ruthlessness and its genuine concern over the economy. However corrupt the system may have been, and however narrow the interests that were served, there was an initial period of economic success (see Fig 5 and Table 1).

Initial stabilization success generated a new wave of investor confidence. From 1977 to 1981, Chile experienced an unprecedented influx of foreign savings. Unfortunately, the money was not invested in productivity increasing enterprises, but instead in a highly speculative real estate and commercial exchange market. Data on GDP growth shows significant positive growth during these early years. However, even as GDP grew, production decreased, which illustrates the phantom nature of this growth period. The fixed exchange rate of this early period made the dollar very cheap for peso-holding Chilean firms, increasing their buying power. The conglomerates bought irresponsibly, basing their expansion on highly leveraged buyouts and thereby amassing phenomenal foreign debt. In 1982, the bubble burst and the whole system collapsed. The large conglomerates were forced into bankruptcy, which meant that they defaulted on all their debt. In order to keep the banking system from absolute collapse as well, the state was forced to assume all debt and ownership of the banks in order to restore financial order. This was an abrupt awakening for the proponents of a completely "hands-off" approach to the economy. Policy makers now understood that if productivity was to increase, there would have to be more input from and cooperation with mainstream business organizations.

After the crash of 1982, reformers revised their strategies. Policymakers recognized that some of the earlier problems could have been avoided by consulting with smaller businesses and the peak organizations in general. Fortunately, the necessary corporatist network and system was already in place, and cooperation was simply a matter of allowing peak organizations a new role in policy making. The tight, hierarchical state structure began a close interaction with leading business concerns, which were able to articulate aggregate interests of their respective sectors and provide feedback concerning certain policies. The peak organizations also formed coalitions that participated in agenda setting, formulation, and implementation in the policy process.[72] Thus, after 1982, the Chilean system of interest representation began the process of *privatizing corporatism,* moving from quadrant 1 to quadrant 2, where key business interests began again to penetrate the policy making process of the state. Privatizing corporatism in this case was simply the process of peak organizations moving from relative inactivity back to the pluralist system, represented in quadrant 2, which was in effect prior to 1974. Having suffered the meltdown of 1982-3, all involved had an interest in sound policies, a fact that protected new policies from excessive interest intervention. These groups were not tied to the state in any way, functioning autonomously and free of constraints. It is therefore evident that a shift of the locus of power toward groups had taken place, and continued through the dictatorship until democracy was restored. The eighteen years of economic growth since this change in state-business relations leads to the conclusion that privatizing corporatism, in the move toward societal corporatism, has been a positive change for the Chilean economy. The

[72] Silva, "From Dictatorship to Democracy," 303.

complete absence of corporatism in any form during the first reform period proved disastrous.

In sum, the Chilean experience was one of reform, failure, adjustment, and success. Prior to Pinochet, the Chilean system of business interest representation and cooperation with the state was pluralist in nature, with the locus of power lying more toward groups than the state. Extreme political turmoil led to economic chaos, which in turn resulted in the coup of September 1973. When Pinochet came to power, one of his principal goals was to repair the derailed economy, which he endeavored to do with the help of neoliberal economists. They implemented harsh reforms and adjustments without the input of key business interests and while ignoring how such reforms would affect those interests. This situation was possible because of the highly autonomous nature of the Pinochet regime. In addition, the policy-making economists had personal relationships with the heads of a few enormous companies, which led to corrupt buying practices during the privatization of state industries. Soon, the economy collapsed and Pinochet's people went back to the drawing board. They realized that business groups must be given access to policy processes if the economy is to succeed. In other words, they came to understand that, at the very least, pluralism has to exist if reforms are expected to work in the long term. Business and government leaders made the necessary adjustments in an act of privatizing corporatism, and in doing so restored the pluralist system of the past. The economic results are very positive, as evidenced by Chile's impressive positive growth since 1983-4. As this system continues to function today, Chile should be expected to continue to evolve in a positive direction along the spectrum between state and societal corporatism as defined by Schmitter and Collier, or between quadrants 2 and

3 in the schematic set forth earlier. Now the question has to be asked: How was Argentina different?

State corporatism, the "Private State," and Collapse: The Argentine Case

Argentina has a corporatist history that is much easier to place in the box constructed by Schmitter. It began in the early part of the 20th century, and progressed through a number of different stages to arrive at its present state. One scholar divides Argentine corporatist history into three periods. The first began in the early part of the century and continues until 1955, and is known as the "incorporation period."[73] During this time, the corporatist structure was set up and reinforced to the point of institutionalization. The second phase, known as the "political impasse" period, was a time characterized by political turmoil and economic stagnation and decline, mostly as a result of the problems caused by the entrenched corporatism system. The final stage is referred to as the "breakdown" period, where corporatism as it was known and practiced was done away with in an effort to radically alter the economic system and improve economic conditions.

Import substitution as an economic policy was implemented in Argentina after the Great Depression and World War II, as it became increasingly clear that the Argentine economy was too vulnerable to swings in the international market, and too dependent on the whims of the great powers in Europe and North America. The belief was that an inward looking economy would lessen the impact of world events and allow for the

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[73] Davide G. Erro, *Resolving the Argentine Paradox: Politics and Development, 1966-1992* (London: Lynn Rienner Publishers, 1993), 12.

economy to grow free from stiff international competition. The initial phase of ISI is often called the "soft" phase, due to rapid growth and the relatively painless nature of the reform. In the Argentine case, production went up because of a new focus on products that were previously imported. These products were consumer goods that did not require high levels of technology to produce. Higher wages promoted demand for domestically produced consumer goods, and everyone benefited.[74] Inevitably though, a slow-down occurred because the consumer base was stagnant and goods that required large amounts of capital and high levels of technology continued to be imported, which diverted large amounts of domestic money to foreign producers. In addition to problems stemming from economic policy, the Argentine government faced the difficult task of dealing with large business and labor groups that had become increasingly powerful and demanding.

This development was a cause of concern to the powerful military class, who saw it as a threat to national security. In 1943, the government of Ramon Castillo was overthrown and the military took power, led by a group of middle ranking officers, including Juan Peron. As the new government took power, Peron was appointed as secretary of labor and used his post to radically alter the union structure in Argentina. He saw union and business group power as an opportunity to control the people. Rural workers were encouraged to migrate to the cities so that they could be more easily organized and observed.[75] Unions sympathetic to government wishes were awarded with fat contracts and favorable mediation, while independently minded unions were repressed. A law was passed that paved the way for single union representation in each

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[74] Erro, *Resolving the Argentine Paradox*, 18.

[75] Ibid., 14.

industry, making the system noncompetitive. Peron furthered the vertical organization of labor and business by forcing all groups to act together through the new *Confederación General de Trabajo* (CGT). His actions, and those of the state generally, with respect to interest groups placed Argentina squarely within the bounds of state corporatism in quadrant 1. Other powerful corporatist entities also existed, but they were only powerful in the sense that they influence large numbers of people, not in the policy they were able to create or influence. The four most powerful, counting the CGT, also included *La Sociedad Rural Argentina* (SRA), *La Confederación General Economica* (CGE), and *La Union Industrial Argentina* (UIA).[76]

Peron won the presidency in 1946 and continued to reinforce corporatism. Upon entering office, he found state coffers filled to overflowing because of wartime revenues from agriculture. Using these funds, he institutionalized a system of incentives to the different corporatist entities in an effort to consolidate his power. When he was deposed in 1955, the state corporatist framework was firmly in place. In addition, "the working masses were almost unanimously organized into the union structure," and the relationship of patronage between business groups and the state was solidified.[77]

For nearly 30 years following Peron, state corporatism continued to thrive, but it was gradually weakened by economic stagnation and political instability. This second period is the "political impasse" period. "The fundamental trait of the whole period was the inability of all the administrations to find a stable political formula due to the schism

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[76] Erro, *Resolving the Argentine Paradox.* 13-31.

[77] Ibid., 16.

Peron created within Argentina."[78] On the one hand, corporatist groups wanted a continuation of the old system of lucrative government contracts in exchange for cooperation, while on the other, political elites recognized that Peron had established a system of state largesse that could not be sustained. Nevertheless, some political leaders understood that running on a Peronist platform that supported corporatism was a sure path to win or maintain office. This push and pull dynamic gives the period its "impasse" designation. As ISI began to fail, or progressed to the "hard" phase, the large interest groups increasingly lobbied the state for incentives, mostly in the form of payouts and trade favors. Economic decline characteristic of the "hard" phase, combined with increasing costs of incentives, led to the eventual bankruptcy of the state. With this bankruptcy came an unavoidable call for change.

As state resources continued to dwindle, old alliances between the four big interests began to crumble. Groups tried to secure the limited pie for their constituencies, at the expense of the other interests. Increased competition and decreased prizes led to the weakening of the organizations on a general level. Although the corporatist entities were breaking apart from the inside, there still had been no official action aimed at destroying them. This period is labeled as the "breakdown period" and culminated during the Alfonsín presidency from 1983-9.[79] Alfonsín recognized that drastic economic reforms needed to take place, and that this would not be possible in the face of opposition from powerful groups. He introduced the Austral Plan in 1985, which for the first time clearly defined the economic regime so long desired. It called for fiscal reform, the cutting of

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[78] Erro, *Resolving the Argentine Paradox*, 16.

[79] Ibid., 131-156.

government subsidies, deregulation, privatization, and market liberalization. Ultimately, Alfonsín failed in his efforts. The principle reason for his failure was the inability of his government to carry out the reforms to their full extent. Either "the government did not think it was strong enough or it lacked the conviction to overcome the iron opposition of various groups blocking change."[80] Thus we see that corporatist entities were an insurmountable obstacle to change and growth even after the weakening that occurred during the breakdown period. These examples from the three periods demonstrate unequivocally that Argentina has a long history of state corporatism. When Menem came to power in 1989, which marks the beginning of the neoliberal reform period, this system had continued to break down and had arrived at a point of ineffectiveness. The system was no longer statist in nature, but neither did it favor groups. Thus, at this point Argentina occupied a gray area between state corporatism and pluralism. Privatizing corporatism was taking place in that the state no longer dominated groups, but due to the chaotic nature of the entire system, the state's loss of power did not translate to the groups' acquisition of power. Interest representation ceased for a time. Therefore, Menem should have been able to operate free of constraints from powerful interests.

Menem came to power during a time of political and economic crisis. Hyperinflation caused Alfonsín to abdicate power earlier than necessary, which compelled Menem to assume power early. He was driven to implement drastic reforms in order to revive the economy. In order to do this, he pushed two pieces of legislation through the Congress, the Economic Emergency Act (EEA) and the State Reform Act

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[80] De la Balze, *Remaking the Argentine Economy*, 69.

(SRA). Together, these laws gave the president a "blank check" with respect to economic policy decisions, meaning that he was able to operate without accountability to the legislature.[81] The congress was willing to give the executive these far-reaching powers because Argentina was in an economic crisis, characterized by hyperinflation and he used this situation to great advantage.[82] Many of his policies were forced through by executive decree, independent of the legislature, which created a very concentrated locus of power. Menem *became* the state. In this respect, he was not unlike Pinochet, absent the mass killings, and he acted the part. But, because he was democratically elected, Menem could not completely isolate himself from special interests, especially big business groups.[83] One of Menem's first economic moves, which became known as the Bunge and Born Plan, foreshadowed this new, intimate relationship with big business.

From July to December of 1989, Menem placed the management of the economy in the hands of a team of economists from the Bunge and Born Group, one of the most important business groups in Argentina.[84] Stabilization measures were taken, including adjustments of the exchange rate, tariffs, utility rates, and salaries. Almost all subsidies to the private sector were suspended, in addition to extraordinary government expenditures. Although the plan was designed and implemented with the right spirit, it proved toothless in the face of opposition once the squeeze began to be felt. As far as a

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[81] Joseph Tulchin and Allison M. Garland, *Argentina: The Challenges of Modernization* (Wilmington: Scholarly Resources, 1998), 212.

[82] For a discussion on the ability of democratic regimes to implement economic belt tightening, see Kurt Weyland, "Swallowing the Bitter Pill: Sources of Popular Support for Neoliberal Reform in Latin America," *Comparative Political Studies* 31 (October 1998): 539-568; and "Neoliberal Populism in Latin America and Eastern Europe," *Comparative Politics* 31 (July 1999): 379-401.

[83] Erro, *Resolving the Argentine Paradox*, 199.

[84] De la Balze, *Remaking the Argentine Economy*, 70.

reform phase, the Bunge and Born episode is relatively insignificant. More than anything else, it signaled Menem's willingness to ally with big business during the reform process. This propensity toward collusion with narrow big business interests was soon repeated.

In the wake of the Bunge and Born failure, Menem decided to deepen reforms and begin a privatization program. As in the Chilean case, privatization of state owned industry provided the state with much needed capital inflows, as well as the offloading of managing large industries. The transfer of these industries to private hands effectively opened them up to competition from without, since they no longer enjoyed protection from the state. And, as in the Chilean case, the only domestic companies with the resources to buy state property were large conglomerates and holding companies called *Capitanes de la Industria.* Two of these, Perez Companc/Banco Rio and Techint, at one point owned 20 percent of all assets sold by the state.[85] In many instances, these purchases were made possible by intimate contacts that these groups had with Menem, a setup that is implicit in corporatism.[86] This system of the direct executive alliances with big-business lobbies has been called by some a "private state."[87] Harsh structural adjustments were made without the input of organizations representing smaller businesses and labor. Initially, this strategy met with success. Inflation came under control and the economy registered positive growth. However, recent events in Argentina lead one to conclude that whatever reforms may have taken place during the

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[85] De la Balze, *Remaking the Argentine Economy*, 95.

[86] Erro, *Resolving the Argentine Paradox*, 20.

[87] Hugo Nochteff and Martin Abeles, *Economic Shocks Without Vision: Neoliberalism in the Transition of Socio-Economic systems, lessons from the Argentine case* (Madrid: Iberoamericana. 2000), 12.

Menem years have ultimately failed. At the end of 2001, Argentina entered an economic/financial crisis that finally led to a default on all national debts, meaning that the government could no longer make even the interest payments on outstanding loans. A banking crisis ensued that led to the freezing of all bank activity, mostly in an effort to stem the flow of capital out of the country. Early growth projections for this year predict high negative growth, negating years of positive gains. These events are eerily similar to what happened in Chile after the collapse of 1982, when the banking system had to be rescued by the state.

In sum, Argentina's history of corporatism began in the first half of the 20th century and represents a classic case of the state corporatism in quadrant 1. Representative groups were created and controlled by the state in an effort to solidify popular support for political elites. It soon became apparent that this system was over-burdening the state and something had to change. The inability of the state to support corporatist relationships, as well as leaders recognizing that such relationships were harmful, led to the eventual breakdown of the old state corporatist structure. At that point, Argentina had taken a necessary step toward privatizing corporatism, on its way to the pluralist middle ground (Figure 7). The intimate relationships between Menem and business groups might have been small attempts at privatizing corporatism, as the private sector was influencing policy decisions and not taking orders from the state. However, the groups involved in this process were a very select few, prompting critics to call the arrangement a "private state" composed of Menem and big business. This arrangement is not corporatism at all, but instead an existence in the no-man's-land between leaving state corporatism behind and beginning the practice of privatizing corporatism on the path the

pluralism. This arrangement continued, and Argentina's economy collapsed. Recognition of this fact leads us to draw a conclusion from these two cases as they are compared, in order to see if there is a remedy for Argentina's current ills.

Mirror Images or Polar Opposites? The Cases Compared

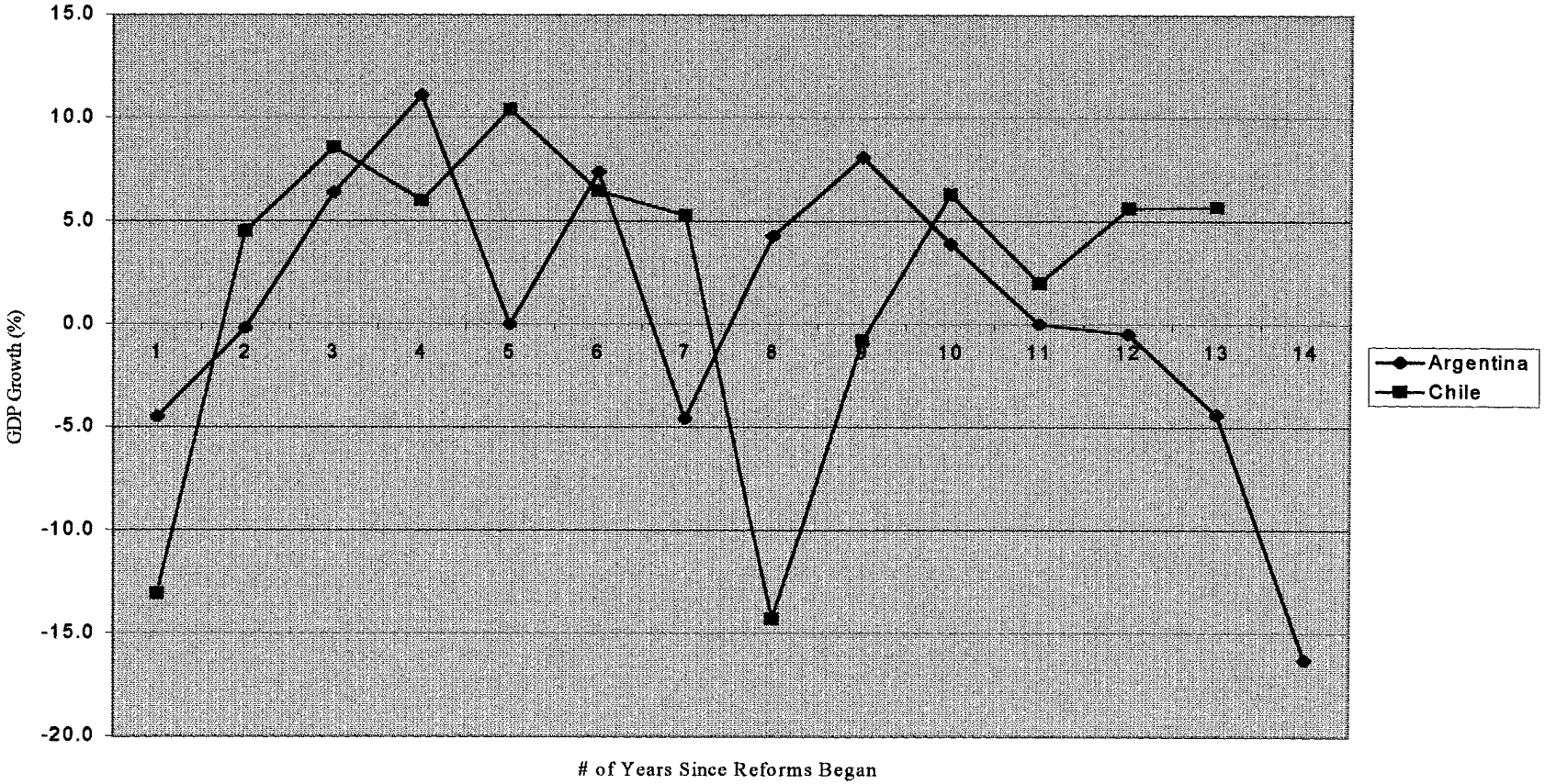
A casual glance at the economic growth and inflation data leads one to believe that these two cases are ones of similar methods and divergent outcomes. Chile is without a doubt a neoliberal success case, whereas Argentina, especially in light of recent events, is a case of failure. Indeed, this obvious difference in economic performance in the wake of neoliberal reforms is what prompted this study in the first place. Interestingly, it is the similarity of the two that allows for the drawing of conclusions and the prescribing of remedies. Let us examine the two cases side by side and see what emerges.

Chile's reforms started after an economic collapse accompanied by political disaster. Those reforms were implemented by an executive with extraordinary power, which allowed for harsh measures to be introduced without fear of losing a base of popular support. Argentina's Menem came to power in a season of economic collapse and the accompanying political chaos, and because of the situation was able to concentrate incredible amounts of power into his own hands for the purpose of reforming the economy. So, although he was not a dictator like Pinochet, Menem had the political wherewithal to pull off tough reforms. The economic model of choice for both reformers was based in neoliberalism. Although it is very likely that specific policies differed in some small way, they were identical for all intents and purposes. Both regimes restored

fiscal discipline, privatized state industries, adjusted monetary policy, and opened markets to international influences. Thus, these two cases closely fit Mill's Method of Difference model. There is just one problem. They appear to have similarities in all areas and only differ in the outcome. What is the variable where they differ? This is the transcendent issue at hand.

For the first ten years of reform, from 1974 to 1983 in the Chilean case and from 1989 to 1999 in the Argentine case, patterns of economic growth for the two are very similar (See Fig. 8). Ups and downs appear to happen at identical stages of the reform process, or at most are offset by a year or two. This fact is remarkable given that each process took place at different times and in different international economic conditions, which are bound to have some effect, giving credence to the assumption that international conditions are subordinate to internal ones, as earlier stated. From Figure 8, we see that Argentina climbed out of negative growth in the seventh year and peaked in the ninth year, only to fall back into negative growth, where it still resides today. Chile emerged from deep recession in the eighth year to top out in the tenth year. However, it did not fall back into negative growth, and continues to post positive economic gains today. So, if they were so similar during initial reforms, why did they begin to diverge when they did? The answer lies in the corporatism pudding.

Figure 8. GDP Growth For 13 Years of Reform, Argentina and Chile



Source: Inter-American Development Bank Annual Report, selected years

Note 1: The cited source provided the raw data only. The graph was not published by the Inter-American Development Bank, and is a creation of the author.

Note 2: The x-axis indicates years since reform started, i.e. in Chile's case, 1 represents 1975, in Argentina's case it represents 1990, and so on.

In re-thinking the reform process after the crash of 1983, Chilean policymakers recognized the danger of the previous system of private collusion and the importance of cooperating with peak business organizations, and began to include these groups in the policy process. This cooperative effort, which resulted from privatizing corporatism in a move to pluralism, has allowed for Chile to enjoy sustained growth since that time. During his reforms, Argentina's Menem allowed for a system of corrupt collusion that was almost identical to what existed in Chile up until 1983. As in the Chilean case, this system eventually collapsed. Thus, what is going on presently in Argentina mirrors what happened in Chile in 1983, right down to the banking crisis.

Most important is how we choose to look at the Argentine case when comparing it to the Chilean case. Chile has posted strong economic gains for a long enough period of time that it can safely be labeled a neoliberal success story. We can conclude that it experienced brief success in the beginning, deep recession after about ten years, and has since been so successful for so long that the end state of its reforms is success. Taken as a whole process, starting in 1974 and ending today, Chile is a success. Argentina's situation is not quite so clear-cut. If we conclude that Argentina's neoliberal reform period has run its course and cannot reverse itself without completely abandoning neoliberalism in favor of another strategy, then the process can be looked at as a whole, having a beginning and an end. The beginning looked very much like Chile's, but the end is characterized by failure. Thus, as a process beginning in 1989 and ending today, Argentina's results are dramatically different from those of Chile. As things are, these two cases have radically different outcomes. These outcomes are the result of one's ability to privatize their corporatist structure and reside in quadrant 2, as it hopefully

moves into quadrant 3, and the other's inability to make the transition from state corporatism to pluralism. However, if we leave Argentina's process open, meaning that it started in 1989 and has not reached its end state, and therefore can be reversed, then it is possible to prescribe a remedy to its problems.

Once again, in terms set forth by Mill's Method of Difference, the antecedent condition that differs has to do with corporatism. The guiding principles of reform have been the same throughout for both countries, allowing for me to claim that the intervening variables are identical enough. Since the outcomes, at least from 1984 until now, have been divergent, I conclude that corporatism is the cause of the divergent outcomes. Chile is making progress toward societal corporatism, via privatizing corporatism, and currently resides in the pluralist realm (quadrant 2 to quadrant 3). Argentina, after starting out as state corporatist, made small advancements to quadrant two (see Figure 1), but has stagnated there, never really able to achieve a real dialogue and cooperation with business organizations in a pluralist system. If Argentina is to ever reach growth levels like those of Chile, given the identical paths that both countries traveled in the "first stage," then it must make adjustments similar to those made by Chile and allow penetration of the policy making process by non-state interest groups representing the business sectors.

Summary, Conclusions, and Broader Relevance

Economic reform is an issue of utmost importance in developing nations. Increasing overall GDP and per capita GDP, as well as controlling inflation, means a better way of life for those who have so long lived in poverty and underdevelopment.

Over time, experts have suggested various economic strategies to give guidance to developing nations, the two most recent being import-substituting industrialization (ISI) and neoliberal market reform. Argentina and Chile both implemented the former, eventually experienced economic meltdown, and turned to the latter for a way out. After several years of reform, Chile is a wild success while Argentina still finds itself in economic crisis. The two countries are relatively similar in many respects, not the least of which is the type of policies adopted and the extent to which they were implemented. Why did one succeed and the other fail?

One area where the two differ involves corporatism, its history and its current state in each country. Before the reform period that began in 1973, Chile was largely pluralist, where private interests such as business were represented by groups independently organized who competed against each other for government cooperation. Argentina has a history of state corporatism, where the state organized and controlled interest groups and dictated their actions through a combination of payouts and coercion. At the commencement of their respective reform processes, Pinochet and Menem abandoned the old interest representation structure in favor of private collusion between big business and policy-making elites. In each case this situation led to failure. Chile's failure came in 1983, while Argentina's started in 1999 and has yet to end. Fortunately for Chile, the pluralist legacy allowed for a new pluralist system to go into effect with relative ease. A transition was made back into pluralism, a process called *privatizing corporatism*, and the result is obvious success. Argentina, because of its lack of any positive corporatist legacy, is so far unable to experience any type of privatizing corporatism in order to arrive at pluralism, and eventually societal corporatism.

Therefore, I conclude that where a particular state lies in the two-by-two schematic in Figure 7 determines how able it is to implement and be successful in economic reform. After all, economic reform is partly economic and partly political. The political arrangements and their effectiveness are at least as important as the mathematical economic prescriptions of a given strategy. If government makes adjustments that only serve the interests of a few, overall reform will not work. There must be independent representation and un-biased cooperation between the government and business interests; in other words, pluralism or societal corporatism. Any system that resembles state corporatism or is moving in that direction is bound to fail. Argentina is a good example of that. There is no obvious reason why Chile should succeed over Argentina; yet, it has.

Obviously, the issue of economic reform in these two countries is much larger than this paper. The process is so complex that one can never say for sure that the answer has been found. I do not pretend to explain the whole story. However, the empirical evidence presented here supports corporatism as a powerful variable. If anything, this study opens the door to more research on the topic. If we can determine that one type of interest representation is better than another for fomenting economic change and beneficial cooperation between the state and the private sector, then those who wish to apply the neoliberal model to their economy can ensure that the proper system exists before reforms even begin. Such preparation can help reformers avoid disasters such as those Chile experienced in 1983 and Argentina is experiencing now.

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