

DRAFT

The Political Aspects of Industrial Policy: coalitions and power struggle in Latin American economies

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1. Introduction and justification

Between the 1950s and the 1980s most large developing economies were pursuing some kind of active industrial policy and making the transition between a mostly agrarian economy to one where industry and manufacturing were an integral part of their total output; the largest countries in Latin America, like Argentina, Brazil, and Mexico advanced greatly in their industrial output by investing economic and political capital in industrial policies such as Import Substitution Industrialization (ISI) before the strategy eventually ran out of steam (Maddison 1992; Szirmai, Naudé & Alcorta 2013).

However, since the end of the 1980s, the theme has fallen from grace in academic and policy-making circles. The mixed success of ISI, and its ultimate demise after the 1982 debt crisis in the region led to a new consensus in which economics was seen as a game for technocrats, not politicians. The – somewhat justified – criticism of ISI for its lack of adaptability and excessive focus on protectionism (see Edwards 1995) was sometimes mixed with a critique of industrial policy *tout court* and an exhortation of neoliberal economics focusing on going with the grain of natural comparative advantages. In the end, mainstream economists viewed industrial policy as a political distortion on the natural functioning of markets, and states would do well to stay away from it. Instead, they should focus on balancing the books, ensuring the functioning of free markets, and they should leave the allocation of resources to firms and individuals (Wade 2018).

That being said, some scholars were not that convinced by the argument in economic vogue after the 1980s since examples of latecomers to industrialization who managed to catch-up without some kind of active industrial policy are rare to say the least. This not only points to a problem in mainstream economics, but opens up an avenue for research. It seems that the old Gerschenkronian point has been vindicated: the later a country is to the ‘party’, the more it needs the state to play a role in its development (Gerschenkron 1962).

The term “industrial policy” may have been banished from policy circles for a while, but the practice of incentivizing certain sectors and industries never really went away (see Cherif & Hasanov 2019). The biggest puzzle of the discipline was provided by the so-called ‘Asian Miracles’ of Hong Kong, South Korea, Singapore, and Taiwan which defied this more common economic knowledge. Instead of the more passive role recommended by mainstream economists, states in these countries were actively pushing different kinds of industrial policies to bolster economic growth and catch up with the more advanced economies. These practices were studied and conceptualized by the ‘developmental state’ literature firstly espoused by ‘rogue’ development economists and political scientists (see Amsden 2001, Chang 2002; 2007, Evans 1995, Johnson 1982, Wade 2018), and later picked up by more conventional economists such as Rodrik (2005), and Stiglitz (2014).

Several strands of the literature exist. While some emphasize the role of the state in microeconomical interventions to boost growth, others investigated political factors such as the professionalism of bureaucratic institutions and the role of state spending (see Haggard 2015). However, most of the literature has focused on great success stories of East Asia, utilizing failed cases only as counterfactuals. Also, the more political side of the literature – which is more interesting for the purposes of my future dissertation and will receive greater attention at the literature review section – was usually focused on institutional apparatuses without much regard as to *why* certain countries developed these institutions and others did not. In some regards, the prominent *embedded autonomy* thesis (Evans 1995) explores some of the political aspects of the developmental state without dealing with *politics*, or with the inevitable power struggles that come before and during the pains of fast economic growth.

As such, the dissertation will diverge from these studies. Firstly because, at present, the idea is to study cases in the Latin American region which were once examples for rapid economic growth and are now seen as ‘failures’ or stuck in the middle-income trap. The aim is to move a bit away from what has been more often studied in the literature, and instead focus on the cases that are only used as counterexamples.

Moreover, this work will take a step back from institutional understandings of policy-making – in all its strands, from Evans (1995) to Varieties of Capitalism (Hall & Soskice 2001) – and see these institutional setups as results rather than causes, since they did not come out of nowhere nor are they set in stone. A glance at the history of key Latin

American cases shows that the current lack of coherent industrial policies in these nations is not some *natural* proclivity, much the opposite. During the 1960s, countries in Latin America were *the* examples of rapid growth due to government intervention, while East Asian nations lagged much behind (see Chang 2007; Haggard 1990).

As a result, this dissertation comes from the understanding that these institutions are the fruits of *momentary* social-political compromises (Amable 2016; Bizberg 2019) between societal groups that form a coalition to support or oppose a developmental project or industrial policy package. Thus, I will make the case for a *coalitional perspective* that may better capture the changing nature of industrial policy-making in Latin American economies.

However, a caveat must be made about the major Latin American nations (Argentina, Brazil, Chile, and Mexico): despite the fact that these countries still have to live with institutional ‘weakness’ (Brinks, Levitsky & Murillo 2019), they do have a historically built “industrial layer” from which to build upon (Yülek 2018) and some state capacity when compared to other pre-industrialization late industrializers. Also, these countries have undergone significant reforms in their political economies in the direction of increasing the “Weberianness” of their civil service (Evans & Rauch 1999), liberalizing their markets for foreign investment (Kingstone 1999; Murillo 2001; Teichman 2001; Thacker 2000)¹, creating “pockets of excellence” that could help bolstering development (McDonnell 2017)², which – in various extant interpretations – would technically put these countries in an advantage point from which to pursue upgrading policies, and yet they remain for now stuck in the middle-income trap with very little perspective of moving further in coming years. The argument that will be made here is that this has to do with the politics of societal coalitions and the power struggles behind industrial policy for development.

As such, the future work will aim to answer the two following central research questions:

CRQ1: How do societal groups and political coalitions affect industrial policy-making in Latin American countries?

¹ That liberalism brings about investments and development is an inherently contested approach, but it still holds some purchase among economists (i.e. Barro 1996).

² The Brazilian National Development Bank, for example, has all the markings of a pivotal pocket of excellence in the country’s bureaucracy, and also possesses some of marks of being a “pilot agency” for development (see Klüger 2015).

*CRQ2: Why, despite the past creation of an industrial layer, some bureaucratic professionalism and liberalization have countries in Latin America not been able to overcome the middle-income trap?*³

Studies that focus on coalitions as main drivers of policy-choice are coming back into fashion in different policy fields⁴. When it comes to developmental policies, most works that adopt a coalitional perspective focus on *least developed countries* (see Leftwich 2010), more specifically on the interesting case of Botswana, but very few focus on Latin American nations despite evidence pointing out that their being trapped in a middle-income status has more to do with politics than economics (Doner & Schneider 2016) and that strongly organized groups are heavily responsible for the lack of coherent development policies (Bril-Mascarenhas & Madariaga 2019). This will be a text based on *processes* and how they unravel, and this demands a storyline and an in-depth analysis of carefully selected cases.

The future work will hopefully fill a current gap in the literature and contribute to a debate that is back in vogue: the role of the state for development and social change, with a focus on what makes the state apparatus move in one or another policy direction. Also, the theme is broad enough as to give indications as to why societal groups support one government or another, since industrial policies – or lack thereof – touches upon many of the nuts and bolts of economic policy-making. As a result, the dissertation may yield results that are generalizable to different policy fields and give clues of the functioning of politics in the region taking the role of societal groups and their influence on governments seriously.

2. Literature Review: positioning the research

(A) Comparative Capitalisms

The future dissertation will engage with strands of literature that do not only deal with industrial policies in order to make a case for a coalitional approach to policy-making. As such, this work will briefly debate with other approaches that deal with *comparative capitalisms* such as the Varieties of Capitalism (VoC) approach, the regulationists and neo-Gramscians (Amable 2003; 2016; 2017; Bizberg 2019; Bresser-Pereira 2017), also mindful of approaches such as the Power Resource Theory (Esping-

³ At this point, I have not decided which one should be pursued, or if both might be feasible together.

⁴ See Barta (2018) for a coalitional perspective on fiscal stabilization and Steinberg (2015) for a study on exchange rates.

Andersen 1990; Korpi 2006). This will be done because most fields of economic policy have redistributive aspects and are prone to be politically salient, so insights from outside the industrial and developmental policy debate may be useful for our purposes.

Although questioned, for many years now the Varieties of Capitalism approach proposed by Hall and Soskice (2001) has been omnipresent among scholars aiming to compare different kinds of capitalism. After striving to create a parsimonious approach focused on advanced economies and studying the fields of industrial relations, worker education, and corporate governance⁵, the authors come up with *two* distinct types of quite static capitalism: Liberal Market Economies (LMEs) and Coordinated Market Economies (CME) providing examples that consolidate their typology. The cornerstone of their argument resides on the idea of *institutional complementarities*, in which each piece of a country's institutional setting shaping their ideal-typical variety of capitalism complement each other, making *change difficult to attain*.

The usefulness of this approach spurred different contributions aiming to expand these concepts to other parts of the world, eventually leading to the conceptualization of different varieties of capitalism. In the case of the Latin American region, all economies were typified by Ben Ross Schneider (2009; 2013) as Hierarchical Market Economies (HMEs), a type of dysfunctional capitalism where big firms have incentives to maintain their position to the detriment of the economy as a whole⁶, a form of *negative institutional complementarity*.

Although insightful, this literature does not provide much to draw upon for the purposes of this dissertation. Firstly, the political side of things is understated by their firm-centred approach. In the VoC literature, the (virtually unopposed) drivers of policy and shapers of institutions are businesses. This was a shortcoming especially pointed out by developments in the Power Resource Theory (Korpi 2006). Usually positioned in the welfare state literature, this approach makes the important point that differences in certain political institutions and contexts may guide employers' preferences, and that their very power to dictate the agenda depends also on the relative power they have vis-à-vis the working class. The mere fact that preferences are contextual already poses a challenge to the firm's-eye view proposed by VoC.

⁵ In their own regard, these three areas are connected to industrial and development policies.

⁶ There can be no doubt that many companies in the region self-interestedly work against developmental projects, but there is variation on many other aspects.

Another important – and more recent – contribution to the Comparative Capitalisms literature was the so-called *electoral turn* (Beramendi et. al. 2015). This strand is making some waves in political economy circles by providing the insight that broad economic-policy packages will be chosen responding to the will of certain constituency alliances. Their framework transcends VoC and brings politics back to the analysis of economic policy-making, but it would be an awkward fit with the under-institutionalized party systems of Latin American countries, and it presupposes a responsiveness to the electorate that is not verified in the region. Instead, this work will focus on the interests of *organized groups* as the main driver of policy-making.

Some proponents of the French Regulation Theory (FRT) made an important contribution by working on a more dynamic and nuanced interpretation of capitalist variety. Boyer (2007) encounters four typologies – or modes of capitalist regulation – in his work, with even larger variation in Latin America. Amable (2016) goes further and systematically flexibilizes the concept of institutional complementarity by making it political and dynamic. In his work, the definition of complementarity gains a varnish of politics and becomes historically specific. An institutional framework will last while it is the result of a stable *social-political compromise* crystalized in what the author calls a *Dominant Social Bloc*, but that could be seen as a coalition in power. In this view, businesses *are* in a dominant position, since a capitalist economy without capitalists would be unthinkable, however they are not alone or unopposed (Bresser-Pereira & Ianoni 2015). Instead, they too must form broad enough coalitions to pass *their interest* as the *national interest* (Baccaro & Pontusson 2019, p. 18).

This insight is one that the dissertation intends to borrow from, especially because it was not fully developed for Latin American contexts. In an intelligent yet overloaded book, Ilán Bizberg (2019) shows the dynamism of institutional complementarities in the region in nine countries, finding two extreme varieties of capitalism (Brazil and Mexico) and two others in between, however the sheer quantity of explanatory variables makes the book miss many of the complexities of Dominant Social Blocs or coalitions. Conversely, the future work will focus only on coalitional dynamics for industrial policy-making and will invest in detailed process tracing of selected cases.

(B) The Politics of the Developmental State and Industrial Policy

Perhaps the most prominent book intending to explore the political side of the developmental state was brought about by Peter Evans with his *Embedded Autonomy*

(1995). The idea of the book is that states may come in four different forms depending on their level of embeddedness in civil society and on the degree of rationalization of their bureaucracy. In his typology, the two polar opposites are the desirable *developmental state* and the highly problematic *predatory state*. In between – yet unique on their own right – we have the *overdeveloped state* (with a rational bureaucracy but no social embeddedness), and the *bourgeois clientelist state* (with strong linkages with powerful sectors of society, but not a professional bureaucracy)⁷.

Evans (1995) insisted that state intervention was not a matter of how much but of “what kind” (p. 10). State intervention on the economy is a given even in the most liberal of nations, however, for development purposes the type of intervention is essential. In turn, this is heavily influenced, Evans claims, by social embeddedness and bureaucratic professionalism. In developmental projects, the state is key, but it needs information from societal actors and capacity of action to make its proposals concrete. His book clearly echoes Chalmers Johnson’s (1982) insights about Japan’s Ministry of International Trade and Industry (MITI), an exemplar of embedded autonomy.

Evans makes a very strong case for his argument, and most literature coming after him engages with his text. For our purposes, there are two main gaps that his argument leaves and that the future dissertation will have to address: firstly, similarly to the previous criticism of VoC, Evans’s book leaves the reader wondering *why* did these institutions develop? Korean and Japanese bureaucracies were hardly paragons of professionalism before their development, so at some point there was a *political decision* to invest in these capacities. A second and related point is that although states *may* have some governance islands which are shielded from political pressures, governments are *always* responding to some societal pressure, which may come from their electorate, their donors, or from corporatist interests they represent.

A case in point that fits my research is Brazil. Although nowadays one can hardly pick out Brazil as an exemplar case of industrial success, this was surely the case for a relatively long period⁸. In another politically-oriented book about the developmental state, Atul Kohli (2004) uses the case of Brazil to show how, in the same country,

⁷ His cases are Korea and Zaire for developmental and predatory and India and Brazil for overdeveloped and clientelist.

⁸ From the 1930 Revolution until 1939, industrial production in Brazil doubled (Haddad 1978). Preliminary data also shows that from 1950 until 1970, value added from manufacturing had a steady rise (Timmer, de Vries & de Vries 2015).

industrialization can succeed or fail depending on the political conjuncture. Kohli makes the case that while Brazil was under military authoritarian rule it managed – similarly to Korea – to develop into a “cohesive capitalist state” based on a profitable alliance between a unified government and the private sector. However, when class politics emerged, things went awry, and democratic Brazil did not have the same success.

Kohli also puts emphasis on colonial legacies, making the somewhat less convincing point that harsher colonial legacies (such as the Japanese legacy in Korea) may force countries out of their pre-modern ways and into an industrial developmental state. Although his affirmative case is compelling, many countries with brutal colonial legacies and equally authoritarian governments did not develop or even engage in some sort of cohesive industrial policy.

Although the literature is vast, most of these texts focus on *a priori* long-term institutional conditions depending on colonial or other historical matters to make their points. Breaking with this, a brilliant article by Doner, Ritchie and Slater (2005) makes the point that the difference between countries that developed and the ones that got “stuck in the middle” was on the level of pressure faced by elites. The success stories of Southeast Asia experimented what they called “systemic vulnerabilities” – composed by the imminence of popular unrest, scarcity-with-necessity of foreign exchange, and deep resource constraints. The authors claim that the simultaneously rise of these three factors are sufficient and necessary conditions to pressure elites into supporting a developmental state. More detailed descriptions of these elite interactions are given by Vu (2007). While on the same vein, it should be noted that these two articles have differences in their understandings of *political agency*.

Here we have reached the crux of the matter. Although some articles in the developmental state debate touch upon matters of agency, most arguments are deeply structural. There is good reason for that: firstly, although applicants are abundant, cases of actual catch-up and “graduation” to a high-income status are rare, which seems to make policy-making less important than the very specific historical conditions of the successful cases. Further, it is true that institutional design is a factor. While striving to catch-up, states are indeed more vulnerable to be captured by particularistic interests that may hamper development.

However, the future dissertation will go in a different direction for two main reasons⁹: firstly, regardless of the preferred institutional design adopted by success stories of late development, they were necessarily preceded by the political decision of creating them; late developers – from Germany to South Korea – had to, at some point, exercise agency and decide to embark on the attempt to develop, a process usually initiated by certain elite actors (Yülek 2018). Secondly, what seem to be very successful cases at first can go wrong. When focusing on the structural factors that enabled *success*, we are subsuming many of the near misses that could have flung the East Asian miracles to the Latin American ‘fluked ISI’ side of the fence. This contributes to the oft-criticized cyclicity of the developmental state’s literature, by which developmental states are named as such because they succeed, and they succeed because they were developmental (Routley 2012). Perhaps then, it is necessary to pay some attention to developmental projects that failed to materialize, or that simply became obsolete and were not adjusted (Bresser-Pereira 2017).

This is where this work would like to come in. By focusing on the political forces at play in the course of industrial policy-making and in cases that were not ubiquitously successful, the dissertation can shed light on the power struggles and the political difficulties of acting in a policy field that by definition has deep redistributive impacts.

(C) The Coalitional Literature

To make a segue between the past section and the coalitional literature, I will now focus on the growing work on ‘reform coalitions’ and on the role of leadership for development. This research agenda was first started by Adrian Leftwich (2010) in an attempt to go beyond institutions and emphasize the role of coalitions for institutional formation and development especially in Least Developed Countries. The main idea of this research agenda is to bridge the structural-agential divide by studying *the politics of development* (Leftwich 2010, p. 95), that is, the – always structurally constrained – decisions made by leaders and coalitions that led to development-related results. Leftwich’s initial writings on the matter were overly broad on methods and hypotheses, but they were a start¹⁰.

⁹ At this point, these are hunches, but I believe this to be an integral part of the future thesis’ contribution to the literature.

¹⁰ A disclaimer: there is a lot more to be read on the DLP website for me to have a more complete picture of their work (a total of around 150 articles and working papers). At present, I will focus on Leftwich’s work.

Even though – outside Leftwich’s and his successors’ works¹¹ – coalitional perspectives for industrial policy-making are rare, as of late more works have been published on the politics of macroeconomic policy-making¹². The works of Steinberg (2015) on exchange rates and Barta (2018) on fiscal stabilization are particularly worth mentioning.

On both of these works, the authors do not discount the role of institutions, but they emphasize the preferences of different societal actors in the legitimation and enabling of certain policy decisions, following the tradition of Gourevitch (1987). Barta (2018) compares five cases of advanced economies that struggled with long-lasting and massive amounts of debt and were thus pressed to pursue fiscal stabilization packages. In her framework, coalitions are important because they will give support to a policy decision thus enabling it to survive “spheres of political contestation” (p. 18) and be implemented. By taking process tracing methodology to its limits, the author makes a compelling case for the importance of coalitions over technical decisions or institutional constraints. Societal support, she claims, is the sword by which policies will live or die, since very similar countries succeeded or failed to pursue stabilization packages depending on their capacity to form a coalition around the policy.

That being said, the book – surely pinning for historical accuracy – decided against constructing a typology for social groups or coalitions, instead focusing on country-historical specific groups for each case¹³. This makes her work more an exploration and description of coalitional alignments than a theoretical contribution on their functioning.

Conversely, David Steinberg’s (2015) work about currency devaluation in developing economies does a better job listing the broader sectorial power groups that can make a difference for exchange rates in any given country. After explaining why exchange rates should be seen as a *policy variable*, the author spells out the preferences of five sectors: service, financial, labour, primary (mining and agriculture), and manufacturing, reaching the conclusion that, for most of these relevant actors, their

¹¹ Leftwich’s untimely death left some of his work unfinished. Fortunately, however, many of his insights were took up and are being carried in the Development Leaders Programme (DLP), a prolific study group that aims to understand the role of domestic politics on development.

¹² One of the results of the 2008 crisis was the questioning of the ‘technical’ view on macroeconomic policies.

¹³ Just go give one example, in the case of Italy, debt kept on growing because of the large and powerful *anti-tax-state-dependency* coalition; a motley crew of poor southerners and businesspeople that could only happen at that particular juncture.

preferences about exchange rates are quite fixed, with the exception of the preferences of manufacturing which are *conditional*. As such, Steinberg manages to simplify his explanation, focusing solely on the preferences and power resources of industries and how those fit with the capacity of the state which in turn determine the exchange rate policy outcome.

His insights are helpful for two main reasons: firstly, he managed to condense the most important groups for *developing economies* anywhere. Secondly, the book comes up with the interesting concept of *conditional preferences*, which will most likely play a part in the future dissertation. The main issue, however, is already noticeable in Steinberg's study of the Argentinean case: in Latin American countries, finance and the primary sector are *at least* as powerful – if not more – as the manufacturing sector, as explicated by the vast work of Eli Diniz and Renato Boschi (see a compilation in Szwako, Moura & D'Avila Filho 2016). For broader policy fields, such as the one studied here, their interests will have to play a bigger part on the analysis, which will further complicate our work. As such, the state-business relations literature – vastly applied to Latin America – can provide a start to the research, but the aim is to go beyond them (see Kingstone 1999; Murillo 2001; Thacker 2000).

A deeper dive in older literature on coalitions and late development (Haggard 1990; Nelson 1989) will also be necessary, and it is the next step I will be taking in the coming months, seeking to improve this literature review and the theoretical framework. Haggard's comparison between initially successful Latin Americans and overachievers from East Asia provides an interesting model since it stresses the wrong turn taken by – especially – Brazil and Mexico. This could pave the way for a longitudinal analysis that now has more data and more coalitional changes to explore.

3. Discussing the research question, unit of analysis and a tentative framework

In his *Essays in Trespassing*, Albert Hirschman wrote that “[d]evelopment is essentially a record of how one thing leads to another” (1981, p. 75). In this spirit, the future dissertation will aim to explain the manifold processes by which coalitions come about and how they affect industrial policies in Latin American nations, with special interest to the development strategies pursued during – less studied in development circles – *democratic* country-periods.

The issue is that, in general, few texts integrate elections and societal coalitional approaches (for a counterexample see Fairfield & Garay 2017), instead focusing on organized interests and how they steer political leaders and policymakers in one way or another (Barta 2018; Steinberg 2015). There are advantages in treating elections as lateral points, since this allows for a more straightforward analysis of societal group dynamics and the coalitions they form. However, in countries where informal workers are around 50% of the working population, it is hard to overstate how much *the non-organized* matter and how momentary popular convergences can impinge on coalition formation, especially on the choice of leadership.

Organized actors may have their ideal preferences on different policies well-represented in a candidate, however, if they are not capable to prove electorally viable, support may shift to the next best option, or simply to the least objectionable one, especially when it comes to presidential systems where the chief of the executive has largely sole discretion on cabinet formation and large (yet limited) powers of decree. As an example, in the 1989 Brazilian presidential elections, businesses much preferred candidates like Afif Domingos or Mário Covas, but when those proved to be electorally inviable, they shifted their allegiance in favour of Fernando Collor against the labour-leaning Lula (Kingstone 1999). This is but one example as to how elections and non-organized preferences may shape coalition formation.

Thus, for political leaderships and their ideas to become “coalitional magnets” (Béland & Cox 2016) they must show electoral viability. Again, powerful societal groups (like business associations) have been known to abandon inviable candidates no matter how aligned they are with their interests¹⁴. As discussed above, coalitions will be stable depending on (1) how much the direction of policy-making – given by the political leadership in government and implemented by the state – is satisfactory to current members, (2) how powerful the coalition is vis-à-vis its opposition, and (3) how much they can pass the coalitional interest as “the national interest”, thus avoiding unrest (see Baccaro & Pontusson 2019). The broadness of the policy field and its deep redistributive implications also mean that failure to carry out an agreeable policy package that will form a stable coalition may result in a *political crisis* (as described by

¹⁴Elections in Brazil in 2002 and 2018, and in Mexico in 2012 and 2018 were marked by business associations “jumping ship”. Particularly, most businesses did not support Bolsonaro’s bid until very late in the first round, and business associations only acquiesced to López Obrador once he was elected.

Amable 2017) and eventual policy or government change¹⁵. The argument also rests on the assumption (to be verified) that preferences are not just conditional and shifting, but largely *relational*. Mere economic efficiency is but one of the factors taken into account by actors to support/oppose/acquiesce to a policy agenda, instead, the redistribution of the country's output, and considerations about relational power vis-à-vis other societal groups also come into play¹⁶.

The solidity of a coalition also depends on the nature of partners. Certain parties (esp. on the left) have *organic partners* (esp. certain labour confederations) that will be more likely to have *loyalty* and exercise *voice* to mitigate possible losses than they are to *exit* the coalition (see Hirschman 1970). Conversely, partnerships arising *despite* a history of contention will be marriages of convenience and less likely to weather certain policy decisions. Because of this trait, coalitions are inherently dynamic and complex, and the matter of *how* they operate is as important and interesting as what they *cause* by their functioning.

Focusing on these coalitional alignments is an underexplored part of industrial policy studies in Latin America, but it might make for a more complete explanation than institutional-focused works, or studies emphasizing professional bureaucracies as the main determinants in industrial policy-making.

With the discussions above, the resulting argument in brief is as follows¹⁷:

- 1) Elected *Political Leaderships* advance their proposals for industrial policy (having no systematic industrial policy is also a *policy choice*, see Bril-Mascarenhas & Madariaga 2019);
- 2) Organized interest groups (business and labour confederations, finance and services, and the primary sector) decide whether to support the policy and the government, acquiesce, or frontally oppose it¹⁸;

¹⁵ Discontent of industrialists with industrial policy meant that an otherwise popular president Cardoso (1994-2002) failed to elect his successor in Brazil, with businesses divided into support for three separate candidacies. I explored this theme in my Master's thesis presented at CEU in 2019.

¹⁶ When speaking about full-employment, Kalecki (1943) posited that the *Political Aspects of Full Employment* were relational. Actors will accept their part of the rents squeezed (in his model a wage-squeeze or a profit-squeeze).

¹⁷ See Appendix 1 for a preliminary schematic.

¹⁸ An opposition will form invariably. The difference between a stable coalition and an unstable one is a matter of relative power vis-à-vis the opposition.

- 3) When a strong enough coalition is formed, competing interests will feedback into the policy and shape its application. If there is no possible strong coalition, there will be industrial policy paralysis (stasis), or political instability.
- 4) The policy is carried out and the coalition endures until it becomes inviable, or the coalition falls apart.

As such, answering our CRQs depends on going through a few sub-questions that will help refining our variables:

- 1) *What is the role of ideas for industrial policy proposals?* Following Gerschenkron (1962) and ideational institutionalists (i.e. Blyth 2002; Béland & Cox 2016), ideas help to aggregate preferences and to guide policy, but the future dissertation will have to provide evidence for that;
- 2) *Which groups matter for industrial policy?* At present, this work is focusing on well organized interests in highly aggregated groups (see above), however, upon closer analysis this aggregation may be changed;
- 3) *How do coalitions form?* To show the bargaining process among actors and between actors and the political leadership will be a large and interesting part of the process-tracing analysis. Preferences are *conditional* (Steinberg 2015), meaning that although certain coalitional configurations may seem similar at first look, conjunctural considerations may yield different results;
- 4) Ultimately, the most promising question for typological purposes is the one that clearly defines both my explanans and explananda: *what kinds of coalitions form in each juncture and what are the policy packages they support and execute?*

In the end, these four sub-questions will guide the research and hopefully allow for answering the Central Research Question proposed. The answer to these sub-questions will be responsible for delimiting the two main variables, namely *societal coalitions* as our independent variable and *industrial policy-making* as our dependent variable.

Using *coalitions* as the unit of analysis is also important to allow for comparisons over time. As said before, politics and policy-making in Latin America have a tendency to have more shifts and U-turns than advanced economies and industrial policy-making is no different. Government changes usually preside over large shifts in their incentives to industry, I argue, responding to the groups supporting them. As such, focusing firstly on the coalitions will allow us to compare different policies in different countries and at

different times. For example, it would be possible to make a case that the Chilean pro-business coalition around president Piñera's first tenure (2010-2014) is remarkably similar to the one gathered around Vicente Fox, who served as Mexico's president from 2000-2006¹⁹.

Put in a different way, what I am arguing here is that in a setting where institutions function haphazardly, are malleable to political forces, and are prone to "serial replacement" (Levitsky & Murillo 2013; Brinks, Levitsky & Murillo 2019) and party systems are ideologically underdetermined, it would be best to focus on a more direct form of politics where governments respond to the groups that support them and ultimately keep them in power. If that's the case, the advantage of focusing on the – deliberately – broad field of industrial policy is the evident re-distributional aspect. Following Amsden (1992), if the success of industrial policy in Korea was the result of "getting relative prices wrong" via subsidies, tariffs, protections, and incentives, this has impacts for every sector of the economy, not just for manufacturing and industries.

A vertical industrial policy – as the one usually pursued by the countries conceptualized as developmental states – severely affects the functioning of the economy, and it changes the way by which its output is appropriated. In nations where colonial legacies froze their 'natural comparative advantages' as producers of primary goods, pursuing a developmental policy usually means dealing with the political power of primary producers and the reticence of financial institutions not used or willing to give necessary credit to productive, long-term, and often low-return enterprises.

In a policy field with such redistributive ramifications, allegiances become somewhat clearer for a larger number of actors, also permitting to extrapolate these coalitional alignments to the polity as a whole, and thus contributing with a theoretical framework that puts societal coalitions in the centre of Latin American politics. This would allow for a dynamic understanding of politics in the region, correcting some of the shortcomings of the VoC framework (Schneider 2013) – which was too static – and of regulationists like Bizberg (2019) who, in trying to account for virtually *every* aspect of policy variation in Latin America ended up with a framework that was just as structural yet not parsimonious. Hopefully, the framework proposed here will bring agency back into the analysis without incurring in political voluntarism. Successful industrial policy,

¹⁹ See Fairfield & Garay (2017) for a comparison of the two governments with regards to social policy.

economic development and the overcoming of the middle-income trap – all so rare in Latin American countries – are more about politics than about technical economical debates (Doner & Schneider 2016). Options exist, but they need to be politically viable as much as economically efficient.

4. Methodological Notes

So far, there has been no mention of the specific cases to be studied from the universe of Latin American countries and periods. At present, although knowledge about the region allows for some hunches, selecting cases to be studied needs to be done carefully.

As mentioned before, the future dissertation will be about *processes*. Studying coalitions quantitatively would not be possible, at least not in the way intended here. Coalition formation is a process and, as such, needs to be reported with a “story”, which, in research, would mean to engage in process tracing. However, in order to take full advantage of this methodology, case selection is crucially important. A common way to systematize case selection for deeper case studies is running a factor analysis and clustering groups into types. Bizberg (2019) does that for Latin American countries, finding two extreme cases in Brazil and Mexico, with two other clusters forming along the middle-ground (thus constituting four types).

However, two particularities of this research points in a different direction: firstly, although much of the data on industrial policy is indeed quantifiable, some of it is more qualitative (such as industrial relations²⁰ and sectorial policies). Further, and more importantly, any causality inferred from this research will be dependent on *conjunctions*. An industrial policy decision will depend on coalition formation, but it should be noted that this will depend on a credible policy idea being proposed by a political leadership and on the *alignment of conditional preferences* from enough groups as to form a strong coalition. This sort of conjunctural causality seems more fitted to the use of Qualitative Comparative Analysis (QCA) than to the rigidity of a factor analysis, if a systematic method for case-selection is to be used at all.

²⁰ See the ICTWSS database (Visser 2016).

I. Case selection via QCA: a possibility

At this point, it should be said that my knowledge of QCA is limited at best, however, as more knowledge of this methodology is acquired via coursework and independent study, the feasibility of such research should become clearer.

As pointed out by Schneider and Rohlfing (2019), although new, the combination of QCA and follow-up case studies – conceptualized as set-theoretic multimethod research (SMMR) – has rendered a fruitful debate in the field with much exchange as to how QCA can yield parameters for case selection.

Because of its focus on *conjunctions*, QCA can, at the very least, help marking cases as individually irrelevant (iir) or as typical. That alone, even if working with crispier and simpler sets, can already make a big difference in systematizing cases and allowing for a more focused process tracing.

i. Qualitative case selection

Another possibility is to do away with formal methods of case selection and instead rely on historical evidence of differences and similarities and on secondary literature to choose cases for most-different and most-similar analyses. This would demand a longer descriptive effort and the use of descriptive statistics to “make the case for the cases”. This is an option if more formal methods cannot account for the fine-grained differences between certain Latin American economies. Preliminary research points for an interesting pattern between the region’s largest economies. Brazil and Mexico were two of the fastest growing economies in the world from 1929 to 1980 (Maddison 1992), a period marked by ISI and state intervention. Since then, however, growth has been unimpressive to say the least, but their industrial production has taken very different forms. Their convergence for a long period and their current divergence make for an interesting place to start case selection, also for their prominence as the region’s largest economies.

(A) Options for Process Tracing

Process tracing is a powerful yet labour intensive methodology. Although social science methods may have advanced with technology, certain types of work still require a careful historical recount to show, in light of the theoretical framework, how one development led to another (Mahoney & Thelen 2015).

In the case of the societal coalitions studied by this work, it seems that there is little option but to look at the mechanisms (Beach 2016) that led to the manifold industrial policies selected in different Latin American countries. There was a chain of causality between the formation of a societal coalition and the adoption of a certain industrial policy that needs to be explicated to the reader. Coalition formation is a continuous process (Sowa 2001), but it is one that leads to different outcomes depending on each configuration and on the conditional preferences of actors, making it historically specific.

That being said, as articulated by Renate Mayntz (2002), when dealing with “bargaining among formal organizations (unions, business confederations, governments)”, it is not necessary to go down to the individual preferences of each member. I argue that this is a main point which makes this particular process-tracing feasible. By focusing on organized interests, I will be able to – via documents and interviews – trace support for policies from a few organizations that hold positions that are at best public and, at worst, deducible. This availability of information has enabled in-depth historical research about policy preferences and coalitions in the case of Brazil (see Bresser-Pereira 2017)²¹, but no work has yet focused on industrial policy and aimed at comparing with the realities of other Latin American countries seeking to build a typology.

At present, I am entertaining two options to take more advantage of the process-tracing methodology. The first would be to follow Barta (2018) and conduct paired comparisons aiming at one *least likely* and one *most likely* pairing, testing the coalitional theoretical framework twice in different settings, and going through more cases in detail. A second possibility would be to do an in-depth study of two of the most typical cases in the two most extreme outcomes (i.e. Brazil and Mexico if taking Bizberg’s analysis), and only then explore – in less detail – certain middling cases in a separated chapter. The advantage of focusing more in the two most paradigmatic cases is the amount of time I can spend on them and the level of detail that could allow for the verification of microcorrelations.

²¹ The research by Bresser-Pereira (2017) has identified bouts of coalitional alignments defined as *liberal-dependent* or *national-developmental* depending on the adherence of certain sectors of industry or agriculture. His work does provide some guidance for any scholar concerned with coalition-formation in Brazil and other middle-income countries.

5. Concluding remarks: policy and theoretical implications

The work-in-progress presented above has the ambition of contributing to the understanding of economic policy-making in Latin America. Hopefully, focusing on the broad field of industrial policy can yield results that extrapolate this and give indications on how economic policy is conducted in the region. Further, by giving emphasis to a region where development was not completely successful, I will also break with the circularity of the developmental state literature and the repetition of (neo)liberal critiques of ISI, showing how things can go wrong *politically* as well as the well-known economic shortcomings of certain strategies.

This work is more limited in terms of policy recommendations. The future dissertation will attempt not to go into detail about which kind of industrial policy worked better or worse, instead focusing on the societal coalitions that led countries in one path or another. That being said, one thing that should come out as a recommendation from this work is that political viability of an industrial policy idea is at least as important as its compatibility with economic realities and its potential to catapult a nation from its middle-income status towards a high-income level. Without political support, I argue, even the best ideas are moot.

As such, although the dissertation will not actively recommend one policy path or another, it will recommend a *political path*. Coalitions matter greatly, and any political leader should look beyond elections and even beyond congressional alliances. Without support from organized interests, the implementation of encompassing policies is hampered, if not halted altogether. Further, and perhaps following Hirschman's seminal *A Bias for Hope: essays on development and Latin America* (1971), the future work looks to argue that the region's long-lasting underdevelopment is not natural, but it derives from political factors. The matter is, thus, difficult, but solvable. Options exist, other nations have explored them, but there is no all-encompassing, one-size-fits-all, model. Certain political settings will spur development, but they are dependent on conjunctions and specificities that rely on changing political factors.

Exploring past societal coalitions that existed in the region and the policies they enabled is, I believe, a good first step to towards uncovering the political foundations of development for the region's future. This might be preliminary or overly ambitious, but it is the main motivation for this research at the moment.

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Appendix 1 – Preliminary argument schematic

