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State, market and civil society: Latin American development in comparative perspective

Menno Vellinga*

Abstract. In the 1980s Latin America made a radical break with the model of development that had been pursued by most countries on the continent for the last fifty years and implemented a new development strategy, defined along neo-liberal lines. These changes have taken place under conditions of increasing globalization, e.g. they had to be realized increasingly within globally defined parameters and structures. The relationship between the state, the market and civil society was redefined. The traditional structures of interest representation of groups and classes, their legitimacy and effectiveness underwent significant changes in many countries. In this article we will explore the nature of these changes and their consequences for state reform and the relation to problems of national development. We will do so in a comparative perspective, including experiences from South East Asia. The debate about the relationship between state, market and civil society has received a new impetus from the 2008 crisis of the international financial system and the widely spread criticism of the workings of the market capitalism that it has generated. For Latin American development the conclusions of this debate and their possible translation into concrete policies are of the utmost importance.

Key words: State, market, civil society.

Estado, mercado y sociedad civil. El desarrollo latinoamericano desde una perspectiva comparativa

Resumen. En los años ochenta, Latinoamérica rompió de manera radical con el modelo de desarrollo que habían seguido muchos de los países del continente durante los últimos cincuenta años, y se implementó una nueva estrategia de desarrollo definida por lineamientos neoliberales. Estos cambios ocurrieron bajo una creciente globalización, es decir, tuvieron que llevarse a cabo dentro de parámetros y estructuras definidas globalmente. Las relaciones entre el Estado, el mercado y la sociedad civil se redefinieron. En muchos países hubo cambios significantes en las estructuras tradicionales de representación de los intereses de grupos y clases, en su legitimidad y su eficiencia. En este artículo se explora la naturaleza de esos cambios y sus consecuencias en la reforma del Estado y en relación con los problemas del desarrollo nacional. Se hará desde una perspectiva comparativa que incluya experiencias del sur y sureste asiáticos. El debate acerca de las relaciones entre Estado, mercado y sociedad civil ha recibido recientemente un nuevo ímpetu a partir de la crisis del sistema financiero de 2008 y de las críticas hechas a los resultados de la política capitalista de libre mercado. Para el desarrollo de América Latina, las conclusiones de este debate y su posible aplicación en políticas concretas son de la mayor importancia.

Palabras clave: Estado, mercado, sociedad civil.

*Utrecht University, Faculty of Geographical Sciences/University of Florida; Utrecht University, P.O Box 80125, 3508, TC Utrecht, The Netherlands. E-mail: m.vellinga@geog.uu.nl

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Since the 1930s, economic, social and political processes in most Latin American countries were coordinated through what Marcelo Cavarozzi has called a state-centred matrix (SCM). This concept implies a double dependency in state-civil society relations (Cavarozzi, 1993, 1994). Social actors such as industrial workers, state bureaucrats, members of the middle class, all forming part of the urban-industrial complex, became a factor of social-political importance, but they depended on the state for the realization of their demands and aspirations. The state, in turn, needed the support of these actors to give it a certain basis of legitimacy. The SCM was obviously the stereotypical configuration under populist rule when those sectors associated with the model of import-substituting industrialization were integrated into corporatist structures, and formed the social basis and political force for the state. However, the presence of SCM was not limited to populist rule. Populism was not the only political formula that emerged under the model of *desarrollo hacia adentro* (inward directed development), although –admittedly– it was the most important one (Stein, 1980). These political solutions to a highly complex economic and social situation shared a common emphasis on an all-encompassing trend toward state intervention in all spheres of economic, social, political and cultural life. The trend was supported by politicians of widely differing political persuasion. The specific content of policies, however, depended on the composition and orientation of the supporting class alliance (Collier and Collier, 1991; Smith, 1998). The state thus became a 'development state' that not only provided most of the infrastructure that supported the development process, but –in the long term– extended its power and influence to a 11 those areas that had developmental impact. In this manner, in addition to the essential concerns with internal order, the continuity, and the external relations of the societal system, state action came to include an ever-increasing number of interventions. At the same time, however, the state had not strengthened its capacity to define policies that went beyond the interests of the many narrow social groups that had established particularistic links to public agencies. These policies produced a social fragmentation that served the objectives of political control, but made it increasingly difficult to create a sufficiently strong social basis for broad development-related policies. The continuos growth of the state apparatus was not accompanied by an equal growth in internal coordination, efficiency and effectiveness of state action, and lacked autonomy with regard to particularistic demands. As a result, private interest infiltrated public institutions and, in fact, 'captured' parts of the state (Weyland, 2004). This phenomenon increasingly weakened the state´s potential to pursue overarching interests, especially macro-economic ones. In this socially fragmented situation, corporatist and clientelist political practices acquired new functions, controlling social tensions in societies characterized by an extremely unequal distribution of wealth, income and access to resources that affect social mobility.

Import-substituting industrialization had become the core element of the development strategy. With this strategy, the state took care of the necessary physical and economic infrastructure. It also invested directly in the economy through the creation of large state-firms in sector defined as 'strategic' supports of economic self-reliance. Industrial growth was further promoted through the organization of development banks, regional development corporations, and through measures in the areas of import duties, exchange rates and price-controls. The idea was to create a protected internal market where the industrialization process would have the opportunity to take-off behind high tariff walls, unharmed by foreign competition. Foreign investment was subjected to stern regulation. Some strategic sectors were brought under domestic control through the nationalization of foreign firms. State intervention was replacing the market in the allocation of economic resources. This all, obviously, refers to a basic pattern, with considerable differences between the individual countries in its application (Smith, 1998).

The strategy managed to produce impressive growth rates during the three decades following the Second World War. Between 1945 and 1973, Latin America GDP grew with an annual average of 5.3 percent. Labour productivity increased at an annual rate of three percent. These are impressive results. However, in the course of the 1960s import-substituting industrialization encountered more and more difficulties. It appeared to defeat its own objectives when it produced a growing dependence on imports in other sectors. The development model of which it was such a central part, failed to produce more pluralistic power structures, and to promote a genuine democratization and a redistribution of income and wealth, as originally was thought it would. Populism appeared to be a political formula that depended on continuing economic growth. With the decline of Latin America´s traditional exports on the world market, its political basis disintegrated. The growing economic problems resulted in hyperinflation, capital flight, de-investment, balance of payments problems, massive unemployment and negative growth, creating a political crisis (Thorpe, 1998).

The class alliance identified with the economic growth model of import-substituting industrialization and that had supported the populist regimes, had been dominated by urban middle and upper-middle class groups in addition to important sectors of the urban working class, together forming a mass electoral base. In the course of the growth process, the differentiation of the economic structure it induced, and the expansion of the state apparatus it entailed, this alliance came to include a new social segment of managers, bureaucrats, professionals and technocrats who developed their own relationship with the national and international business communities. Together with sectors of the middle classes and the bourgeoisie –and explicitly excluding the popular classes– they formed an important new alliance that along with the military opted for a bureaucratic-authoritarian solution to the crisis of the model of import substitution, the collapse of populist rule and the failure of the brief democratic interlude that some countries had experienced (O´Donnell, 1973; Collier, 1979).

Several countries suffered military coups. Brazil, Argentina and Chile were the more spectacular cases, but also in the Andean countries and in Central America military-controlled regimes were established. Several of these regimes consolidated extensive state control over those institutions considered economically and politically strategic. The objective was to continue the process of capitalist industrialization under control of a technocracy that would operate with a greater autonomy toward civil society and would put an end to the growing politicisation of economic decision making in the previous period (O´Donnell, 1973).

As part of the 'package', economic adjustments and measures of inflation control were implemented that, in practice, affected strongly the income situation of the working masses. Their organizations and actions were military-controlled and repressed in an attempt to neutralize the labour movement and eventually eliminate the popular masses as a power-factor in the national political area. However, the military´s efforts to radically change the relations between the state and civil society were unsuccessful and the military control of the state apparatus was undone in subsequent years.

From the mid 1980s on, and under a different regime, state-civil society relations have experienced substantial changes. This time, however, the changes have taken place in response to a totally different economic and political conjuncture. In the 1970s, many countries in Latin America experienced moments of substantial economic growth. However, this growth was to an important extent artificial and had become dependent upon external financing. The foreign debt grew spectacularly and its servicing consumed the greater part of export income.

In most Latin American countries the state had expanded greatly its size and scope of operations. Deficits in the public budget were increasingly financed through inflationary means, a policy that eventually derailed toward hyperinflation. Failing macro-economic policies, a bad tax system, insufficient domestic savings, massive capital flight, the lack of international competitiveness of the –highly protected– national industry, heavily politicized state enterprises operating at a substantial loss, a neglected agricultural sector, a badly functioning state apparatus, these were all symptoms of an economic crisis that would last for over a decade and would be the worst the region had ever known.

Toward an 'Open' Economy

Confronted with the extent of the crisis and under strong pressure of the international financial sector, the Latin America governments had to take drastic action. First, inflation had to be contained and equilibrium had to be restored to the economy. Second, the economy had to be restructured and the conditions had to be established for sustained economic growth on the basis of international competitiveness. The realization of these objectives implied a turn around in macro-economic policy conform the prescriptions of 'the Washington consensus'. In all of Latin America, liberalization became the issue. The economy had to be governed by the market. Trade barriers had to be eliminated, protectionist practices scrapped, conditions for foreign investment liberalized. The role of the state was reduced, those institutions serving state-led development dismantled, state enterprises privatized. The state had to equilibrate its budget, which resulted in mass-firings of personnel and a sharp reduction of state spending in the physical and social infrastructure. In each country, decision making regarding these policies of structural adjustment involved only a limited number of actors: the president and the heads of the sector ministries, the director of the central bank, representatives of the domestic financial sector, international banks and the multilateral financial organizations, representing the 'Washington consensus' (IMF, World Bank and Inter-American Development Bank). These actors worked out an agreement on the general direction the structural adjustment program had to take and the international financing that would be required to implement it (Naim, 1995; Hartlyn and Morley, 1986). Labour organizations were notoriously absent during these deliberations. Few governments have openly refused to accept the reforms suggested by the international financial establishment. The existence of a concentration of power at the global level in the hands of governments and multilateral institutions strongly committed to neo-liberalism would have made such refusal a costly undertaking (Peeler, 2008). Among the countries, there is considerable variation, however, in the actual implementation of neo-liberal policies, given the distribution of power within each of the societies.

The new policies succeeded in bringing inflation under control and created a modest economic growth. At the same time, however, the income distribution in most countries has grown more unequal. Globalizing processes in combination with neo-liberal policies have polarized this income situation. In several countries social emergency funds were organized –mostly with external financing– to address the most severe situations of poverty. Their contribution to structural solutions to the problem of urban and rural poverty has been small. In addition –because most of them have been managed under the auspices of the Ministry of the Presidency– they tend to become an instrument of political patronage and traditional political practices.

The worsening of the socio-economic situation of the working population eliminated the improvements that they had experienced since the 1960s. In the course of the 1980s, the buying power of working class income had deteriorated to levels that were registered almost two decades before. In the cities, the informal sector expanded in response to massive lay-offs by the government and private companies. In the agro sector, the changes in policies mainly served the large and medium-sized producers. The *campesino* sector was considered lacking growth potentialities and was abandoned by official politics.

Table 1 presents the general characteristics of the process of state reform initiated in the 1980s and 1990s and mentions the elements that figure –with differing emphasis– in the present debate in Latin America on the relation between stable long-term economic growth, changes in the structure and functioning of the state apparatus, and the reforms of state-civil society relations. These elements indicate a general direction of the reform process. The specific arrangements between state and market and the impact of adjustment policies on social classes and other interest groups often differ considerably among countries. Structural adjustment has produced its own winners and losers. The privatization of public services and the reductions in subsidies, public social services and welfare provisions have worsened the distribution of income, already skewed to the disadvantage of

Table 1. The formal objectives: methods and actors of development and state reform

Objective	Strategy	Methods	Actors	Implementation
Improving socio-economic conditions of the poor sectors of the population. Improving the national economy´s capacity to compete on an international level. Consolidation policies directed toward macro-economic stability.	Restructuring institutions in the socioeconomic sector. Reforming the system of social services, their provision and financing. Increasing productivity in the private sector. Organizing the economic institutions of capitalism (regulation of competition consumer protection patent registration, etc.). Integration into the world economy on the basis of the competitiveness of the national business sector.	Reform of the structure and functioning of the state bureaucracy. Reformulation of responsibilities and participation in the national budget of central, regional, and local government. Reform of the judiciary and the system of law enforcement. Tax reform: organization of a more progressive revenue-raising structure and reorganization of the system of tax collection. Improvement of the quality of management of the civil service. Improvement of the functioning of parliament. Privatization of the more important state enterprises (the 'difficult' privatization). Modernization production apparatus and integration into the international economy.	The president and the cabinet. Parliament State bureaucracy. Regional and local government. Judicial powers. Labour unions. Popular organizations. Political parties. Private enterprise, national and international. The media.	Institutional reforms with participation of all interested parties. Active involvement of the medium levels in the government influenced by institutional reforms. National policy directed toward the creation of consensus and broad support in civil society for the program of reform; amplification and intensification of the democratisation process.

lower- and middle income families. The recent tax reforms initiated by many countries have not been able to correct this trend. The emphasis on indirect taxes (linked to the consumption of goods and services with a low income-elasticity of demand) must shift to taxation based primarily on income and property. The reorganization of the revenue service –a priority objective of state reform– is only in its beginning stages, and the traditional regressive state revenue-raising structure is largely intact. Thus the lower- and middle income strata are forced to contribute comparatively more to a state that has reduced its support of the public services that primarily serve their needs (Valderrama, 1995).

After 'the lost decade' of the 1980s, the real growth rate of Latin American countries turned positive again in the beginning of the 1990s. This trend was interrupted in 1995 as a result of the financial crisis affecting Mexico, and the recession in Argentina, but gradually stabilized in the following years. In the present decade, growth has remained unstable and continued to depend heavily on primary exports. In several cases, significant growth rates has been registered, although their effects on more equitable distributions of income have been minimal.

These macroeconomic developments have brought home the message that in order to attract capital towards productive endeavours, long-term economic and monetary stability will have to be guaranteed. The policies directed toward this objective will need broad support in society and should contribute toward political stability. Further, the existing supporting institutional structure will have to be redesigned. In many Latin American countries, the growth model has been operating with a brand of capitalism based on a 'production-speculation' orientation. It realized little investment in long-term capital equipment, shared a focus on commerce, quick turnover and high short-term profits, and has proven to be very unstable. Its presence has discouraged the development of more stable economic activities and has encouraged speculation. Foreign direct investment has not been able to correct this problem; on the contrary, it has contributed to the continuation of these patterns, except in those countries that have protected themselves against short-term dependencies of foreign capital like Chile and Colombia.

The way Latin America has been integrated into the international economy, and the ensuing dependencies –especially those resulting from its role as a primary products exporter– explain a considerable part of the problem. Equally important, however, are domestic factors, such as: the strong dualisms in society, the general socio-economic inequalities, the weakness of core institutions, the lack of a social and political consensus regarding the long-term objectives and means of national development. Such consensus is dependent upon a broadening and deepening of the process of democratization which, at the same time is a precondition for a successful consolidation of reform in many other areas. The recent downturn resulting from the international 2008 credit crisis, after half a decade of strong economic growth, has demonstrated again the vulnerability of such a reform agenda (Economist, 2008).

The globalization of the Latin American economies has proceeded at a rapid pace. Neo-liberal policies has been instrumental in this process. The shift toward neo-liberalism has been intimately linked with globalizing trends and with the Latin American economies becoming more fully inserted into the world economy through trade, investment and technology flows. In the 1980s, the neo-liberal paradigm provided the ground rules that were applied in order to extricate the Latin American economies from the severe crisis caused by hyperinflation and external debt. It also dictated the policies that ended the inward orientation of the paradigm that had directed Latin America´s development in previous decades. However, the opening up of the Latin American economies has left them often even more vulnerable to the impact of international economic cycles than before and has made clear their many and manifold dependencies in the international economy (Gwynne, 2000).

The neo-liberal reforms and economic liberalizations have impacted deeply in Latin America. However, they have not realized growth with equity. Most Latin American countries have been under great pressure to restructure labour markets, to keep wage costs at low levels and to make employment practices more flexible in order to create greater competitiveness internationally. The power of the trade unions has declined in almost all countries making labour more vulnerable and insecure. Corporatism has lost influence under neo-liberalism as a mechanism of interest representation. Since the emergence of labour as a political actor in Latin America in the 1930s, corporatism has served as a system organizing societal interests along functional lines. The state regulated labour markets through complex legal codes and institutions. The union movement was co-opted and controlled by the state. Union autonomy was exchanged for favourable settlements regarding wages and working conditions, and the prerogative to distribute the social welfare benefits granted by the state. This system is not working to the extent it used to do. Wages and working conditions area more and more settled through collective bargaining, either at the firm level or with the employers associations without state intervention. This way, the labour unions have gained independence and more room to run their own affairs, but they have lost in political representation within the arenas of the state. This has created a void that has been filled increasingly by voluntary associations, political movements, NGO´s and the like. Political parties are weak everywhere, with the exception of Costa Rica and Uruguay. A return to corporatist-like structures is not at all impossible (Hagopian, 1998; Gwynne and Kay, 2000). In most countries, community involvement through the establishment of collective bodies, committees and councils that seek to influence –directly or indirectly– the definition of government policies, shows a resemblance to the traditional corporatist ways.

Wage levels have suffered badly during the first phase of neo-liberal reforms, as a result of economic restructuring and the pressures to keep real wages down as domestic companies tried to survive in the face of international competition. However, when economic growth returned to the region, these low income levels continued. The inflow of foreign capital and the liberalization of trade and investment have produced and increase in wealth among the top two deciles of the income distribution while the social debt –society´s debt to the poor and unemployed– has remained high.

Globalizing processes have worsened existing inequalities and have increased the socioeconomic differences between classes and regions. Large sections of the population have not been enjoying any benefits of economic growth while bearing the brunt of economic down-turns. These conditions constitute a grave threat to the incipient processes of democratization and undermine the stability of the 'investment climate'. Social reform agendas that would draw voters and increase political participation have remained largely absent. There is considerable debate on alternatives to the top-down, conditionality-driven, outside-expert led strategy of the Washington consensus and the need to create room for policies that are focused on equitable, sustainable and democratic development (Gore, 2000; Kay and Gwynne, 2004). Such change in policy would have to include a revaluation of the role of the state in the development process.

On stateness: the Asian experience

In the debate about strategies of development, the role of specific economic sectors, the role of the state in relation to the market, the direction of state reform, important differences appear between the Latin American countries and other parts of the world. In Southeast Asia, the development process was –as in the case of Latin America– characterized by the dominant presence of a ‘developmental state’. However, where in Latin America the lack of state autonomy *vis a vis* private interests frustrated the generation of a national consensus on development objectives, hampering coordinated state action in this area, we find a totally different situation in Asia (Douglass, 1994). The neo-classical theses on the tension between state intervention and a macro-economically healthy process of economic growth, theses that had been dogma´s of the Washington Consensus, do not appear to apply. A strong role of the state with regard to processes of national development has been combined for a long time with a dynamic growth process carried by export industrialization. How did this come about? Most explanations point at the high degree of independent decision making in these areas leading to an embedded autonomy of those sectors of the state bureaucracy that dealt with development related issues (Evans, 1994). These Asian regimes were highly authoritarian and did not tolerate dissent. The development strategy envisioned the creation of an internationally competitive export economy. The integration of interests between the state and the private sector, excluding the popular masses, was a necessary part of the model. The international political situation, conditioned by the Cold War, influenced decision making and created an atmosphere of urgency while executing the strategy one had decided to pursue. Those factors that potentially could form elements of distraction were forcefully eliminated. Wages were kept at low levels and remained that way regardless of the often impressive rises in labour productivity. The labour movement was suppressed and/or controlled through particularistic mechanism (Douglass, 1994; Ellison and Gereffi, 1990). Their participation in the industrialization process was facilitated through massive investments in housing and technical schooling. Equally massive investments in the industry supporting infrastructure completed the picture.

The debate on whether such a strongly authoritarian regime and the political culture and practice that go with it, have been a necessary condition for the development strategy to be a success, has still not been settled. In Latin America, the authoritarian tradition in the political systems has been equally strong. However, the developments that we saw in the Southeast Asian countries have been absent. This suggests that authoritarianism may be less an issue than, first, the direction of the process –export orientation versus import substitution– and, second, the way this process was being managed. The success of the effort in Asia to create within the state apparatus a protected area where a technocratic elite unhindered by other elites in the government could practice macro-economic planning and conduct the management of big state corporations, has been remarkable (Douglass, 1994). This situation contrasts with developments in Latin America where under import-substituting industrialization strategies and populist regimes, the state was constantly struggling with the heritage of patrimonialism, particularism and a continuous meddling by private interests in public policies. When comparing with developments in Asia, it becomes increasingly clear that the problems surrounding the functioning of the 'developmental state' in Latin America obviously have been influenced by the size of the state apparatus, its structural overbureaucratization and behavioral underbureaucratization. However, the absence of a relative autonomy, the continuous confusion between state and government, the lack of accountability, the incapability to steer clear of private interests and define and execute a strategy on the basis of a national consensus regarding development goals, have really been the important, determining, factors that up to this day challenge development.

Explanations of Asian developments generally mention four factor complexes that are shared between Asian and Southeast Asian countries and that indicate major differences with the development process as it has unraveled in Latin America (Douglass, 1994). The first major difference between these countries concerns the absence of powerful rural interests in the Asian countries as a factor that could have frustrated the execution of export-oriented industrialization strategies. In Latin America these interests have stood in the way of modernization since colonial times. The Asian countries –one after the other– had experienced through land reforms that had created a class of small and medium-sized landowners who turned out in support of the regime in power. The second difference concerns the role and influence of the capitalist class. In both regions this class was small, in the Asian case easily dominated and disciplined by the state. In Latin America, the capitalist class was insignificant and fragmented. There were regional industrial bourgeoisies –small capitalist entrepreneurial groups– who on their own initiated a process of industrial development that, however, was directed toward the domestic market and did not form part of a coordinated strategy of national development. Examples, are: Monterrey/Mexico, Medellin/Colombia, Arequipa/Peru and Cordoba/Argentina. The third difference concerns the specific geo-political position the Asian countries found themselves in after the Second World War.

Authoritarian government, repression of labour and civil society was justified within the context of a national development process that was presented as an historical struggle against the forces of communism. It enabled the state to emphasize its autonomy *vis a vis* civil society and to push through unilaterally a strategy of urban-industrial development that would keep these forces at bay. The Latin American countries also experienced regimes of military-bureaucratic authoritarian leanings. However, these regimes suffered from the heritage of patrimonialism and collapsed under the weight of the external debt and the inability to define a development strategy that would be based on a national consensus. A fourth difference concerns a factor complex that has been debated intensively: cultural complexes, values and norms that –in analogy of Max Weber´s theses on the role of Calvinism in the rise of capitalism– tied in with the emphasis on export-oriented manufacturing growth. The emphasis on merit over class background was basic, as was the importance ascribed to educational achievement as a mobility facilitating factor instead of, as in Latin America, a factor often consolidating class positions. In the Asian countries counted a general emphasis on the need for personal improvement through life. These orientations were institutionalized by a strongly authoritarian state pursuing a national development strategy independent from the various private interests that in Latin America had infiltrated the public domain and had frustrated any coordinated national development effort.

These factor complexes represent –of course– generalizations that go beyond national differences in demography, economics, class structures and political dynamics. All countries confronted the same challenges: how to simulate urban-industrial development based on manufactured exports that would be internationally competitive, raising labour productivity while maintaining attractively low labour costs. At the same time, all Asian countries called upon state support while meeting this challenge in absence of a powerful entrepreneurial class. These developments show great differences with the rise of the developmental state in Latin America that we discussed before. The heritage of patrimonialism and the all-encompassing impact of populism –the political formula used by the developmental state-discouraged long term productive investment and reinforced a political culture that bred stagnation and rent seeking.

These decisions on development strategy had radical consequences for the growth pattern of the respective macro regions. Those Southeast and East Asian countries that had adopted a growth strategy based on industrial exports were able to profit from the rapid expansion in world trade in the subsequent decades. In those same years, most Latin American countries were confronted with stagnating growth when import substitution met its limits on their small domestic markets.

The performance of these strategies with regard to the social dimensions of development: e.g. poverty alleviation, equity and social exclusion, has been very different. These differences followed in part from the respective development model and the policies that were functional for either import substitution or exports. To a great extent, however, and certainly in Latin America, they resulted from decisions within the socio-political structure, the accommodation of the various social classes and their interests, and the ensuing public policies on distribution and welfare.

The East Asian countries have performed consistently better in the areas of income distribution and redistribution (Wade, 1990). This performance has resulted, above all, from the export model´s superior achievement in job creation. Labour-intensive and semi-skilled export production has been more successful in absorbing labour than capital-intensive and more skilled production under import-substituting industrialization. In this manner, the Asian model has been able to realize growth with considerable equity, although substantial pockets of inequality have remained, particularly in the labour-intensive export industries. Official policies have mostly been unfriendly toward income redistribution and the labour movement has been too weak and too repressed to be an effective agent for change in this area. In Latin America, as we saw, the populist regimes implementing the import substitution strategy had an important dimension of redistribution with a key role for a labour movement that was integrated in corporatist structures. These were also present in East Asia, but there corporatism served primarily objectives of security and strict political control. Under these conditions, the labour movement has not been able to develop organizational strength and to become a politically significant force.

A basic difference affecting these social dimensions of the development path followed by these macro regions concerns the distribution of access to resources prior to industrial take-off. At that stage, the East-Asian countries had relatively egalitarian social structures, in particular in the areas of landownership and the distribution of wealth. Latin America´s socioeconomic structures were less egalitarian in these areas and this heritage has remained a significant factor in obstructing the definition of more equitable growth strategies. Most countries continue to show income distributions that are highly skewed toward the small societal elites. The savings resulting from this concentration of income have –through the years– disproportionately found their way toward speculative investment and foreign bank accounts. Long-term, internationally competitive investments have been slow in coming. The willingness among the elites to invest in such projects has not been as pronounced as in East Asia where industrialists have responded with considerable enthusiasm to the possibilities offered by the expansion of international trade. In the smaller Latin American countries, it has even been more difficult to develop a production milieu that will support participation in the international economy on the basis of economic endeavors other than simple *maquiladora*-type assembly activities and traditional agro exports.

Under export industrialization, the impact from globalizing processes had to be mediated toward domestic society. The state took control in this area already at an early stage (Evans, 1995; Douglass, 1994). Contrary to Latin America, where these policy terrains were continuously being invaded by private interests, the Asian countries had a bureaucratic and executive elite who from an embedded position maintained a certain distance toward civil society while pursuing long-term development goals (Evans, 1995). While managing their strategy, they did not experience the invasion by private interests to the degree as has happened in Latin American countries (Glade, 1998). At each level of society in those countries, private interests have infiltrated public institutions to such an extent that the issue of privatization as part of the structural adjustment process in the 1980s, became rather one of privatization of the private sector (Haggard, 1990; Ahuja, 2000).

The changes in the pattern of relations between state, market and civil society since the 1980s have created a "window of opportunity"for those groups and classes identified with the modernization of the economy. Learning to produce on competitive terms within an international economy, however, has been a relatively recent experience in Latin America for many industrial entrepreneurs –including those in the larger economic of Mexico, Argentina and, to a lesser extent, Brazil– and it has not been easy to build stable export positions. In East Asia, experience with international trade has been accumulated since the 1960s, when industrialists were first mobilized in support of national development goals. As a result, they show a greater ability to produce successfully in a globalizing environment. The polarizing effects of globalizing processes in combination with neo-liberal policies have sharpened the socioeconomic differences between countries and regions that have been able to anticipate globalizing trends and those that have not (Vellinga, 2000). These differences will most probably increase as a result of the multipliers present within the growth process and –without corrective action– may create an ever increasing rift between the "winners" and the"losers" within the world economy.

State and development: final notes

The disagreements between economists who favour a strong developmental role for the state and those who support a weak state with a free and unrestrained working of market forces, have not subsided. However, despite the emotional input on either side of the debate, it has become clear that many participants are opting for a middle ground. This became abundantly clear during the discussions about the way on how to proceed while trying to resolve the recent financial crisis. The ideas on the relationship between state, civil society and the market appear to be shifting toward neo-structuralist inspired options. The experience with the policies directed toward rapid across the board opening up of the economy to the impact of world economic forces, has learned that economic growth and structural change is much better served, proceeding very carefully and gradually in this area. National enterprises need time to prepare for external competition. Also, their export capability should be supported by special measures. Growth-oriented macro economic policies should be accompanied by productive development policies directed toward domestic technology development, financial development, human resource development, physical infrastructure development and toward the improvement in productivity and competitiveness in all production sectors, manufacturing as well as agriculture and natural resource based activities (ECLAC, 2005; UNCTAD, 2004).

The implementation of such policies will require extensive cooperation between the public-private sectors, including a special role for the state and (market-friendly) interventionism which seeks to guide, not replace, the market. The developmental activities of the state should be the result of a national political consensus regarding priorities and long-term budget allocations, and should receive feedback from the market continuously. State assistance should be made conditional on performance. This would make a further retreat of the state in any aggregate sense undesirable. It is true that present state action and public-private partnerships are taking place within the constraints of a world dense with flows of trade, money and regulatory obligations. Even the, however, the state continues to have considerable power in the area of economic and social policies. Neither the increasing globalization of the world economy nor the projects of regional integration and corporation will emasculate the national states. They will continue to retain wide discretion over the extent in which the control resources (Hobsbawn, 1996; World Bank, 1997; Vellinga, 2000). Most Latin American countries have experienced substantial decreases in public spending since the beginning of the 1980s when the neo-liberal offensive took effect. However, in view of the immense needs in virtually all sectors of the Latin America economy and society to which the market does not necessarily respond, it is hard to imagine future developments for the continent that would include a permanent contraction of public sector activities. It is time to make a dispassionate analysis of the accumulated global experience with respect to the effectiveness of different forms and strategies of state action and to integrate this experience in alternative development strategies (Evans, 1997).

The first precondition for a future role of the public sector –including a capacity to plan and implement policy as part of a course of action combining stable growth with equity and extensive institutional reform supporting democratization– remains a resolution to the fiscal crisis of the state. The resistance by the privileged sectors against any type of tax reform that involves increasing their tax burden and improves collection cannot be underestimated; it will be furious. However there are no alternatives. Other options –increasing public debt or printing money, both preferred choices in the past– are no longer viable courses of action. Increasing public savings and a reduction of the public deficit are equally difficult measures –but equally necessary– to 'bring the state back in'. The search is for a strategy that would not only restore general investor´s confidence and revive the credit of the state, but also begins to resolve the problem of 'the social debt' and the need to realize civil, political and social citizenship for Latin Americans. To balance these exigencies of democratization with the implications of macro-economic policies of a largely neo-liberal persuasion, within a context increasingly influenced by globalizing processes and in the presence of an embedded political culture and persistent traditional political practices, will be the challenge Latin American countries are going to be confronted with in the coming decades.

Our analysis of the nations that have been most economically successful over the last three decades, suggests that high stateness may be a competitive advantage in a globalizing economy (Evans, 1997). The East Asian states, as we have seen, have used state-centred strategies, effecting dramatic changes in Asian´s position in the international division of labour. In view of those experiences, restricting state involvement in economic affairs conform the prescriptions of the Washington Consensus does not appear to be a strategy that is suitable for unqualified application. In the 1980s and 1990s, readjustment of the state´s role was necessary in most of Latin America. However, there is also a *comunis opinion* that there has been an overzealousness by the parties concerned in reducing the role of the state. Viewing the state as a vehicle for rent seeking made it much easier to characterize state intervention as intrinsically pathological and this has in fact been the cornerstone of neo-liberalism. This is a highly ideological position, as we have seen, and it is time for a serious reconsideration. The problem of development and the failure to realize growth with equity, in addition to the accumulation of issues that can not be resolved by the market, legitimize an expanded role for the state and its transformation into an effective instrument for the achievement of collective, development oriented goals. A leaner and state operating with autonomy while meeting a rising demand for collective goods and social protection may in the end be not only the sufficient, but –above all– the necessary condition for development.

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