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Business-Group Politics

Institutional Bias and Business Preferences

I. Introduction

Beyond economic complementarities, the main focus of Part II, politics and political institutions are decisive in the evolution of all varieties of capitalism. Various forms of state intervention that establish the foundations for the economic institutions – from training programs to competition agencies – depend on active, continuing support from political coalitions (Thelen 2001). In the case of hierarchical capitalism, business groups and labor unions used their political advantages to press for policies and institutions that reinforced institutional complementarities and favored insiders. At the same time, the politics and strategies of these insiders depend on their preferences that, in turn, are fundamentally shaped – in hierarchical and other types of capitalism – by the complementarities they face in the economic sphere. This chapter analyzes the politics and institutions that favor insiders and continuity. However, reformers and outsiders have cause to continue to use politics to challenge the negative complementarities examined in previous chapters. Chapter 8 considers the politics of these challenges and some efforts to escape from the negative complementarities of hierarchical capitalism.

A number of perspectives – crony capitalism, entrenchment, and rent seeking, not to mention Marxist arguments (instrumental and structural) – would expect big business to dominate policy making – especially economic and social policy. In the entrenchment (Morck, Wolfenzon, and Yeung 2005) and crony capitalism views, business groups in developing countries maintain their privileged positions and favorable regulations by virtue of close ties to sympathetic political leaders. Among other things, weak institutions, the huge size of business groups, and venal politicians favor entrenchment. The rent-seeking view, more theoretically elaborated by Olson (1982) and followers, reaches fairly similar conclusions; however, business-group dominance depends more on the organization of special-interest groups and less on the venality of politicians.

Although useful points of departure, these approaches suffer from three main shortcomings. First, they neglect institutions and pay insufficient attention to particular institutional configurations across different political contexts that privilege or block the access of business and other insider groups. Second, they do not problematize business preferences and mostly assume that business will seek available rents rather than exploring how different kinds of businesses prefer some policies over others. Third, in their stronger formulations, entrenchment and rent-seeking theories offer few possibilities for escape or resisting business pressures. In fact, business groups in Latin America often lose in politics, both particular battles and overall, so theories need to build in greater contingency and account for business defeats as well.

In contrast, this chapter shows how distinctive features of the political system favor business interests and how the different strategies and preferences of business groups in Latin America shape what they pursue in politics. Formal institutional features, such as the common combination in Latin America of majoritarian presidentialism with proportional representation legislatures (MP/PRL) and informal practices like appointive bureaucracies, favored business groups and other insider groups in distinctive ways. The interests pursued are not generic but can be traced back directly to the distinctive corporate structures and strategies analyzed in Chapter 3. Closer attention to the sources of preferences helps explain coalitions that did form, as well as those that did not. This last point is important to understand why business, if its preferences often prevail, did not try to block market reform, promote education, or generally push development strategies along different economic and social tracks. Asking counterfactual questions such as why did countries of Latin America not follow development strategies like those in East Asia requires close consideration of business preferences, politics, and coalitional possibilities (Doner, Ritchie, and Slater 2005; Kosack 2008).

Democratization in Latin America in the last decades of the twentieth century broke up many cozy backroom relations between business groups and authoritarian governments. However, business groups in democratizing polities learned quickly to avail themselves of new venues such as parties, elections, courts, and the media (Schneider 2010b). These democratic means were more costly, complex, and indirect, but when they worked to further business preferences, they could be more reliable and enduring than ad hoc relations with authoritarian leaders.

Last, injecting more politics into the analysis helps to shift explanations of institutional continuity from a functionalist equilibrium based on immediate economic complementarities to an exogenous and more politically contingent set of historical and political factors. Because many economic complementarities were negative and many social groups benefited little from hierarchical capitalism, politics tend to be more contentious than in other more inclusive varieties of capitalism. This political contingency is important to understanding divergences among countries in the region, and Chapter 8 examines the possibly transformative changes underway in the 2000s in Brazil and Chile.

The chapter proceeds as follows: Section II examines the features of political systems, formal and informal, that give dominant stakeholders, especially business groups, privileged access to policy making. Section III analyzes some of the policy consequences of this access by looking more closely at business group preferences. Section IV further disaggregates business to examine variation within countries among business groups that are more and less engaged in politics.

II. Political Institutions and Privileged Access for Insiders

In other varieties of capitalism, political systems reinforce core economic institutions. CMEs and LMEs are associated with, and sustained by, different electoral systems (Hall and Soskice 2001, 49–50; Cusack, Iversen, and Soskice 2007). Majoritarian political systems in liberal capitalism have wider policy swings from election to election, and therefore encourage firms to maintain flexibility (through market relations) in order to adjust to shifts in policy (Gourevitch and Shinn 2005). In contrast, political systems based on proportional representation (PR) and parliamentary government generate more coalition governments in which business and other stakeholders usually get minority, veto representation, which in turn promotes the policy stability that ensures the long-term relational investing that sustains coordinated capitalism. In the case of coordinated economies, business in fact favored constitutional reforms to change to parliamentary systems in the early twentieth century to facilitate their ongoing representation, even though parliamentary systems favor the left and greater redistribution (Iversen and Soskice 2009). In Latin America, there is little evidence that business groups had a strong hand in designing electoral systems (though they often did in bringing them down), but business groups and organized labor have managed to exert influence through their political systems to reinforce core institutions and organizations of hierarchical capitalism.

Formal political systems in Latin America stand out in their combination of (1) majoritarian presidentialism and (2) elections based on proportional representation for the legislature. In 164 legislative elections in Latin America (excluding the Caribbean) from 1946 to 2000, 77 percent were proportional, the second-highest regional proportion in the world after Europe. Of the remainder, both multitier (14 percent) and mixed (5 percent) elections often had proportional components. Only 4 percent were straight-up majoritarian elections (Golder 2005, 115). In Latin American MP/PRL systems, the presidency is endowed with strong constitutional powers, but legislatures have a growing importance especially when, as is usually the case, the president's party is in a minority. Across 12 countries of Latin America from 1982 to 2003, presidents' parties were in majority in the legislature only 34 percent of the time (compared with 51 percent for presidential regimes worldwide), and presidents in five countries, including Brazil and Chile, never had a majority (Martínez-Gallardo 2010, 127).[1] Although there are many other differences across the political systems of Latin America (party discipline, decentralization, number of legislative chambers, and so on), the MP/PRL model is a good starting point, especially because this combination is ubiquitous in Latin America and rare elsewhere.[2] MP/PRL politics combine core elements of political systems in LMEs (majoritarian presidentialism) and CMEs (proportional representation), but the resulting mix has distinctive dynamics.

In developed countries, majoritarian systems historically generated more right-wing (non-redistributive) governments compared to more left-wing, redistributive governments in PR systems (Iversen and Soskice 2006). In Latin America, MP/PRL systems have not yet shown a definitive tendency left or right. For democratic periods from 1970 to 2000, the average ideological "center of gravity" for legislatures was on the right in 9 of 13 countries in Latin America (Huber et al. 2006, 956). And, through the early 2000s, governments in Latin America redistributed almost nothing, and roughly 70 percent of public transfers flowed to the richest 40 percent of the population (Goñi et al. 2008, 19; this is also the legacy, of course, of the many authoritarian regimes in the twentieth century). This rightward tendency conforms to the theoretical logic of majoritarian systems in which winning the presidency requires the median vote of those voting programmatically. At higher income levels, voters fear redistribution toward the poor financed by them, so the median voter tends right. In Latin America, beyond the logic of majoritarian system, the poor also faced obstacles to voting programmatically, thus further raising the income level of the median voter who had even less interest in redistribution.[3]

The 2000s, however, showed a marked shift in the region to the left and more redistribution by governments through taxes and especially spending (Levitsky and Roberts 2011; Huber and Stephens 2012). Some of this shift may be related to the commodity boom that could keep MP/PRL systems from listing to the right (see Weyland 2009). When government revenues depend more on rents from commodity exports than on taxes from voters, then median voters have less to fear from leftist candidates and parties that promise more social spending on the poor. Similarly, poor voters may be less inclined to sell their votes and prefer instead to risk voting for candidates who might shift significant public spending to the poor, especially during commodity booms. This logic helps explain the recent success of left candidates in Venezuela, Bolivia, and Ecuador, part of the leftward shift in the region in the 2000s. But even outside these petro states, the left, though more moderate, and redistribution have prospered.[4] However, while the trend is redistributive, absolute levels of inequality remain among the highest in the world.

The PR legislature is well suited for representing sectoral interests and organized groups. The general weakness of unions in the economic sphere, while at the same time unions have favorable labor regulations to defend, makes it rational for them to invest in the political system (see Chapter 5). And this is encouraged by a PR legislature and, in turn, reinforces an insider/outsider cleavage in labor markets and consequently overall inequality. In the wave of market-oriented reforms, individual labor rights were somewhat reduced and union membership declined. However, unions managed to shore up collective or union rights and regulations (Murillo 2005).

Domestic business has even stronger incentives to invest in legislators. With a PR legislature and a majoritarian presidency, presidents normally have to make deals with parties and, when party discipline does not hold, with individual politicians as well. From 1982 to 2003, governments in 12 countries of Latin America had coalition governments (with more than one party in the cabinet) 52 percent of the time (and this proportion has probably increased in the 2000s). The distribution is fairly bimodal, with six countries having coalitions 80 percent or more of the time, and four countries having coalitions 22 percent or less of the time (Martínez-Gallardo 2010, 127). When parties lack leverage over legislators, the executive often has to negotiate individually with politicians not only over pork spending but also over measures favorable to core campaign contributors like business groups. Open-list PR, as in Brazil, further weakens parties and enhances the power and independence of individual politicians. In open-list PR, with large electoral districts, candidates can build very targeted constituencies among particular regions or cities, social groups (labor, ethnic, or religious groups), or with particular businesses.[5]

In Brazil, the Partido da República (Party of the Republic), formed in 2006 out of two smaller parties, illustrates how parties specialize in coalition governments. The Partido da República (or its predecessors) has long been a member of the governing coalition in Congress in exchange for a ministerial appointment,

1 Across all political systems, and not distinguishing between proportional and majoritarian electoral systems, minority governments occur 51 percent of the time in presidential systems, 49 percent in parliamentary systems, and 67 percent in mixed systems. In these minority governments, coalitions emerge 87 percent of the time in mixed systems, 77 percent in parliamentary systems, and 62 percent in presidential systems (Cheibub 2007, 79).

2 Parts of this section draw on Schneider and Soskice (2009), which offers a more extended discussion of the MP/PRL model.

3 Poverty and inequality facilitate vote buying, either literally or via clientelistic relations, including jobs or other public sector resources (Faughnan and Zechmeister 2011).

4 Fragmented electoral systems with more parties – common in MP/LPR systems – can generate some centrist, clientelist parties that do not seek the presidency but are willing to join coalitions with whichever party does (Brazil is the best example; Amorim Neto 2002). When minority presidents on the left try to draw centrist parties into coalitions, they likely diminish overall redistribution.

5 It is usually difficult to gauge business preferences on different kinds of political systems. However, in the run-up to a referendum on whether Brazil should have a presidential or parliamentary system, two-thirds of business respondents said they preferred the latter (IDESP study cited in Veja, 29 July 1992, p. 28).

and after 2003 in exchange for the Ministry of Transportation. This specialization in turn helps parties pinpoint fund raising among businesses affected by the ministry and allows businesses to target their campaign contributions. In the 2010 elections, the main contributors to the Partido da República all had contracts with the Ministry of Transportation (*Brazil Focus*, 2–8 July 2011, p. 8).

Moreover, legislation has to go through committees, so committee chairs and members have the ability to slow down and amend legislation, and hence the derived ability to intervene with ministries and agencies on questions not directly related to ongoing legislation. In other words, small parties and individual legislators have multiple ways of holding up the executive, so the executive has incentives to accede to particularistic demands from legislators on policy implementation in exchange for votes on other issues.[6] So, the best way for business and other groups to lobby the executive can be indirectly through the legislature. Investment in individual legislators as well as in parties thus has potentially high rates of return for businesses whose profitability depends in part on government regulations.

By way of contrast, a political system on the far, nonporous end of the continuum would be a majoritarian two-party system with closed lists and financial contributions prohibited or restricted to parties, and consequently strong parties focused on the median voter. In this sort of system, business has fewer points of access to press individual interests. In practice, Britain's polity is on the less porous end of the continuum. In Latin America, as discussed later, Chile's political system is one of the least porous. India, with a majoritarian electoral system and stronger parties offers a stark contrast with fragmented parties and PR in Brazil. When asked where they preferred to lobby, 52 percent of Indian business people responded party leaders (versus 11 percent in Brazil) whereas 52 percent of Brazil business respondents preferred to lobby individual legislators (versus 3 percent in India; Yadav 2011, table 4–10, 96–101). The basic point is that a fragmented party system in a PR legislature is well designed to give individual politicians and small parties power independent of the presidency, and this is what big business and interest groups can exploit.

Beyond the general MP/PRL model, some countries have peculiar institutional features that further enhance business access. Mexico has a mixed electoral system with only partial PR, and never had coalition government under the PRI or since the transition to democracy in 2000, but it has other features

[6] In Brazil, the informal group of legislators backed by Protestant churches, the *bancada evangélica*, provides a good, non-business example. In May 2011, the Ministry of Education was preparing to send out a kit of materials to schools intended to help with training against homophobia. The bancada evangélica opposed this distribution, but Congress had no formal jurisdiction on the issue. However, the government wanted to stop Congress from opening an inquiry into a top minister, Antônio Palocci, so President Rousseff ordered the Ministry of Education to suspend the homophobia initiative in exchange for support in Congress from the bancada evangélica in stopping the inquiry (*O Globo*, 26 May 2011, R...

favorable to business influence. The constitutional provision against immediate reelection means that legislators have little need to pay attention to voters who elected them, especially compared to the need they have for resources for their next electoral campaign (in some other jurisdiction; see Elizondo 2011). Moreover, after the PRI lost its majority in Congress in 1997, the party system evolved into an unwieldy three way split, where each of the three main parties had opportunities and ambitions to win the presidency. The two losing parties in each presidential election since 2000 ended up with an opposition majority in Congress that had few incentives to cooperate with the president.[7] Government bills that countered strong business interests (as in antitrust laws), often made little headway in Congress, especially in years prior to major elections because business lobbyists found ready allies among opposition legislators (examples follow later and in Chapter 8).

The judiciary branch in some countries has also given business groups another political recourse though again in a negative sense of blocking adverse policies. As the judiciary gained in powers and independence in democratizing polities, business adjusted to take advantage of these new powers. Mexico again provides the clearest example. The Mexican Constitution allows citizens to sue for injunctions (*amparos*) to stop the implementation of government measures that infringe on fundamental individual rights. Although intended to protect individual liberties, firms have been successful getting amparos to stop rulings from anti-trust and other regulatory bodies (Elizondo 2011; interviews in consulting firms that help business groups file amparos, February 2011). Courts may also be directly vulnerable to lobbying and pressure politics. In 2004, the Supreme Court of El Salvador acceded, in a high-profile ruling, to a petition from major bankers not to grant access to the bank accounts of several top politicians and business people (Segovia 2005, 29).

In addition to formal institutions, other informal practices also enhance business influence. Bureaucracies in Latin America are porous and staffed at the top by political appointees. Appointees in top economic positions are sometimes suggested or vetted by business groups (and sometimes are ex-employees) and most consult regularly with business groups (Schneider 2004). In many cases, presidents appoint business people directly to the cabinet. The practice varies over time and across countries (Table 7.1). Over nine presidential terms in Venezuela (1959–99), 20 percent of all cabinet posts and 51 percent of all economic cabinet posts went to business people. The comparable figure for Mexico over seven presidents (1958–99) was 12 percent of all cabinet posts

[7] Looking across all presidential and parliamentary systems since the mid-twentieth century, Cheibub finds that "an increase in the share of seats held by the largest party (i.e., a decrease in legislative fragmentation) is associated with a decrease in the likelihood that a coalition government will emerge; an increase in the effective number of political parties ...

TABLE 7.1. *Business Appointees in Recent Government Cabinets*

	President	Number of Business Appointees	Percent of Business Appointees
Argentina	Kirchner (2003–05)	0	0
	Duhalde (2002–03)	1	8
	De la Rua (1999–2002)	1	9
Brazil	Rouseff (2011)	0	0
Chile	Lagos (2002–05)	0	0
	Piñera (2010)	10	47
Colombia	Uribe (2002–05)	7	54
Mexico	Zedillo (1994–99)	0	0
	Fox (2000–05)	5	25
	Calderón (2006)	3	16
Peru	Toledo	7	27
	Humala (2011)	5	31

Note: Compiled from government, periodical, and other Internet sources.

(Gates 2010, table 4.4).[8] But even countries where the practice was historically uncommon – Chile under Concertación governments (1990–2010) and Mexico under the PRI (1930s–2000) – had recent governments with many business people in the cabinet. Partisanship, of course, matters in these appointments, and populist left governments in Argentina, Bolivia, Venezuela, and Ecuador had few cabinet members from business. Center left governments like those of Lula and Humala may, however, use business appointees to signal financial markets on conservative policy intentions. Leftist governments though are more likely to appoint labor leaders to top positions in government agencies.

The recent expansion of business groups abroad, largely through acquisitions of large existing firms, vastly increased the size of some firms, and as a consequence, their total investment budgets, both of which augment their political leverage and the interests of politicians and government officials in hearing their views and plans. The relative absence of MNCs from politics, discussed in Chapter 4, also magnifies the power of the largest domestic groups. MNCs make public pronouncements about narrow issues affecting their sectors, lobby officials for favorable regulation (especially on specific issues such as intellectual property and copyright protection), and push (and sometimes bribe) for contracts. But they shy away from commenting on broader, more controversial issues; do not invest much in associations or think tanks; and are usually prohibited from investing in electoral campaigns. Across Latin America,

8 At least three of Fujimori's top economic ministers in the early 1990s were business people (Wise 2003, 208). In Mexico, "under President Fox the Minister [of Communications] was himself an ex-employee of the principal firm in the sector, Telmex. While there is nothing illegal in this, it raises concerns over the extent of independence from the industry that it is supposed to regulate" (World Bank 2007, 40).

13 of 18 countries prohibit contributions by foreign entities or individuals (Griner and Zovatto 2005, 31). Political passivity by MNCs, especially in elections, thus opens up more political space for the largest domestic businesses and reduces the range of potentially divergent views among the largest firms.

When business associations mediate access to policy makers, formally and informally, they provide domestic business groups another point of privileged access. Among the large countries of the region, business associations in Mexico, Chile, and Colombia are well organized and well connected to government. Through various internal mechanisms and specialized entities, these associations also favor the preferences of business groups (Schneider 2004). MNCs are largely excluded from associations representing big business, save for Argentina where the AEA (and CEA before), an elite club of several dozen CEOs of the largest firms, invited executives from MNCs to join.

Think tanks grew up in the late twentieth century and often provided business groups with additional avenues to participate in shaping policy debates. Think tanks have long been influential in Colombia (e.g., Fedesarrollo) and more recently in Argentina, especially in the 1990s (FIEL, Fundación Mediterránea), Chile (Cieplan, CEP, and Libertad y Desarrollo), and Mexico (IMCO; on Chile, see Cociña and Toro 2009). Brazil, surprisingly, has fewer general-purpose think tanks, though business supports single-issue nongovernmental organizations (NGOs) on topics like corporate governance (Instituto Brasileiro de Governança Corporativa) and education (Todos pela Educação). In characteristically dispersed fashion, opinion leaders in Brazil are more likely to work on their own or in small consulting firms supported largely by big business. Elsewhere, most think tanks, save some social democratic (Cieplan) or union supported ones, are largely dependent on funding from multiple business supporters and offer business sympathetic positions on policy. In a few cases, the think tanks are closely associated with particular business groups, especially CEP with the Matte Group in Chile and Fundación Mediterránea with Arcor in Argentina. Think tanks are useful to big business in shaping public debate but also in serving as a springboard for appointments to top positions in government, as the heads of think tanks are often called to public service as ministers or other top officials.[9]

Last, the media, especially television, were sometimes bought up by business groups or were mostly aligned with them on major policy issues. Some major television channels grew into important groups in their own right as in Televisa in Mexico and Globo in Brazil. In other cases, business groups

9 Domingo Cavallo's move from Fundación Mediterránea to become Menem's long-standing minister of finance is a prime example. Cavallo is best known as the architect of radical neoliberal reform including sweeping trade liberalization. However, when his ministry issued a decree imposing a 10 percent tariff on imported candy and doubled tax incentives for exporting candy, many suspected that the measures were not unrelated to Cavallo's previous close relationship with Arcor through Fundación Mediterránea (see Finchelstein 2010a, 20).

have bought into television and radio (especially in Central America; Segovia 2005, 31).[10] Overall, corporate concentration is high across all media (print, radio, and television) and communication services: on average, the largest four operators control 82 percent of the market, ranging from about two-thirds in radio and print media to more than 90 percent in television (Becerra and Mastrini 2009, 213). These media outlets allowed business groups to shape public debate on major policy decisions. When owned by business groups, these media also gave business groups more direct influence over politicians who always stand to benefit from favorable media coverage. Media control thus gives business groups another potential currency in exchanges with politicians.

In sum, political systems and practices in Latin America are remarkably accommodating for business interests, especially narrow or individual interests of big business. Large business groups also have general advantages over others in politics, starting with more money. Steady acquisitions at home and abroad augmented the size advantage and added to their structural leverage. As with traditional MNCs, more internationalized business groups can also now threaten governments that they will shift investment abroad.

Business-owning families have additional advantages in politics. Families have several trusted members they can send into politics (and sometimes some members develop specialized political skills) to engage on behalf of the whole family.[11] Most important, families can make longer-term commitments to support politicians and can bear an extended and consequential grudge if crossed.[12] CEOs and other salaried managers tend to rotate through firms, especially in MNCs, and so lack comparable long-term credibility. As Morck et al. put it, "the CEOs of widely held firms in the United States serve an average seven year term – an eye blink compared to the permanence of the old money families controlling pyramidal groups in many countries" (2005, 696).

Beyond big business, MP/PRL systems are susceptible to pressure by other well-endowed and well-organized groups such as landowners, professional associations, and labor unions. As discussed in Chapter 5, labor unions have strong incentives to invest in politics, and PR electoral systems provide better returns to that investment. In the context of market reforms, unions in many countries were able to block extensive labor law reform, especially in the area of union or collective rights (Murillo and Schrank 2005). A broad cross-national study found that "countries with proportional representation

[10] Other business groups with major media operations include Ardilla Lülle and Santo Domingo in Colombia, and Cisneros in Venezuela, earlier in the twentieth century, when print media mattered more, business groups occasionally also owned newspapers, as in the case of *El Mercurio* and the Edwards group in Chile.

[11] For example, two members of the Agnelli family, owners of Italy's largest industrial group, served in parliament (Morck et al. 2005, 697).

[12] See Shleifer and Summers (1988) generally on the advantages of family business in maintaining credibility in implicit long-term contracts.

have more protective employment and collective relations laws . . . " (Botero et al. 2004, 1370).[13]

In developed countries, positive complementarities generate positive sum politics among those who benefit from the complementarities. So, cross-class coalitions among skilled workers and firms that depend on those skills sustain institutions of coordinated capitalism. In hierarchical capitalism, politics are more zero sum with smaller groups of insiders pressing to maintain core institutions and the negative complementarities among them. However, because hierarchical capitalism is exclusionary and does not automatically lead to a high road to development, it also generates political contention and pressures for change, for "incentive-incompatible" policies to undo negative complementarities. So, although political institutions and practices favor insiders and continuity, politics are not in any comfortable equilibrium.

III. What Do Business Groups Want?

Rents and rent seeking by business groups have been pervasive in Latin America. Although systematic data do not exist, levels of rent seeking in Latin America do not seem to sharply differentiate them from other parts of the world or from one another (save for Mexico and Chile, on opposite ends of the continuum in the 2000s). However, rents and generally supportive governments do not confirm a strict entrenchment argument, largely because of the high levels of turnover among business groups. Put differently, business groups have benefited from a range of favorable policies – sometimes targeted, sometimes general – but these policies have not always been the result of lobbying by business groups, nor have governments made open-ended guarantees or always stepped in to bail out firms in trouble.

In this more complex and contingent view of business-government relations, understanding likely policy consequences of business lobbying requires an analysis of both how business groups engage in politics (as considered in the previous section) and what it is that business groups want from policy. As Pepper Culpepper (2011) argues with respect to corporate governance in developed countries, policies vary across countries not in terms of business influence (big business usually gets what it wants) but rather in business preferences. To understand what policies business groups will push and oppose requires a brief reconsideration of their overall strategies and sources of competitive advantage (see Chapter 3). As discussed in earlier chapters, many business groups have strengths in commodity and other production that involves the organization of large numbers of unskilled and semiskilled workers. Business groups are diversified but also have many core assets in naturally low-risk sectors where they have inherent advantages in international markets (natural resources), sectors

[13] See Chang et al. (2010) for a general argument that PR systems favor producer groups over consumers.

where they are shielded from international competition (as in nontradable service sectors), or oligopolistic or favorably regulated sectors that provide them with a reliable cash flow. Almost none of the largest business groups have most of their assets in highly competitive manufacturing activities.

Another great source of competitive advantage comes from the ability of business groups, because of their large size, to mobilize capital both from their many subsidiaries and from domestic and, more recently, international financial markets. A last advantage is in flexibility and speed. Business groups (similar to many private equity firms) are flexible externally in their ability to buy and sell subsidiaries because they have access to sufficient cash and because managerial control is so highly centralized (Grosse 2007). Business groups have internal flexibility because they can hire and fire workers easily largely because skill levels are, on average, low and because firms circumvent costly labor regulations through subcontracting or keeping worker tenure (and hence accumulated benefits) short.

A first policy implication of this set of competitive strategies helps to explain the surprising lack of opposition to trade liberalization, and market-oriented reform overall, in the 1990s (Naim 1993; Kingstone 1999). Because they are diversified, business groups are not composed of inherently protectionist or export-oriented firms; they usually have some mix. Diversification reduces the intensity of business-group preferences on trade protection and makes them amenable to a range of policies.[14] If anything, diversified business groups are uniquely suited to adapting to abrupt changes in overall development strategy. In addition, privatization programs opened up attractive new opportunities to business groups that were exiting manufacturing in the wake of trade liberalization. Similarly, diversified business groups are fairly well insulated from, or hedged against, exchange rate fluctuations. Although exporters prefer undervaluation, most commodity producers in the 2000s had costs well below world prices and could thus more easily absorb the costs of currency appreciation. Business groups in services are largely shielded from international competition (they rarely export) and so are less affected by exchange rates (see Steinberg 2010).

Less surprising but still puzzling is the absence of business groups in coalitions pushing to reform education and labor regulation. In principle, reforms in these areas could benefit business groups significantly, and business groups in Asia did push education (Kosack 2009). However, as discussed in Chapters 5 and 6, the complementarities in Latin America reduce incentives for business groups to invest in the costly, protracted politics of education reform. To summarize the analysis in previous chapters, business-group strategies tend to rely on a combination of firms employing lots of low-skill labor and

[14] Smaller, more specialized, import-competing firms, of course, had more to lose and sometimes opposed trade liberalization (Shadlen 2004). Governments also adopted compensatory policies to ease adjustment and weaken political opposition (Etchemendy 2011).

capital-intensive ventures employing smaller numbers of skilled workers. For the latter, firms can find private solutions in training the workers themselves, and labor regulations help protect that investment. These private solutions reduced incentives for firms to invest in pushing public education reform.

A final puzzling nonissue for business groups is foreign investment. In principle, domestic business might be expected to press governments to restrict the entry of foreign firms, as domestic incumbents have often done around the world. However, business groups in Latin America have rarely voiced opposition to MNC entry.[15] Following on complementarities discussed in Chapters 3 and 4, three plausible motives stand out. First, MNCs have long been in Latin America, and business groups grew up around MNCs in sectors like cement or beer where FDI was rare. Initially, MNC lack of interest in these sectors provided natural protection for business groups. Second, MNCs expanded markets for business-group services and products and sometimes bought business-group subsidiaries, thereby buoying corporate asset prices. Last, and more abstractly, MNCs shored up property rights by raising the costs to governments of arbitrary intervention in the private sector.

Where business groups have stronger interests is in what Culpepper (2011) calls the "quiet politics" of maintaining the regulatory environment that gives them competitive advantages over local start-ups and potential MNC entrants. Many business groups sought out regulated sectors in the wake of market reforms in the 1990s. As cited in Chapter 1, a top financial executive at the Grupo Matte in Chile said the group strategy was to be big in four or five regulated sectors that were therefore "low risk and capital intensive" (*Qué Pasa*, 5 November 2005, p. 22). Many regulations are technically complex and low visibility, and politicians and voters lack the expertise and interest to engage them. Such areas of low-salience politics give big business an advantage in pressing their preferences into policy (Culpepper 2011).

Stock markets are one area where business groups want to maintain favorable regulation. Historically, stock markets in Latin America rarely functioned as expected: they did not create markets for corporate control (listed companies all had controlling owners), did not provide significant opportunities for smaller, newer firms to raise capital, and rarely developed into a reliable alternative for retail investors. However, stock markets did grant business groups access to additional capital and sophisticated means for extending business-group control over more corporate assets especially through mechanisms like pyramids and nonvoting shares. In Brazil, for example, firms could issue two-thirds of their shares as nonvoting, so business groups could control 50 percent of voting shares with only 17 percent of the firm's total capital (Coutinho and Rabelo 2003, 44). Through the 2000s, stock markets grew (after a drop

[15] In one surprising case, from the late 1990s, Mexican banks owned mostly by business groups, did not oppose the opening of the sector to the entry of foreign banks, and MNCs then proceeded to buy up most domestic banks (Martinez-Diaz 2009, 62–63).

in the 1990s), measured in terms of total capitalization as a percentage of GDP, but turnover – the actual trading of shares – remained small (Stallings 2006). And, in some cases, listed firms organized to keep stock markets from expanding beyond the limited functions useful to business groups. For example, Abrasca (Asociação Brasileira de Companhias Abertas) mounted effective opposition to a bill in 2001 designed to strengthen minority shareholder protections (Coutinho and Rabelo 2003, 49).[16]

Business groups share an abiding interest in weak and passive antitrust regulators, largely because many of them have market power in some segments of their operations that allows them to generate the steady cash flow needed to expand and sustain other firms in the group (see Chapter 3). Mexico provides the clearest examples. With its near-monopoly of fixed line telephony, Telmex, the flagship of Carlos Slim's Grupo Carso, charged some of the highest rates in Latin America. Telmex's interconnection rates were 44 percent above the OECD average that raised steep barriers to entry by potential competitors (*Economist*, 17 March 2011; see also World Bank 2007, 39–40). In essence, Mexican consumers helped finance Grupo Carso's massive expansion into telecommunications markets throughout Latin America. In cement, as noted earlier, Cemex controls around two-thirds of the Mexican market, and Mexican consumers pay double what U.S. customers pay, in large part due to "Mexico's deliberately flaccid antitrust regime" (Schrank 2005, 109).

Overall, "regulatory agencies in Mexico are weak and lack autonomous power" (World Bank 2007, 40). The antitrust legislation and agency Comisión Federal de Competencia (CFC) has greater independence, but is still ineffectual because it depends on the judiciary and other branches of government to enforce decisions (World Bank 2007, 41). Governments in the 2000s made several attempts to strengthen the CFC, successfully though partially in 2006, and unsuccessfully in 2010. In early 2010, the Chamber of Deputies passed, nearly unanimously, a strengthened competition law. However, once it got to the Senate, the opposition PRI party derailed it as would be expected given the incentives described earlier for the PRI to favor big business over their rivals in the presidency (Pardinas 2010).

Business groups in television and media initially had more impressive success in the legislature. In March 2006, the Chamber of Deputies unanimously passed, in seven minutes, a law extending television concessions and raising barriers to entry, a law subsequently known as the Televisa Law. The bill was reportedly drafted by Televisa lawyers and was passed without amendment (against the recommendations of the CFC; World Bank 2007, 41). The timing was auspicious for Televisa because campaigning was heating up for the elections in July 2006. Santiago Creel, secretary of the Interior

[16] In a study of 41 developed and developing countries, higher proportions of family firms were negatively correlated with various measures of financial development (Fogel 2006). See Chapter 3 on more recent, and successful, reforms in the Chilean and Brazilian stock markets.

(Gobernación, 2000–05) and later a senator, said the law was passed under the pressure of the elections in which all parties needed television coverage (Becerril 2007). The Supreme Court later ruled some provisions unconstitutional. The episode though provides a clear window on incentives in Congress and the ability of business groups to exploit them for favorable regulations.[17]

A last area in which business groups have interests is in the continuation of various policies intended to promote domestic business or national champions. These preferences are not as strong as those over other kinds of regulation, and business in fact lost many subsidies and protections in the 1990s often without putting up much of a fight. However, as other policies emerged, including privatizations favoring national buyers, business groups stood ready to take advantage of them (see Chapter 3). The largest, by far, program of business promotion is directed by the BNDES, the development bank in Brazil, which survived the state retrenchment of the 1990s and more than tripled its lending the 2000s. Although this growth did not apparently result from business pressures, business groups were undoubtedly the major beneficiaries (Almeida 2009).[18] As Eike Batista, founder of EBX (a new business group in mining and logistics) and one of the wealthiest men in Brazil, put it: the BNDES is "the best bank in the world" (*Economist*, 5 August 2010). The innovation policies in Brazil and Chile in the 2000s (discussed in the next chapter) devoted major new resources and subsidies to technological development. However, the sectors targeted were often related to natural resources where the main players were existing business groups.

In sum, it is incomplete and misleading merely to establish that business groups have power and conclude that they will use it to seek rents. The specific rents and benefits business groups seek depend on their core capabilities and strategies. So most business groups in Latin America are less intensely interested in trade, exchange rate, and foreign investment policies and rarely invest their political energies in pushing major reforms in education or labor law. Where their interests are strong is in the "quiet politics" of various forms of regulation in financial and product markets that shore up their privileged market positions and raise barriers to entry. The institutional and informal forms of access discussed in Section II are well suited to permit big business to influence these less publicly visible regulations.

[17] Ironically, sufficient political impetus for breaking up the near monopolies in television and telecommunications may, in the end, come from the incumbents themselves. As bundled telecommunication and television services became the norm, Telmex and Televisa wanted to enter the other's markets to offer bundled services and waged a battle in the press in 2011 attacking the other's regulatory protections (*Economist*, 17 March 2011, *América Economia*, April 2011, www.americaeconomia.com/guerra-de-monopolios, accessed 27 April 2011).

[18] BNDES's president Luciano Coutinho (2007–) had been close to business and his appointment to BNDES may not have been unrelated to business support. There is some evidence (Musacchio and Lazzarini forthcoming) that political contributions help with BNDES loan disbursements.

IV. Degrees of Political Intimacy

All business groups have advantages in politics, but some are active and politicized while others steer clear.[19] A well-known example is the distinction between Suharto and non-Suharto groups in Indonesia (Hanani 2006). Although such distinctions are less black and white in other regions, most countries manifest clear cases on each end of the continuum of intimacy. The concept of political intimacy is not restricted narrowly to crony capitalism as found under Suharto, Marcos, or Putin, but also comprises business groups that most thoroughly "buy into" the government's major policies, be they developmentalist as in Brazil or Korea in the 1970s or neoliberal as in Argentina or India in the 1990s. A major external indicator of a group's level of intimacy would be periods of rapid expansion in group activities that cannot be explained by normal economic factors, as in the expansion of the chaebol in Korea in the 1970s, the meteoric rise of the Cruzat-Larrain business group in Chile in the same period, or the rapid growth of many business groups through privatization in the 1990s. Cronyism characterized relations in many cases, but it was also combined with official industrial policies or market reforms that granted business groups preferential access to subsidies, protection, or state assets.

Business groups on the more intimate end of the spectrum generally have more volatile fortunes, rising quickly when they are close to political patrons and falling dramatically, Icarus-like, once the incumbents or policies change or the business group falls out of favor. However, some adept groups use their close connections, like a gravitational slingshot, to launch them into longer-term expansion even after their government patrons have decamped. However, on the end of greater political intimacy, Icarus groups seem to outnumber slingshot groups. These differences are best illustrated by contrasting the longer-term trajectories of some emblematic groups.

In Mexico, business groups in the northern city of Monterrey historically stood apart from those in Mexico City in cultural, familial, and political terms (Camp 1989). Monterrey groups were largely independent (at least through the 1980s) and generally opposed central governments in the twentieth century, and sometimes countermobilized through new parties and associations. The Banamex and Carso groups represent the other end of the spectrum, however, with very different endings. Banamex was the largest bank and the core of one of the largest business groups throughout much of the twentieth century. Banamex retained close, harmonious relations with a series of presidents and developed a dense network of ties through major business associations. In addition, Banamex responded enthusiastically to a series of development policies in the second half of the twentieth century designed to promote particular sectors and regulate the entry of MNCs (Hoshino 2010). In particular, MNCs in many

[19] This section draws on Schneider (2010c).

sectors could only enter Mexico in joint ventures, and Banamex offered itself as a well-connected partner (interview Agustín Legorreta, 23 June 2004). Even before the government dismantled these policies, it nationalized Banamex in 1982, and although compensated, the owners were unable to reconfigure a major new group. Carlos Slim, owner of the Grupo Carso, in contrast, cultivated close ties to President Carlos Salinas (1988–94), bought into privatization in a big way and went on, after Salinas went into exile in 1994, to construct the largest business group in Latin America. Slim may have benefited from the fact that his closest political intimacy was relatively short, which may have helped him leverage this brief gravitational boost on to a less dependent trajectory (though Carso's flagship telephone monopoly, Telmex, continued to benefit from favorable government regulation long after 1994).

Chile in the 1970s and 1980s offers one of the most spectacular examples of Icarus groups. In the mid-1970s, the Pinochet dictatorship embarked on radical neoliberal reform that included a fire sale of government-owned firms as well as an overnight opening of product and capital markets. Two business groups, Cruzat-Larraín and BHC, had especially close relations with the Pinochet government, maintained in part by a handful of economists who circulated through top positions in government as well as top jobs in these groups. Both business groups leaped at new opportunities and used international loans to buy dozens of firms the government was auctioning off to become, in the span of a few years, the dominant companies in Chile. Cruzat-Larraín grew from 11 companies in 1974 to 85 companies just three years later, while BHC grew from 18 to 62 companies in the same period. By 1978, these two groups controlled more than 37 percent of the assets of the 250 largest firms in Chile and 40 percent of private-sector bank assets (Silva 1997, 160–61). The next two largest groups, Matte and Luksic, controlled only 12 percent of the assets of the 250 largest firms. But, when the debt crisis hit Chile with devastating impact in 1982, Cruzat-Larraín and BHC collapsed, and the government took over most of their assets. The Matte and Luksic groups survived to become two of the largest groups in the 2000s.[20]

In other countries, the reversals of fortune have been less extreme. In Brazil, turnover on the list of largest groups has been high, though politics is not the only cause. Two business groups, Votorantim and Villares, illustrate well the range of political strategies over the late twentieth century. Votorantim earned a reputation in the 1970s for refusing to follow government direction, and subsidy, into new sectors, preferring instead to stick with its own more gradual and focused strategy of growth and diversification.[21] Villares, in contrast, grew

[20] In a longer-term calculation of high turnover in Chile, only three of the largest groups in the 2000s were among the large groups in the 1960s (Lefort 2010). By the 1990s, Matte and Claro were more engaged in politics and Angelini and Luksic less so (interview with Edgardo Boeninger, 22 March 2006).

[21] Evans (1979) provides an early comparison of these two groups and highlights the fact that Votorantim was the only business group in Brazil that resisted policy and other inducements to

very rapidly in the 1970s, and responded to several government initiatives to expand sectors such as capital goods, metals, and even computing. In one instance, Paulo Villares planned, with government support, to invest in capital goods. By coincidence, he met with then president Ernesto Geisel who asked him how much Villares was planning to invest. When Villares responded, Geisel immediately said, 'double it, and we'll make sure it works out.' Villares doubled the investment, but by 1982, the government was in the midst of an economic crisis, and Geisel was no longer in office (interview, 2 August 2006). By the late 1980s, Villares was selling off subsidiaries, and by the 1990s, in part due to debilitating family infighting, the group was a marginal operation compared to its standing in the 1970s. Votorantim, in contrast, came into the 1990s in much stronger shape and continued to thrive into the 2000s.[22]

In Argentina, several Icarus groups soared in the early 1990s only to crash and burn by the 2000s. Among the groups that endorsed Menem's stabilization polices and participated in broad privatization policies were Macri, Fortabat (Loma Negra), Pérez Companc, Soldati, and Techint. Most of these groups went into debt to buy privatized firms in new sectors, and most of them came out poorly (Fracchia, Mesquita, and Quiroga 2010). Fortabat and Pérez Companc ended up selling out to Brazilian firms, while Macri and Soldati sold off many subsidiaries and came through the decade in much leaner form (Finchelstein 2004; interview with Santiago Soldati, 18 September 2007). More of a slingshot case, Techint was, among the intimate groups, one that came through well, in part because its acquisitions were more closely related to its core steel business and because it relied more on exports than did other business groups. One of the groups that chose to maintain its distance was Arcor, a group with core activities in candies and diversified subsidiaries in related industries (sugar, packaging, and other food products).

In sum, business groups differ in their propensity to invest in politics, to seek rents, to follow government policies, and to prosper through politics. The consequences also differ. Some politicized groups rise and fall quickly, often through acquisitions and then spin-offs, in an Icarus syndrome. Other initially politicized business groups leverage their political gains into long-term growth, in a sort of gravitational slingshot. The nonpoliticized firms experience neither the policy-induced booms nor the subsequent busts, but grow more slowly, often through greenfield investments rather than large-scale, leap-frogging acquisitions.

The collapse of politically connected firms raises two further, related questions: Why do governments withdraw support for previously favored firms,

enter into joint ventures with MNCs in the 1960s and 1970s. For a complete history of both groups, see Reiss (1980).

22 Over a longer period in Brazil, less than one-quarter of the 500 largest firms in 1973 were still among the top 500 by 2006 (*Valor Online*, 25 September 2006).

and why, more generally, do turnover rates among top business groups vary cross nationally? Although these questions cannot be answered here, it is worth noting a few hypotheses. On the first question, Khanna and Yafeh propose a possible life cycle of relations: "from government protégés to a strong lobby with often captured regulators . . . Or to a sector that loses favor with the authorities because of its excessive influence" (2007, 359). Although systematic data are lacking, some prominent cases seem to fit this life-cycle hypothesis. For example, excessive influence seems an apparent motive, among others, in the intervention by the Putin government in Yukos (see Guriev and Rachinsky 2005). Similarly, firms that do not show active enough enthusiasm for government patrons may fall out of favor, as was reportedly part of the reason for the Korean government's withdrawal of support for the Kukje chaebol in the 1980s (Kang 2002).

Government turnover, especially from one end of the political spectrum to the other (e.g., from left to right or from democratic to authoritarian), can turn previously cozy relations into liabilities. What looks like normal, close relations between business groups and one government may seem like "excessive influence" to the next. So, when he took office in 1998, Kim Dae Jung presumably had few incentives (beyond avoiding the collapse of the financial system) to come to the rescue of chaebol he had so long publicly reviled. Similarly, the de la Rua government in Argentina might not have worried overly about the business groups that had strongly supported, and at least initially benefited from, the previous Peronist government of Carlos Menem. More generally, incoming governments with strong commitments to new development strategies may view existing business groups as part of the discredited old order. This disdain may have informed some of the actions, or rather inactions, in favor of existing business groups on the part of radical neoliberal reformers like Salinas in Mexico and Fernando Collor in Brazil in the early 1990s. Collor in fact openly castigated what he considered retrograde, rent-seeking businesses. His government did not last long enough to do more than initiate a process of trade liberalization, but the opening did, in the end, have mortal consequences for parts of several large business groups.

V. Conclusions

Few will be shocked by the idea that big business and well-organized social groups have disproportionate political influence. However, it certainly bears repeating because so few studies of democracy in Latin America even consider it.[23] It makes little sense to focus exclusively on political inputs like public

23 General studies of democracy in Latin America make virtually no reference to business (Hagopian and Mainwaring 2005; Munck 2007; Mainwaring and Scully 2010; Oxhorn and Postero 2010; Levine and Molina 2011).

opinion, voting, parties, and the institutions that shape them if in fact policy outputs depend on other actors like business that distort these inputs or twist later stages of policy making and implementation. What is more interesting than the argument that business has influence is the particular ways this influence is channeled. Business in coordinated capitalism, for example, has enormous influence on some issues that is facilitated by PR legislatures (Iversen and Soskice 2009). However, that influence is quite different because it comes through encompassing associations and goes into institutionalized parties, in contrast to the sorts of direct, personalized links between individual business people (or business families) and individual politicians that are more characteristic of hierarchical capitalism in Latin America.

Although the general economic features of hierarchical capitalism exist in other middle-income countries outside Latin America, the political dynamics are more region and country specific. The particular political factors reinforcing hierarchical capitalism in Latin America were institutional (MP/LPR and judiciary), structural (huge firms facing few countervailing economic forces and media dominance), and informal (appointive bureaucracies and privileged consultation). Similar features may favor incumbents elsewhere, but the specific combination is particular to Latin America, as are peculiar additional rules in specific polities such as no reelection in Mexico.[24]

Comparisons of Latin America with other regions, especially developing Asia, raise intriguing what-if and why-not questions. Why did Latin American governments and businesses welcome MNCs? Why did business groups invest so little in R&D? Why did pro-education coalitions not form? Answers to these questions require close attention to the positions, strategies, and political influence of large domestic firms. The examination reveals that business group strategies in most commodity and service sectors was not threatened by MNC entry, did not require R&D to remain competitive, and did not require large pools of skilled workers. The general theoretical implication of this chapter is that comparative research is likely to be better advanced by focusing on how business engages in politics rather than on how much influence it has. In terms of practical implications, reform efforts may be better focused on specific aspects of the political system (parties, campaign finance, consultative councils, and so forth) that grant business groups undue political advantage rather than on trying to change business-group behavior directly.

This chapter focused primarily on institutional continuities and path dependence and on the institutions and practices that favor powerful incumbents

[24] A number of suggestive studies correlate various measures of dominance by family firms or business groups to a range of negative outcomes in growth, inequality, and social welfare (Fogel 2006; Morck et al. 2005). However, given the opacity of business politics and the wide range of intervening political and institutional variables between business groups and social and economic outcomes, nailing down the causal mechanisms will be elusive.

and allow them to push for continuity in the policies and institutions that benefit them. However, as noted earlier, negative complementarities and the exclusion of many groups in hierarchical capitalism create political tensions and occasionally opportunities to break out of vicious cycles. The next chapter considers further the politics of change.