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**REPRESENTATION, PARTICIPATION  
AND DEVELOPMENT: LESSONS FROM  
SMALL INDUSTRY IN LATIN AMERICA**

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### Representation, Participation, and Development: Lessons from Small Industry in Latin America\*

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Although it has become accepted as a matter of course that small firms are important for economic development and there exists an abundant literature on small enterprise promotion, very little attention is given to understanding the factors that affect small firms' capacity to participate in politics. Filling this gap is important, for supporting small firms is not a technical choice but rather the outcome of political processes involving conflicts between actors with competing interests. In the simplest terms, representation affects policy, so anyone concerned with small enterprise development needs to consider the process by which small firms can secure representation.

This paper addresses this political vacuum, analysing the capacity of small industrialists to construct durable mechanisms of representation. Emphasis is placed on representation outside of the electoral realm. Using Stepan's distinction between "civil society," where interest groups and social movements articulate their interests, and "political society," the arena that hosts formal contestation among parties over policymaking authority, the analysis here is focused on civil society.<sup>1</sup> Rather than focusing on political parties, attention is paid to the aggregation and articulation of actors' interests through business associations.

The analysis is presented in two stages. The first section presents a framework for analysing small industry politics. By drawing attention to the core characteristics that define small firms as political actors, I set forth an explanation for why representation may be difficult, and I highlight the key issues at stake: the importance of formal organisation, the difficulties of small firm collective action, the critical role of the state, and the unavoidable tensions between dependence, autonomy, and political marginalisation.

I then illustrate these points with a comparative analysis of small industry representation in post-war Latin America. I focus on the politics of small industry representation in Mexico, Argentina, and Brazil. Each 'case' consists of two sub-cases, the first corresponding to the period after World War II until the late 1970s or early 1980s, the second corresponding to the contemporary period in which all three countries have undergone democratisation in the context of implementing neoliberal economic policies.

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\* This paper is based on, and includes extensive material from, Kenneth C. Shadlen, *Democratization Without Representation: The Politics of Small Industry in Mexico*, University Park: Penn State University Press, 2004. See <http://www.psupress.org/books/titles/0-271-02391-0.html> (or in the UK: <http://www.eurospanonline.com/>). Some of the research for Chapter 6 of the book was funded by the Crisis States Programme, and I wish to thank the CSP for the generous support. I also wish to thank the participants at the DESTIN/CSP workshop in October 2003 for helpful feedback.

<sup>1</sup> Alfred Stepan, *Rethinking Military Politics: Brazil and the Southern Cone*, Princeton, NJ: Princeton University Press, 1988, Chapter 1.

The conclusion extracts the main lessons from the cases and ties the case studies to the framework set out above. I then link the issues of representation and participation to the broader issue of small enterprise development.

Most importantly, the analysis points to the importance of the state, and state institutions more generally, in helping weak actors overcome barriers to collective action and providing nourishment for organisational development. And the analysis speaks to the fundamental tensions that weak actors confront, between autonomy and representation: dependence on the state can distort interest representation, but the absence of the state hardly appears to improve representation. We need to distinguish between the state as a source of political control and the state as a resource that may allow weak actors to overcome their basic political handicaps and be integrated into local and national politics.

Before proceeding, some brief points of definition and clarification are in order. I classify firm sizes based on number of employees: micro firms are those with up to fifteen employees, small with 16-100 employees, medium with 101-250 employees, and large with more than 251 employees. I use the term 'small' to refer to micro, small, and medium-sized businesses – the whole set of firms with up to 250 employees.

## **I. The Challenges of Small Industry Representation**

In considering the challenges of small industry representation, it is important to begin by noting the economic and political characteristics that distinguish small firms. This section begins by highlighting a set of basic size-based economic differences among firms. It then examines the core attributes that define small industry as a political actor, focusing on heightened obstacles to collective action. With the distinguishing characteristics presented, we can then turn to the implications for representation in the context of changing political and economic environments.

### ***Size and the Importance of Representation***

Several economic and political characteristics distinguish small firms. Relative to larger businesses, small firms generally have minimal access to credit and technology, they ordinarily operate on less product and market information, their owners and managers often lack critical administrative and professional skills, and they frequently lack the resources to train (and retrain) their employees. The reduced scale of operations for small firms contributes to liquidity problems, as factories need to run at closer to full capacity to meet customer demand, and small firms also often find themselves in disadvantageous positions bargaining with suppliers and purchasers.

These differences in resources and capacities generate distinct interests between small and large firms on a variety of public policy issues. Small and large firms typically have clashing orientations towards direct foreign investment, for example, as weaker firms with limited access to credit and technology lack the ability to associate with multinationals via joint ventures and integration into transnational production chains. Differential access to credit and technology also conditions firms' capacity to enter into foreign markets and their capacity to adjust to increased import competition in the domestic market. In short, the range of feasible adjustment options – not just increasing competitiveness by improving quality but also moving into new products, finding new markets, and seeking joint ventures – is reduced by

size. And because smaller firms depend to a greater degree on domestic sales, small and large firms typically have conflicting positions on macroeconomic policies that affect domestic purchasing power. Size, thus, is important; and it is particularly important in developing economies, where capital is scarce, credit markets are generally shallow, technological innovation externally driven, and degrees of industrial integration typically lower.

The distinct and often contradictory interests of small and large firms makes it important that a specific representative exist to advocate on behalf of small firms. Without such a representative, where small firms are integrated into business organisations created and controlled by larger firms, for example, their distinct interests are likely to be neglected and subordinated. To be sure, most business organisations maintain that they act in the interest of small firms. Yet representation has to entail more than noting the potential positive externalities of a preferred policy – that what is good for big firms may also be good for small firms as well. The crux of the issue is who will defend the interests of small firms when their interests conflict with big business.

### *A Third 'Logic of Collective Action'*

Departing from Olson's famous statement on collective action,<sup>2</sup> much of the literature on business collective action has sought to distinguish capitalists' modality of organisation from that of workers.<sup>3</sup> Yet many of the attributes that are claimed to broadly distinguish 'business' do not apply to small firms. It is necessary to distinguish the organisation of small business from the organisation of both big business and labour. We can refer, in the broadest sense, to a third logic of collective action.

In comparing the logics of collective action for different actors, it is useful to make assessments along two axes – the relative importance of formal organisation for a group to defend its interests, and the relative capacity of a group to organise. Small firms are like workers, in that their individual weakness means that they rely on collective representation through formal organisations more than large firms do. At the same time, and despite this heightened importance of organisation, collective action is relatively more difficult for small firms.

Because small industrialists (and workers) ordinarily lack the resources to defend their interests individually and informally through the market, they rely on formal organisations to a greater degree for representation. The owners of large firms can often do without formal organisations, because they are more likely to gain individualised access to policymakers, and

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<sup>2</sup> Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups*, Cambridge: Harvard University Press, 1965.

<sup>3</sup> Claus Offe & Helmut Wiesenthal, 'Two Logics of Collective Action: Theoretical Notes on Social Class and Organizational Form', *Political Power and Social Theory*, 1 (1980), pp. 67-115; John R. Bowman, *Capitalist Collective Action: Competition, Cooperation, and Conflict in the Coal Industry*, New York: Cambridge University Press, 1989; Wolfgang Streeck, 'Interest Heterogeneity and Organizing Capacity: Two Class Logics of Collective Action', Estudio/Working Paper 1990/2. Centro de Estudios Avanzados en Ciencias Sociales, Madrid, Spain, 1990; Frans van Waarden, 'Two Logics of Collective Action? Business Associations as Distinct from Trade Unions: The Problems of Associations of Organisations', in Dieter Sadowski and Otto Jacobi (eds), *Employers' Associations in Europe: Policy and Organisation*, Baden-Baden: Nomos Verlagsgesellschaft, 1991; Franz Traxler, 'Business Associations and Labor Unions in Comparison: Theoretical Perspectives and Empirical Findings on Social Class, Collective Action and Associational Organizational Ability', *British Journal of Sociology*, 44:4 (December 1993), pp. 673-691; William G. Roy & Rachel Parker-Gwin, 'How Many Logics of Collective Action?' *Theory and Society*, 28:2 (April 1999), pp. 203-237; Jeffrey Haydu, 'Two Logics of Class Formation? Collective Identities among Proprietary Employers, 1880-1900', *Politics & Society*, 27:4 (December 1999), pp.507-527.

their market power often places them in positions to collude informally by establishing cartels. Furthermore, since large firms' individual investment decisions reverberate throughout local, regional, and sometimes even national economies, government authorities are more likely to watch out for their interests.

To indicate large firms' reduced dependence on formal organisation is not to suggest that they do not act collectively. Societies throughout the world are full of business organisations. Yet establishing associations is but one mechanism by which actors can defend their interests. Collective action should be thought of as a second-best solution: most actors would prefer individual strategies, so to avoid coordination problems. The key point is that the feasibility of an individual strategy is a function of resource availability.<sup>4</sup>

Because of basic asymmetries in economic and political resources, small firms and workers are less able than large firms to pursue individual strategies. Individual strategies are generally less available for the owners of small firms, who tend not to have privileged access to state officials and whose individual investment decisions have less of an effect on the economy as a whole. The individual weakness of the small firm, subsequently, increases the importance of collective representation through formal business organisations.<sup>5</sup>

The increased importance of organisation for small firms is compounded by a more cumbersome set of impediments to collective action, and on this axis small firms are distinguishable not just from large firms but also from workers. Capitalists, generally, overcome barriers to collective action in two reinforcing ways, each of which tends to leave the ensuing associations in the hands of big firms. First, larger firms bear the costs of organisation-building. Second, capitalists overcome impediments to organisation by fragmenting according to productive activity, or 'sector'.<sup>6</sup> While encompassing, economy-wide organisations do exist in most countries, the more common form of business organisation is the sector-specific trade association. Fragmentation facilitates collective action by creating smaller collectivities with more homogenous interests, effectively parcelling business into a multitude of "privileged groups".<sup>7</sup> For example, fragmentation helps chemical producers organise, not only by creating a smaller collectivity, but also by eliminating the interests of other producers with whom they might enter into conflict on issues of public policy. And, of course, fragmentation into sectors also preserves the key condition of asymmetrical resource distribution, which allows large firms to bear the costs of organisation-building within these sectors.

The strategy of forming organisations via sectoral fragmentation has limited utility for overcoming the challenges of small firm representation. Fragmentation can help capitalists overcome the obstacles to collective action derived from horizontal, inter-sectoral conflicts, but it leaves vertical, intra-sectoral conflicts to be reconciled internally. Though some small firms will join and participate in associations created via sectoral fragmentation, these

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<sup>4</sup> Traxler, 1993.

<sup>5</sup> Haydu makes a similar point in suggesting that there is greater variability in capitalist collective action than proposed by Offe and Wiesenthal. In Offe and Wiesenthal's framework, the power of individual capitalist firms vitiates the importance of formal organization. Haydu, however, argues that such reasoning makes sense for modern corporations but not with regard to proprietary capitalists of 19<sup>th</sup> century. Thus, for Haydu the crucial variable that affects the importance of organisation is the historical period, which ultimately becomes a proxy for firm size (Haydu, 1999; Offe & Wiesenthal, 1980). See also, Lester M. Salamon & John J. Siegfried, 'Economic Power and Political Influence: The Impact of Industry Structure on Public Policy', *American Political Science Review*, 71:3 (September 1977), pp. 1026-1043.

<sup>6</sup> Streeck (1990); Traxler (1993).

<sup>7</sup> Olson (1965), p.143.

organisations tend to represent the interests of the larger firms that supply the resources for their creation and continued existence. Furthermore, while fragmentation helps capitalists organise by producing smaller, more homogenous groups that continue to benefit from an asymmetrical distribution of resources, it is a considerably less effective strategy for small industrialists: fragmentation by size into a collectivity of small firms has the perverse effect of removing the larger enterprises that are potential organisation-builders. Left to their own devices, then, organisation is particularly difficult for small business, as the number and spatial dispersion of small firms complicate coordination and increase the likelihood of free-riding.

Indeed, small firms face more intense obstacles to collective action, not just relative to big business, but, in many dimensions, also relative to workers. Unlike a collectivity of factory workers that are concentrated on the shop floor, for example, individual small firms are more isolated from each other, which increases the difficulties of monitoring participation and sanctioning free riders.<sup>8</sup> The particular challenges to small firm collective action are also heightened by the perverse effects of anticipated upward mobility. Workers in larger unions with ample resources retain an interest in increasing worker organisation and broadening the labour movement. Among the broad category of ‘small firms’, medium-sized firms (e.g. in this study firms with 101-250 employees) may also have sufficient resources to be potential organisation-builders. Yet such firms may be less likely to play the part. This difference can be attributed to the fact that business firms are organisations themselves that can grow in size. Aspirations of upward mobility – of the small firm becoming a big firm – mean the owners of such firms may perceive fewer costs in joining existing organisations dominated by larger firms, and less to be gained by promoting organisational cohesion within the small firm sector. Potential organisation-builders have less incentive to invest resources in establishing separate organisations to represent the distinct interests of small firms. In effect, the promise (or hope) of developing from being a small firm to becoming a big firm can act as a fetter on collective action.

### ***The State, Corporatism, and the Opportunities (or Challenges?) of Pluralism***

Though small industrialists’ core characteristics predispose them towards disorganisation and weakness, it would be a mistake to conclude that they will necessarily remain politically unimportant. There are multiple solutions to the collective action problem,<sup>9</sup> and many groups that face difficult obstacles to collective action become organized with the direct or indirect assistance of the state. Indeed, the provision of selective incentives that facilitate collective action is a fundamental way that states shape patterns of organisation and mobilisation.<sup>10</sup>

One set of institutions of particular importance are ‘corporatist’ frameworks that structure patterns of interest association. Schmitter defines corporatism as a “system of interest and/or

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<sup>8</sup> Michael D. Shafer, *Winners and Losers: How Sectors Shape the Developmental Prospects of States*, Ithaca: Cornell University Press, 1994, p.40; see also Haydu (1999), p.508. Of course, the flipside to this is that the external opposition to organisation among firms is significantly less than the external opposition to organisation among workers. That is, for small firms, unlike workers, collective action rarely if ever takes place in the context (and under the shadow) of other actors that seek to discourage and undermine the process.

<sup>9</sup> Mark Irving Lichbach, *The Rebel's Dilemma*, Ann Arbor: University of Michigan Press, 1995.

<sup>10</sup> The incentives may be embedded in laws and constitutions themselves, and they may be provided by means of the direct actions of politicians and state officials. See Robert H. Bates, ‘Macropolitical Economy in the Field of Development’, in James E. Alt and Kenneth A. Shepsle (eds), *Perspectives on Positive Political Economy*, New York: Cambridge University Press, 1990; Ben Ross Schneider, *Business Politics in 20th Century Latin America*, forthcoming 2004.

attitude representation... for linking the associationally organized interests of civil society with the decisional structures of the state".<sup>11</sup> Key elements of corporatism include regulations that make membership compulsory to certain organisations and policymaking regimes that give special status to 'official', state-licensed associations.<sup>12</sup>

An important implication of distinguishing between big and small firms' collective action challenges is that small industrialists may have a different orientation towards corporatist regulations that affect interest organisation. Because big firms generally rely less on state concessions to organise, and because they can often escape state-imposed constraints on organisation, it is generally argued that the state's capacity to structure patterns of capitalist interest association is weak.<sup>13</sup> Not surprisingly, attempts to impose corporatist restraints on big business tend to be relatively ineffective. For small industry, in contrast, the comparatively greater importance of formal organisation combined with a comparatively lesser ability to overcome the impediments to collective action suggest that patterns of association are likely to be more sensitive to state institutions.

A staple of the literature on corporatism is that such regulatory frameworks can distort representation. Concessions such as licensing and compulsory membership can serve as invaluable ingredients for overcoming barriers to collective action. But because concessions extended under one set of political conditions can be withdrawn under other conditions, however, dependence on organisational concessions can generate vulnerability.<sup>14</sup> Vulnerability to the removal of such concessions, in turn, can make an organisation's leadership less accountable to the membership and more oriented towards satisfying the state. Indeed, reorienting the accountability of an organisation's leadership from the membership to the state is frequently one of the objectives in extending concessions.

While corporatism certainly entails constraints on certain types of political activities, it is important to understand how corporatist regulations can also provide opportunities. To be sure, where regulations on association are imposed from above, what Schmitter labeled "state corporatism", groups risk losing their autonomy to the state.<sup>15</sup> But one has to be careful, analytically, not to prioritise autonomy over organisation. The risk of losing organisational autonomy is predicated on the prior existence of organisational cohesion. If a social group that depends on organisation for representation is fragmented and unorganised, reduced autonomy is hardly the biggest problem it faces. On the contrary, if a sacrifice of autonomy is the price to be paid for overcoming obstacles to collective action, many weak groups may be

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<sup>11</sup> Philippe C. Schmitter, 'Still the Century of Corporatism?' *The Review of Politics*, 36:1, (January 1974), p.86.

<sup>12</sup> Collier provides an insightful discussion of how the concept of corporatism has been used in the study of Latin American politics (David Collier, 'Trajectory of a Concept: "Corporatism" in the Study of Latin American Politics', in Peter H. Smith (ed.), *Latin America in Comparative Perspective: New Approaches to Method and Analysis*, Boulder: Westview Press, 1995).

<sup>13</sup> Mick Moore & Ladi Hamalai, 'Economic Liberalization, Political Pluralism and Business Associations in Developing Countries', *World Development*, 21:12 (December 1993), pp.1895-1912; Guillermo A. O'Donnell, 'Corporatism and the Question of the State', in James M. Malloy (ed.), *Authoritarianism and Corporatism in Latin America*, Pittsburgh: University of Pittsburgh Press, 1977; Offe and Wiesenthal (1980).

<sup>14</sup> David Collier & Ruth B. Collier, 'Who Does What, to Whom, and How: Toward a Comparative Analysis of Latin American Corporatism', in James M. Malloy (ed.), *Authoritarianism and Corporatism in Latin America*, Pittsburgh: University of Pittsburgh Press, 1977.

<sup>15</sup> Schmitter (1974). Indeed, that was often the objective of state officials. Controls were typically imposed on already mobilized and organized groups (see James M. Malloy(ed.), *Authoritarianism and Corporatism in Latin America*, Pittsburgh: University of Pittsburgh Press, 1977; Guillermo A. O'Donnell, *Modernization and Bureaucratic-Authoritarianism: Studies in South American Politics*, Berkeley: Institute of International Studies, University of California, 1973).

willing – if not eager – to pay this price. Weak actors may take advantage of the opportunities presented by corporatist institutions to build alliances with the state.<sup>16</sup>

Rather than regarding the ensuing relationship as entirely state-inspired and state-dominated, we should conceive of corporatism – even state corporatism – as establishing a bargaining framework that includes trade-offs. Social groups acting within a corporatist framework balance the benefits gained from state concessions, e.g. increased organisational cohesion, with the costs entailed by dependence on the state, e.g. decreased organisational autonomy. We cannot know *a priori* how actors will weigh these trade-offs, but it is essential to recognize that the political relationships that develop within such frameworks may not simply be imposed by the state but are part of a strategy of the weak actors that prioritise organisational cohesion over autonomy.

The complex trade-offs between organisational cohesion and organisational autonomy are likely to produce tensions within associations that attempt to represent small firms. Representative organisations must respond to the demands of the membership, of course, and they also need to devise strategies to preserve resources and the capacity to participate in policymaking. The tensions between these two tasks, always present for organisations, are intensified for organisations representing small firms.<sup>17</sup> This distinction derives from the previous discussion. The heightened importance of formal organisation means that sectoral leaders must be acutely concerned about preserving the capacity to represent – to retain the association’s seat at the table. Concern with preserving the representative status and capacity of the organisation may motivate partial suppression of members’ immediate interests on a given issue of public policy. From the organisation’s perspective, it may seem imprudent to exhaust resources in defeat today, particularly if doing so threatens to jeopardize the capacity to project members’ interests tomorrow, against a different and potentially weaker array of opposing forces.

The benefits obtained by this sort of representative strategy, however, can become outweighed by the costs. Most importantly, as the benefits accruing to an association’s membership decline, where the membership (or important parts of the membership) perceive that the organisation’s input is not generating adequate benefits or that the benefits extracted by accommodation appear narrowly distributed, a representative strategy that subordinates members’ interests to organisational preservation is likely to generate backlash. Again, these standard dilemmas, generic to business organisations, are accentuated in the case of small industry because of the sector’s debilitating core attributes.

Democratisation may amplify these divisions over representative strategy by making the opportunity costs of prioritising organisational preservation appear greater. Democratisation presents social actors with opportunities for new forms of social protest, new avenues of interest articulation, and potentially new alliance partners. Political party competition, the emergence of more active legislatures, and the appearance (or reappearance) of civil society and new arenas of contestation can make the previous set of trade-offs seem stale. The availability of new alliance partners, for example, can make it appear that organisational cohesion may be obtainable without sacrificing autonomy to the state. For those actors

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<sup>16</sup> Foster makes a similar argument with regard to associations under authoritarian rule in China (Kenneth W. Foster, ‘Associations in the Embrace of an Authoritarian State: State Domination of Society?’ *Studies in Comparative International Development*, 35:4 (Winter 2001), pp. 84-109).

<sup>17</sup> See, for example, Philippe C. Schmitter & Wolfgang Streeck, ‘The Organization of Business Interests: A Research Design to Study the Associative Action of Business in the Advanced Industrial Societies of Western Europe’, Discussion Paper IIM/LPM 81-13. Berlin: Wissenschaftszentrum, 1981).

embittered by sacrificed autonomy, then, democratisation can make alternative strategies appear more feasible and desirable. These different evaluations of opportunity costs, in turn, can aggravate tensions between rival groups within a given organisation.

Democratisation may also introduce episodes of institutional contestation and transformation, which in turn may exacerbate the difficulties of small business representation. In general, because powerful actors can benefit more from ad hoc and less routinised forms of representation, they may have less interest in increasing broader societal access to the state. To the extent that democratisation threatens to reduce big business' access relative to other social groups, we may witness attempts to take advantage of the opportunities presented by democratisation to construct new and more exclusionary mechanisms for interest articulation.<sup>18</sup>

But big firms are not the only actors who may be threatened by democratisation. Episodes of institutional contestation and transformation can have perverse effects on small firm representation. Take the issue of corporatism, for example. Though democratisation does not require the elimination of corporatism, it subjects such regulations to contestation. We might expect actors constrained by corporatist regulations to take advantage of democratisation. After all, democratisation opens new possibilities for interest articulation, free of the constraints inherent to operating under corporatist regulations. Yet for actors that have benefited from a given policymaking regime – even 'weak' actors – democratisation may be regarded not as an opportunity so much as a threat. Sunk costs and the "practical temptations" of operating under one set of political arrangements may make new and more pluralistic arrangements appear less attractive.<sup>19</sup> Thus, to the extent that democratisation contributes to contestation over the institutions that undergird familiar patterns of state-societal interaction, some actors who secured beneficial positions under authoritarian governments may resist and even oppose democratisation.<sup>20</sup> In fact, some actors may exhaust limited resources attempting to preserve existing institutional arrangements.

Though securing representation in authoritarian and corporatist settings presents small firms with the challenge of dealing with dependence on the state, the removal of concessions delivered through corporatist frameworks presents the challenge of how to remain organized and how to retain access to the state. First-order difficulties of collective action and organisational cohesion, the same concerns that can make corporatism appear as an opportunity, can be revealed and returned to prominence under conditions of voluntary membership. In other words, not all groups constrained by corporatism are likely to be strengthened by democracy. Potential new opportunities emerge, as impediments to

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<sup>18</sup> In fact, this same logic is precisely what underlies scepticism of the effect of financial integration and the increased prominence of mobile asset holders might have on strengthening democratic institutions (James Mahon, *Mobile Capital and Latin American Development*, University Park: Pennsylvania State University Press, 1996, Chapter 5). For an overview of various hypotheses regarding mobile asset holders and democracy, see Leslie Elliot Armijo, 'Mixed Blessing: Expectations about Foreign Capital Flows and Democracy in Emerging Markets', in Leslie Elliot Armijo (ed.), *Financial Globalization and Democracy in Emerging Markets*, London: Palgrave, 1999.

<sup>19</sup> Philippe C. Schmitter, 'The Consolidation of Democracy and Representation of Social Groups', *American Behavioral Scientist*, 35:4-5 (March-June 1992), p.437; Timothy J. Power and Mahrukh Doctor, 'Beyond the Century of Corporatism? Continuity and Change in Brazil', in Howard J. Wiarda (ed.), *Authoritarianism and Corporatism in Latin America, Revisited*, Gainesville, FL: University of Florida Press, forthcoming 2004.

<sup>20</sup> More generally, see Kevin J. Middlebrook, *The Paradox of Revolution: Labor, the State, and Authoritarianism in Mexico*, Baltimore and London: The Johns Hopkins University Press, 1995, who uses this insight to call into question Rueschemeyer, Stephens, and Stephens's expectation of organized labour as protagonist of democratisation (Dietrich Rueschemeyer, Evelyne Huber Stephens and John D. Stephens, *Capitalist Development and Democracy*, Chicago: University of Chicago Press, 1992).

organisation are reduced, but democratisation can replace organisational dependence and diminished autonomy – the pathologies of corporatism – with organisational instability, decay, and political irrelevance.

We now move from the abstract to the concrete, applying this framework to analysis of small industry representation in Mexico, Argentina, and Brazil.

## **II. Mexico: Democratisation and Declining Representation**

Small firms' core characteristics make securing representation an uphill struggle in any political system, but in post-war Mexico, the nature of the regime provided fertile territory for small industrialists to secure reliable representation. While authoritarianism and corporatist regulations on interest association were constraining, these conditions also presented small firms with a window of opportunity to develop and nurture an alliance with the state. That is, corporatism provided opportunities for overcoming collective action problems, and incentives to develop mechanisms for organisational development. Small firms lacked autonomy, but they had representation. In contrast, democratisation and the withdrawal of the state revealed the sector's weaknesses and did not provide fertile terrain for sustaining organisational capacities and coherence. Subsequently, dependency was replaced by fragmentation and weakness.

### ***Dependence, Accommodation, and Representation***

The cornerstone of the corporatist framework that regulated business organisations in Mexico was the Chambers Law (*Ley de Cámaras*) of 1936, revised in 1941. The 1936 law required all Mexican firms to join state-sanctioned chambers of commerce and industry, which, in turn, were obligated to join the national Confederation of Chambers of Commerce and Industry (CONCANACOMIN).<sup>21</sup> This confederation was formed by combining the Confederation of Chambers of Commerce (CONCANACO) and the Confederation of Chambers of Industry (CONCAMIN), founded in 1917 and 1918, respectively. The Law defined the chambers and the confederation as “public autonomous institutions”, designated them as the private sector's official representative bodies, and provided the state with various mechanisms of control over the formation and functioning of both sorts of official organisations.

The key innovation of the 1941 Chambers Law was to make a statutory distinction between industry and commerce. From this point forward industrialists would join specifically industrial chambers, which would be members of the reconstituted CONCAMIN, while retailers and service-providers would join chambers of commerce, affiliated to CONCANACO. In industrial sectors where chambers did not already exist, industrialists were to request permission from the state to form new chambers.

At the same time, the state sponsored the creation of a new organisation, the National Chamber of Manufacturing Industry (CANACINTRA). In the subsequent decades this organisation would serve as the principal representative of small industry in Mexico.

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<sup>21</sup> This requirement did not apply to financial services. Banks, insurance companies, and later stock brokerages each formed their own organisations that were not regulated by the Chambers Law. This paper analyses the organisation of small industry within the corporatist framework. See Ben Ross Schneider, ‘Why is Mexican Business So Organized?’ *Latin American Research Review*, 37:1 (2002), pp. 77-118, for discussion of independent business organisations that operated outside of the corporatist framework.

When CANACINTRA was created in 1941, it was designated as a mixed-activity, catch-all chamber for new and emerging manufacturing sectors that did not have their own chambers; it was not designated as a chamber for small industrialists per se. It was the pattern of interest organisation that followed the 1941 Chambers Law that transformed CANACINTRA into the de facto representative of small, domestic-oriented, Mexican industrialists.

The organisation underwent rapid growth throughout the post-war era, as thousands of industrialists in unorganised sectors became legally obligated to join and pay dues to the chamber. At the same time that it was growing, however, CANACINTRA also lost members to new industrial chambers that were affiliated directly to the Confederation of Industrial Chambers (CONCAMIN).

This pattern of fragmentation – from CANACINTRA and into sector-specific chambers – was most pronounced in those sectors dominated by larger firms. One reason for this tendency is that larger firms have a relatively easier time overcoming the barriers to collective action that might otherwise impede the formation of organisations. Larger firms were also better prepared to satisfy the legal requirements for establishing new chambers, and they were more likely to have adequate contacts and resources to sway the appropriate state officials responsible for authorizing the creation of new chambers. Moreover, as CANACINTRA came to represent small firms, larger firms with distinct interests and with needs for distinct services wanted their own organisations. These factors reinforced each other: big firms leaving CANACINTRA turned the chamber into the representative of small firms, and CANACINTRA's vocation as the representative of small firms heightened big firms' desire to leave.

The creation of new chambers in CONCAMIN increased the dependence of CANACINTRA on the state, for the process of fragmentation made it more difficult to keep the organisation together. Capitalists, in general, are less stymied by typical impediments to collective action, because an asymmetrical distribution of resources within the collectivity increases the likelihood that there will be larger firms able to bear the burdens of organisation-building.<sup>22</sup> In the case of CANACINTRA, however, at the same time as the chamber's membership was growing, it was losing the large firms that might have simplified and facilitated organisation. Many of the remaining members tended to be smaller and less stable, increasing the chamber's dependence on compulsory membership for organisational cohesion.

The creation of new chambers also eroded CANACINTRA's membership base and resources. Even though the creation of new chambers was led by large firms, it occurred within a legal framework that required sectoral chambers to be comprehensive. Because the Chambers Law made membership to the new chamber compulsory for all firms in the sector – not just the handful of big firms that petitioned for the new chamber – the establishment of a new chamber therefore meant that hundreds of dues-paying members of all sizes would leave CANACINTRA.

Although the Chambers Law made state authorization a prerequisite for the creation of new chambers, the vagueness of the Law left state officials with a substantial degree of discretion. According to the Chambers Law, the government was to determine when a new chamber could be created and which firms should join which chambers. But the Law did not clearly specify the requisites for establishing separate industrial chambers; nor, critically, did it define the criteria by which officials determined whether a group of manufacturers should form their own chamber or remain members of CANACINTRA.

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<sup>22</sup> Van Waarden (1991).

Thus, in the decades following the 1941 Chambers Law, CANACINTRA came to depend on the state in a variety of important ways. The chamber depended on compulsory membership, for that is what guaranteed the organisation an expanding base of dues-paying members, members that otherwise might face daunting obstacles to collective action and suffer from free-riding. And CANACINTRA depended on favourable application of the Chambers Law, particularly with regard to rulings on the creation of new chambers, for that is what saved the chamber from undergoing a massive haemorrhaging of members and resources.

The fact that the Chambers Law gave the state the tools to determine CANACINTRA's fate encouraged the chamber's leadership to make small industry an important ally of the state. CANACINTRA adopted a strategy of 'accommodation', which consisted of adopting a cautious and conciliatory approach towards state officials, avoiding outspoken criticism of post-war economic policy, and bypassing alliances outside of the state. By offering support of the government – even a government implementing economic policies that were frequently counter to the interests of small manufacturers – CANACINTRA exchanged political autonomy for organisational stability.

Organisational stability allowed CANACINTRA to participate in national political economy and deliver valuable concessions to small industrialists. To be sure, small manufacturers were not the dominant actor in state-business relations; they did not drive policy. Yet CANACINTRA was able to cultivate ties to the state and to extract concessions for small firms in the areas of trade, foreign investment, and industrial finance. Small industrialists lacked power, but not representation: they had an advocate. Though CANACINTRA did not drive economic policy, official status provided the chamber leadership with a reliable set of contacts with state policymakers. The downside to this, however, was that the price of access for a weak actor like small industry was the sacrifice of autonomy, and this remained a contentious issue among the membership throughout the post-war period.

### *From Dependence to Irrelevance*

The 1980s featured economic crisis, the transition to a neoliberal model of economic development, and democratisation. This section focuses on the latter of these changes, demonstrating how democratisation led to a decline in small industry representation. The particular aspect of democratisation considered here is the relaxation of corporatist constraints on business association.<sup>23</sup>

Compulsory membership to chambers was terminated in January 1997, though a ruling by the Mexican Supreme Court had made that aspect of the Chambers Law effectively unenforceable since earlier in the decade.<sup>24</sup> Because individual plaintiffs could obtain injunctions without going through long court battles, firms stopped paying membership dues and the state stopped sanctioning violators.

The demise of compulsory membership, in the context of broader economic and political changes, provoked a revaluation of CANACINTRA's relationship with its members. The chamber's strategy to recruit and retain members had traditionally been oriented more towards the state than towards the firms that comprised the membership. The reasons for this orientation derived from the nature of the post-World War II developmentalist policymaking

<sup>23</sup> I consider electoral competition and the role of political parties in Shadlen (2004), Chapter 5.

<sup>24</sup> Carlos Arriola, 'La ley de cámaras empresariales y sus confederaciones', *Foro Internacional*, 37:2 (October-December 1997), pp. 634-660.

regime and the corporatist institutions. Since CANACINTRA had access to the state agencies that made decisions on import licenses, for example, small firms lacking individual clout depended on the chamber to act as their agent. And because the Chambers Law made membership compulsory, the relationship between the chamber and its members was asymmetrical: small firms needed CANACINTRA more than the chamber depended on the membership.

Each of these conditions underwent significant change in the 1990s. The neoliberal model implied a fundamental transformation of corporatism. The replacement of licenses with tariffs, for example, clearly deprived CANACINTRA of an important concession that it had been able to deliver to members. Also, the new pattern of state-business consultation that emerged in the late 1980s and 1990s, featuring close collaboration between policymakers and peak organisations controlled by Mexico's largest firms, meant that CANACINTRA had less access to the state and was less able to deliver a service of providing voice. Finally, the end of compulsory membership meant that CANACINTRA would have to attract members on a voluntary basis. By the mid-1990s, then, the economic model and the transformation of corporatism made it more difficult for CANACINTRA to attract small firms while at the same time making it imperative to do so.

CANACINTRA's leaders attempted to reform the chamber. A confidential "Immediate Action Programme", prepared at the highest levels of the organisation, served as a guiding document for organisational reform in the mid-1990s.<sup>25</sup> The cornerstone of CANACINTRA's reform programme entailed the provision of more services, and particularly services for which the chamber could charge fees.<sup>26</sup> By providing a wider array of services to small firms CANACINTRA hoped to make membership so desirable that firms would choose to join on a voluntary basis. And by charging for such services, the chamber aimed to generate an additional source of revenue. Diversified revenues might make the organisation less dependent on the state, for the simple reason that the existence of alternative sources of revenue reduce vulnerability to the removal of state support.

At the same time that the end of compulsory membership made the need to find new revenue sources more essential than ever, however, the chamber found itself less capable of responding to the challenge. The deep economic crisis that followed the 1994 devaluation of the peso led to widespread small firm bankruptcies. Many of CANACINTRA's members ceased to exist, and many of those that did not close their doors conserved scarce resources by suspending their chamber membership. In addition, CANACINTRA's tepid response to the rapidly changing economic environment during the late 1980s and early 1990s had led to widespread discontent on the part of the membership;<sup>27</sup> and the economic crisis only aggravated the damage already done to the chamber's legitimacy among small manufacturers. The combined result of the crisis and the continuing loss of stature was that fewer firms voluntarily paid their membership dues.

When compulsory membership was officially terminated in 1997, CANACINTRA's membership plummeted. Rather than gain or even retain members, the chamber underwent massive haemorrhaging. After decades of continued membership growth, the chamber entered into a rapid and precipitous tailspin. From nearly 90,000 firms in the late-1980s,

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<sup>25</sup> CANACINTRA, *Programa de Acción Inmediata*. Confidential internal document, 1994.

<sup>26</sup> The chamber also sought to gain additional revenue by selling more advertising in CANACINTRA publications and by renting excess office space.

<sup>27</sup> Kenneth C. Shadlen 'Neoliberalism, Corporatism, and Small Business Political Activism in Contemporary Mexico', *Latin American Research Review*, 35:2 (Spring 2000), pp. 73-106.

CANACINTRA's membership shrunk to approximately 15,000 by 1997. Although membership rebounded in 1999-2000 in the context of economic recovery, it remained at a lower level than in the 1960s. The decline is particularly sharp when membership is measured as a percent of all manufacturing firms. Whereas CANACINTRA's membership accounted for ten to fifteen percent of all manufacturing firms in the mid-1950s and, following the 1960 reform of the Chambers Law, rose to nearly sixty percent of all firms by the 1980s, by the end of the 1990s fewer than five percent of all manufacturing firms belonged to the chamber, the lowest share since the 1940s.

The loss of so many dues-paying members left CANACINTRA in serious financial difficulties, precisely the sort of revenue crisis that the leadership had sought to avert with the Immediate Action Programme. The financial crisis was worsened by the fact that the strategy to invest in services had not just failed to create new sources of revenue, but backfired. Many of the projects entailed large investments, and to finance these investments the chamber had borrowed significantly. Yet the recession reduced the demand for the services. Thus, in the wake of the 1995 crisis, investment in services turned out to be quite costly: participation diminished at the same time as the chamber's debt-servicing obligations ballooned. In fact, CANACINTRA had taken out large loans against its Mexico City office building, and in the wake of the crisis the chamber, like many businesses and families, risked losing its 'home' to its creditors.<sup>28</sup> To stave off its creditors, CANACINTRA downsized. It cut back on the services it provided, it reduced its staff and payroll, and moved into a smaller part of its building to make office space available on a rental basis.

Ultimately, CANACINTRA failed to make the transition from being a business association that could flourish under authoritarianism and developmentalism to an association capable of thriving in a democratic and pluralist context. The chamber's efforts to reconstruct its relationship with the membership were unsuccessful, as indicated by the continued loss of members and the considerable worsening of its finances. The financial crunch created a vicious circle: the chamber lacked members and resources, and without a membership base it lacks resources to invest in services that could increase membership in a time of voluntary affiliation.

Importantly, the chamber's principal problem by the late 1990s was no longer that dependence on the state and concern with organisational preservation led to the subordination of members' members' concerns – the problems associated with corporatism. Rather, with the removal of compulsory membership the problem was that CANACINTRA, quite simply, became irrelevant. It would not disappear, but it was left lingering in a state of decay with diminished representative capacity and minimal access to the state.

CANACINTRA's declining role in Mexican politics meant that a bigger share of the burden for representing small industry fell on the shoulders of CONCAMIN, of which CANACINTRA remained a member.<sup>29</sup> While CONCAMIN was historically dominated by large Mexican and transnational manufacturing firms, it took a greater interest in small industry in the 1990s. Yet CONCAMIN was also marginalized by the new pattern of state-business consultation, which gave a prominent role to peak organisations such as the peak

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<sup>28</sup> Lucía Rangel Flores & Roberto Fuentes Vivar, '¿Son mejores que los políticos?' *Expansión*, 770 (21 July 1999).

<sup>29</sup> CONCAMIN also suffered from the loss of compulsory membership, but it was better able to withstand the storm because it had always depended to a greater degree on the non-compulsory contributions of voluntary associations.

Business Coordinating Council, CCE.<sup>30</sup> Thus, even as CONCAMIN became more responsive to the concerns of small industry, it had scarcely more capacity than CANACINTRA to represent this segment of capital.

Of course, virtually all business organisations, including those dominated by big business like the CCE, claim to represent small firms. The question, however, is not whether peak organisations call for helping small firms, which they invariably do, but the extent to which they will defend the interests of small industry when these interests enter into conflict with the interests of larger firms.

The fundamental issue of how the CCE reconciles conflicting interests is evident in the organisation's approach to industrial policy. Industrial integration may be driven by the autonomous investment decisions of leading firms, but post-war history has also demonstrated the important role the state can play in encouraging linkage between large and small firms.<sup>31</sup> Some regulations will be resisted by larger firms that would prefer lower-cost or higher quality sources of supply that may be available in foreign markets. The real crux of representation, then, comes down to the capacity and willingness of an organisation to fight for promotional policies that specifically help small firms even if doing so places constraints on bigger firms. Such was the role that CANACINTRA played for decades, but neither the chamber nor CONCAMIN are able to fight these battles in the new political-economic environment. Peak organisations dominated by Mexico's largest firms serve as an unreliable substitute.

Furthermore, even when interests of small and large firms are entirely compatible – when the challenge is not conflict reconciliation but rather interest coordination – peak organisations dominated by large firms provide unreliable representation. As discussed above, the concerns of smaller firms tend to be different from the concerns of larger firms. To be sure, large firms may not be threatened by the sorts of demands made by small firms. Large firms would stand to benefit by having small firms with better access to credit and technology, for example, and thus more productive and better equipped to integrate into broader chains of production. But lobbying has costs; and for organisations controlled and dominated by large firms, the costs of lobbying on behalf of small firms has to be weighed against the costs of operating without a dynamic small firm sector. Individual firms may look out for their own suppliers and clients, but at an organisational level these incentives are less salient. The result is that Mexico's peak organisations consistently express support for small firms, but promotion of such firms remains a low priority, and thus the interests of smaller firms remain subordinated in Mexico's new network of business associations.

In response to CANACINTRA's decay and the subordination of small firms' interests within Mexico's peak organisations, a number of associations have emerged to fill the gap. One such group is the National Association of Manufacturing Industrialists, which emerged in the 1980s as a rival to CANACINTRA.<sup>32</sup> ANIT's principal problems throughout the late 1980s and early 1990s were lack of access to state officials and to key state concessions available under the corporatist framework. As a result, the peripheral association was unable to sustain its challenge to CANACINTRA and remained marginalized from policymaking. But ANIT's

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<sup>30</sup> Strom C. Thacker, *Big Business, the State, and Free Trade: Constructing Coalitions in Mexico*, Cambridge: Cambridge University Press, 2000; Shadlen (2004), Chapter 4.

<sup>31</sup> Alice H. Amsden, *The Rise of "The Rest": Challenges to the West from Late-Industrializing Economies*, New York: Oxford University Press, 2001; Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton: Princeton University Press, 1990.

<sup>32</sup> Shadlen (2004), Chapter 3.

fortunes did not change with the demise of corporatism. On the contrary, ANIT suffers from even more intense collective action problems than CANACINTRA, as it lacks the institutional foundation of the latter organisation.

To compensate for this weakness and isolation on the national front, in the late 1990s ANIT joined forces with similarly frustrated and dissenting small businesses groups throughout Latin America. ANIT led Mexico's delegation to the initial meeting of the Latin American Business Forum in Porto Alegre, Brazil. The 1997 meeting, convened by CIVES, an activist group of industrialists based in São Paulo, was also attended by Argentina's Assembly of Small and Medium Businessmen (APYME). The 1997 meeting was followed by an October 1998 meeting convoked by ANIT in Mexico City, and another in Managua, Nicaragua, in February 2000.

The product of this transnational collaboration, the Latin American Association of Micro, Small, and Medium Businessmen (ALAMPYME), amounts to a coordinated attack on what is regarded as a process of economic integration that victimizes small firms throughout the region. The declarations of each meeting emphasize the dire effects of "market fundamentalism" and advocate replacing the dominant neoliberal model with one that prioritises poverty reduction, a "just" distribution of income, and economic development based on stimulation of the domestic market. Not surprisingly, ALAMPYME's calls for economic reactivation are based upon industrial integration and extensive support of small industry.

The transnational route to interest articulation is more interesting for the size-based grievances it reflects than for representative capacity per se. To be sure, ALAMPYME provides small firms a voice in periodic and sporadic moments of transnational mobilization against the course of economic policy in Latin America. Yet there is little on-going communication between the three organisations, particularly between the two South American members and ANIT. Each member acts in the name of the alliance, but typically without consulting the other delegates. Though the members convene international meetings and issue statements of solidarity, the real work remains to be done at home. In the case of ANIT, acting in the name of ALAMPYME gives it a fresh ring, but there is very little 'Latin America' in ALAMPYME in Mexico. It is another name for the same confederation of dissident Mexican small business associations, led by ANIT, that have attempted to establish new representative channels since the 1980s. Representation, ultimately, remains a national affair. And as a national affair, whether it is ANIT or ALAMPYME, these associations continue to operate with very little access to policymakers and other channels of authority. They have not been able to compensate for the decay of the network of official business organisations.

To summarize, Mexican small industry's representation declined throughout the period of democratisation. Whereas corporatism presented small firms with the challenge of dealing with the consequences of dependence on the state, the elimination of compulsory membership brought into stark relief the difficulties of establishing organisational cohesion among small firms. CANACINTRA lost the capacity to act as small firms' agent, and no other representative filled the vacated space. Fragmented, and lacking an authoritative organisation with a national presence, small industrialists lost regularized access to the state. To be sure, this period did witness the massive proliferation of new associations representing diverse segments of business. One 1999 estimate put the number of associations claiming to

represent small firms in one manner or another at approximately 300.<sup>33</sup> The issue is not the number of associations, however, but the capacity of these associations to represent. The new organisations that emerged tend to be unstable. They suffer from even more intense resource limitations than CANACINTRA, and they tend to rely on the dedication and commitment of a few committed leaders. And while the new associations may have more autonomy than CANACINTRA ever did, they have minimal access to state officials and play extraordinarily marginal roles in national politics. If the only thing worse than being exploited is not being exploited, to paraphrase Joan Robinson, the case of small industry in Mexico suggests that the only thing worse than being dependent is to be irrelevant.

### **III. Argentina: Organisational Autonomy, Political Opportunism, but Little Representation**

The case of Argentina points to the importance of political institutions and the insufficiency of democracy alone to secure small firm representation. In the years after World War II, the Argentine state helped small industrialists organize, but soon thereafter withdrew (or more accurately was expelled) from the arena of business organisations, leaving an institutional vacuum. As a result, small industry would be organized independently of big business, as in Mexico, but the organisation would lack any of the opportunities for constructive interaction with the state. In either authoritarian or democratic contexts, lacking reliable access to the state, organisations representing small industry in Argentina never developed the capacities of their counterparts in Mexico. Whereas small industry in Mexico gained representation at the price of autonomy, small industry in Argentina had autonomy but not representation. Indeed, the case of Argentina points to the most dangerous pitfalls of pluralism for weak actors.

#### ***Corporatism, Anti-Corporatism, and Organisational (Under)development***

In 1953 President Juan Perón expanded corporatist legislation to the business sector, with a revised Law of Professional Associations (LAP).<sup>34</sup> The new framework established a hierarchical structure of business organisations with compulsory membership. The LAP created a pyramid of four levels, with sector-specific chambers integrated into federations, which were integrated into national confederations of industry, commerce, and agriculture, all of which was topped by an economy-wide peak confederation.

A critically important aspect of Perón's corporatist project was that it was designed to strengthen a segment of capital that was politically supportive. Perón's rule was marked by sharp conflict with Argentina's largest firms, organized in the Argentine Industrial Union (UIA). In fact, Perón closed the UIA in 1946, and in 1953, under the auspices of the LAP, the UIA was legally disbanded.<sup>35</sup> At the same time, Perón embraced a project led by smaller

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<sup>33</sup>*Diario de Yucatán*, 21 May 2000.

<sup>34</sup>Perón, Secretary of Labour under the 1943-1946 military government, was elected president in 1946 and re-elected in 1951. He was overthrown by a military coup in 1955.

<sup>35</sup>Mainwairing refers to the action against the UIA as "an attempt – partially successful – to displace the traditional industrial bourgeoisie" (Scott Mainwairing, 'The State and the Industrial Bourgeoisie in Peron's Argentina, 1945-1955', *Studies in Comparative International Development*, 21 (Fall 1986), p.5). For detailed discussions of Perón's relationship with the UIA, see also, Eldon Kenworthy, 'Did the "New Industrialists" Play a Significant Role in the Formation of Perón's Coalition, 1943-1946?' in Alberto Ciría *et al.* (ed.), *New Perspectives on Modern Argentina*. Latin American Studies Program, Indiana University, 1972; Dardo Cuneo, *Comportamiento y crisis de la clase empresaria*, Buenos Aires: Editorial Palmear, 1967; John William Freels, *Industrial Trade Associations in Argentine Politics*, PhD dissertation., University of California, Riverside, 1968;

firms, mainly from the interior of the country, which held a series of conventions with the desire of forming organisations that would increase their representation in national politics.<sup>36</sup> Under Perón's tutelage, these various organisations merged to create the General Economic Confederation (CGE). Perón's new corporatist framework raised the CGE, which was explicitly pro-Peronist, to the top of the official hierarchy, making this confederation controlled by the weaker segment of local capital the most important business organisation in the country. As a consequence, in the remaining years of Perón's government, no other business group had as much access to policymakers as did the CGE.<sup>37</sup> With the LAP imposed as a means to consolidate the new and supportive organisation's domination of business politics, to strengthen the weaker segment of capital at the UIA's expense, big business's antipathy towards Perón quickly translated into a rejection of corporatism as well.

The events following the September 1955 military coup, in which Perón was deposed and sent into exile, had important and lasting effects on the trajectories of business organisations in Argentina. The military reversed Perón's biases, repealing those aspects of the LAP that applied to business: the UIA's legal standing was reinstated, and the CGE outlawed.<sup>38</sup> Then, the return of civilian politics in 1958 precipitated a rebirth of the CGE, as President Arturo Frondizi relegalised the organisation.<sup>39</sup> Yet, importantly, other aspects of the LAP that existed briefly in the early 1950s remained suppressed. Neither the civilian regimes nor the military governments that ruled in postwar Argentina restored the corporatist framework created by Perón. Compulsory membership was eliminated, so firms could join whatever chambers or associations they desired; these organisations were free to affiliate (or not affiliate) with other organisations and confederations; and no institutional framework provided organisations with regularized access to the state.

The ensuing pattern of business association left Argentina with rival business organisations representing distinct segments of business and distinct projects of economic development. In the same sectors of economic activity, large firms typically joined organisations linked to the UIA, and small firms typically joined organisations linked to the CGE. The most salient differences between the leadership of the two were not in terms of sector, but rather size of firms.<sup>40</sup> The UIA became the voice of the larger industrial firms, both nationally-owned and

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Judith Teichman, 'Interest Conflict and Entrepreneurial Support for Perón', *Latin American Research Review*, 16:1 (1981), pp.144-155; Paul M. Lewis, *The Crisis of Argentine Capitalism*, Chapel Hill: University of North Carolina Press, 1990; Luigi Manzetti, *Institutions, Parties, and Coalitions in Argentine Politics*, Pittsburgh: University of Pittsburgh Press, 1993.

<sup>36</sup> James P. Brennan, 'Industrialists and *Bolicheros*: Business and the Peronist Populist Alliance, 1943-1976', in James P. Brennan (ed.), *Peronism and Argentina*, Wilmington, DE: SR Books, 1998, pp.90-91; María Seoane, *El burgés maldito: los secretos de Gelbard, el último líder del capitalismo nacional*, Buenos Aires: Editorial Sudamericana, 2003, Chapter 3; Cuneo (1967); Freels (1968).

<sup>37</sup> On importance of CGE, see, among others, Brennan (1998); Freels (1968), pp.56-57; Lewis (1990), pp.173-174; Teichman (1981), pp.150-151.

<sup>38</sup> These measures formed a part of the 1955-58 military regime's larger strategy of 'deperonization', which also entailed banning Perón's political party from national politics, a ban that would not be lifted until the early 1970s.

<sup>39</sup> The legalization of the CGE was one element of a secretive pre-election pact, which included Frondizi promising to legalize the Peronist party and reinstate many labour leaders in exchange for Perón's support in the 1958 election.

<sup>40</sup> Roque Caggiano, *Notas sobre el desarrollo de la burguesía nacional: La Confederación General de la Industria y la Unión Industrial en el período 1957-1973*, Buenos Aires: Centro de Estudios Urbanos y Regionales, 1975, Chapter One, contrasts the leadership profiles. See also, Guillermo A. O'Donnell, 'State and Alliances in Argentina, 1956-1976', *The Journal of Development Studies*, 15:1 (October 1978), pp. 3-33; Celia Szusterman, *Frondizi and the Politics of Developmentalism in Argentina, 1955-1962*, Pittsburgh: University of Pittsburgh Press, 1993; Jorge Niosi, *Los empresarios y el estado argentino, 1955-1969*, Buenos Aires: Siglo XXI

local subsidiaries of foreign enterprises, while the CGE was the political front for the smaller, domestic-oriented firms that sought a model of industrialization based on expansion of the domestic market.

Although the organisational profiles in Argentina were similar to those that developed in Mexico, with the CGE and UIA analogous to CANACINTRA and CONCAMIN, respectively, business organisations played a fundamentally different role in post-war Argentine political economy. As most analysts of this period have observed, Argentine business organisations were more political organs, part of broader movements, than representative agents. The UIA was linked to the Radical Civic Union (UCR) and to factions of the military, for example, while the CGE remained tightly tied to the Peronist movement; and these organisations' importance rose and fell with the fortunes of their political allies.

Understanding the distinctive and politicised trajectories of Argentine business organisations requires appreciation of the countries' intense political instability and, importantly, the dismantling of corporatism. As fluid as the Mexican system was, with a proliferation of voluntary associations emerging along side the network of official chambers and confederations, business politics in Mexico appears highly institutionalised in comparison with Argentina, where organisations were unable to count on any systematic and consistent channels to interact with policymakers. Lacking reliable access to the state, Argentine business associations had little to offer potential members. In addition, they had few incentives to develop internal systems for interest aggregation and coordination – to develop the capacity necessary to function as representatives. Rather, in the institutional vacuum of post-war Argentina, organisations essentially became politicised clubs of like-minded entrepreneurs.<sup>41</sup>

With regard to small industry, the post-war environment meant that the CGE lacked both the inducements and the constraints that provided CANACINTRA with incentives to develop the strategy of accommodation analysed in Chapter Two. In fact, the CGE's representative strategy was nearly the mirror image of CANACINTRA's. Whereas CANACINTRA bypassed alliance alternatives and remained rather cautious in publicly criticizing economic policies that encouraged giantism, for example, the CGE developed close relationship with organized labour and was extraordinarily outspoken in its condemnation of economic policy. Indeed, from the time it was relegalised until the time it was repressed again in 1976, the CGE regularly allied with the General Labor Confederation (CGT) and the Peronist opposition to mobilize resistance to post-war economic policy. To be sure, the CGE and CGT were not always allied throughout this period, but at key moments the labour movement and the Peronist opposition could count on small business support in the formation of what O'Donnell labelled a "defensive alliance".<sup>42</sup>

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Argentina Editores, 1974; Freels (1968); Cuneo (1967); William C. Smith, *Authoritarianism and the Crisis of the Argentine Political Economy*, Stanford, CA: Stanford University Press, 1991; Carlos H. Acuña, 'Entrepreneurial Interests, Dictatorship and Democracy in Present Argentina (or Why the Bourgeoisie Abandons Authoritarian Strategies and Opt for Democratic Stability)', in Ernest Bartell and Leigh A. Payne (eds), *Business and Democracy in Latin America*, Pittsburgh, PA: University of Pittsburgh Press, 1995. Of course, individual firms could in fact affiliate with both associations, effectively hedging their bets.

<sup>41</sup> Schneider (forthcoming 2004), who links organization to state initiatives, argues that the inconsistent and contradictory messages emanating from an unstable political system stunted the development of Argentine business associations.

<sup>42</sup> O'Donnell (1978). See also, Brennan (1998); Seoane (2003), Chapter 5; Pablo Castell, *Empresariado nacional y cambios sociales: la acción de las entidades de la pequeña y mediana empresa y de las cooperativas frente al privilegio*, Buenos Aires: Editorial Anteo, 1985.

In considering this period of Argentine politics, it is worth underscoring that the absence of corporatism meant that the state had a limited array of subtle instruments to induce business organisations to moderate their behaviour. The state could not threaten to remove a benefit, such as compulsory membership, to elicit cooperative and conciliatory behaviour, or make leaders of the CGE think twice about participating in the ‘defensive alliance’. The Argentine state had one primary mechanism to influence the CGE’s behaviour – outright repression of the organisation and its allies, which is ultimately what happened in 1976.

While the absence of corporatism created a permissive environment in which the CGE could engage freely in multiclass alliances, the apparent autonomy was double-edged. The absence of an institutionalised framework for interaction and the organisation’s distance from the state, except in the brief period when Perón returned to power in 1973, meant that the CGE had few opportunities to advocate on behalf of members as CANACINTRA did.<sup>43</sup> As a result, it had little incentive to devise reliable mechanisms to gather and reconcile members’ positions on key issues. Nor, it would appear, was the organisation compelled to formulate a strategy to project members’ interests discreetly and behind the scenes with government officials. Thus, despite the political prominence of the CGE in most accounts of post-war political economy, it would be very difficult to maintain that small industrialists in Argentina secured reliable representation.

### ***More Pluralism, More Organisation, Less Representation***

After a period of intensely repressive military rule, from 1976-1983, Argentina experienced a democratic transition that introduced a fresh terrain for business interest organisation. The new environment would be significantly less politicised and more pluralist than what was witnessed in the post-war decades. Business politics would no longer feature rival organisations forming part of rival political movements articulating distinct development projects, and, critically, organisations would be safe from government repression. No longer would associations have to worry about being outlawed, having their assets frozen, or even their leaders imprisoned, as they did throughout the post-war period.<sup>44</sup>

Yet Argentinean business organisations continued to lack an institutional framework that might nourish and encourage business organisation. Whereas in Mexico the state and leading sectors of business together created a new form of business-government interaction in the course of democratisation, this sort of institution and organisation building did not occur in Argentina.<sup>45</sup> As a result, the institutional vacuum created by the dismantling of corporatism in the 1950s remained. Membership was still voluntary, and organisations could not count on routinised access to state officials. Government-business interaction was remarkably *ad hoc*, as officials consulted with small groups of leading firms depending on the issue at hand.<sup>46</sup>

Democratisation and this more pluralist system of government-business interaction have not ushered in an increase in small industry representation. The CGE, repressed during the late

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<sup>43</sup>When Perón returned to power he appointed José Ber Gelbard, the longtime leader of the CGE, to be Minister of the Economy. For analysis of the CGE during this period, see Brennan (1998), pp.106-110; Robert L. Ayres, ‘The “Social Pact” as Anti-Inflationary Policy: The Argentine Experience Since 1973’, *World Politics*, 28:4 (July 1976), pp. 473-501; Seoane (2003), Chapters 7-8.

<sup>44</sup> Acuña (1995); Peter Birle, *Los empresarios y la democracia en la Argentina*, Buenos Aires: Editorial de Belgrano, 1997.

<sup>45</sup> Schneider (2004).

<sup>46</sup> Pierre Ostiguy, *Los capitanes de la industria: Grandes empresarios, política y economía de la Argentina de los años 80*, Buenos Aires: Editorial Legasa, 1990; Acuña (1995); Schneider (2004).

1970s, has been unable to rebound. Nor have new organisations that emerged gained the capacity to represent small firms. In Argentina, democratisation has led to more fragmentation rather than organisation and more representation. The following paragraphs look briefly at small industry representation in the final quarter of the 20<sup>th</sup> Century.

The military regime that ruled Argentina from 1976-1983 crushed the CGE because of the organisation's alliance with Peronism and the labour movement. All organisations belonging to the CGE were closed, and the Confederation itself was again outlawed. Economic policy created an equally inhospitable environment for small manufacturers, as a combination of tight credit, currency overvaluation, and trade liberalization initiated a long period of deindustrialisation. Indeed, some have argued that a principal goal of economic policymakers during the *Proceso*, as it is called, was to dismantle the social bases of the recurrent alliance between organized labour and small industry.<sup>47</sup>

The serious economic challenges for small industry continued in the decades after military rule. The 1980s was a period of protracted economic crisis, as the government of Raúl Alfonsín struggled to meet obligations on the large foreign debt accumulated by the military regime.<sup>48</sup> Then, following the outbreak of hyperinflation at the end of the decade, the Peronist government of Carlos Menem introduced a period of deep structural change in the Argentine economy, using the Law of Convertibility to fix the peso to the US dollar while at the same time undertaking deep and comprehensive privatisation and trade liberalization.<sup>49</sup> The economic instability and hyperinflation of the 1980s and the austerity and liberalisation of the 1990s would have dramatic effects on small industry, as the country underwent a process of further deindustrialisation that featured significant weakening and disarticulation of productive chains.<sup>50</sup> These economic conditions, added to the outright repression experienced under the 1976-83 military dictatorship, seriously undermined the CGE.

Nor has the new political terrain of the post-1983 democracy constituted fertile ground for the CGE's recovery. Democratisation allowed for the relegalisation of the CGE and its various affiliates, but the Confederation has been unable to recover either its membership base or public prominence. It has become a skeleton of what it once was, maintaining essentially

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<sup>47</sup> Juan M. Villareal, 'Changes in Argentine Society: The Heritage of Dictatorship', in Monica Peralta Ramos and Carlos H. Waisman (eds), *From Military Rule to Liberal Democracy in Argentina*. Boulder, CO: Westview Press, 1987; O'Donnell (1978); William C. Smith, 'Reflections on the Political Economy of Authoritarian Rule and Capitalist Reorganization in Contemporary Argentina', in Philip O'Brien and Paul Cammack (eds), *Generals in Retreat*, Manchester: Manchester University Press, 1985; Adolfo Canitrot, 'Discipline as the Central Objective of Economic Policy: An Essay on the Economic Programme of the Argentine Government Since 1976', *World Development*, 8:11 (October 1980), pp. 913-928.

<sup>48</sup> Smith (1991); Robert R. Kaufman, *The Politics of Debt in Argentina, Brazil, and Mexico: Economic Stabilization in the 1980s*, Berkeley: Institute of International Studies, 1988; Kinod K. Aggarwal, *Debt Games: Strategic Interaction in International Debt Rescheduling*, Cambridge, NY: Cambridge University Press, 1996, Chapter 13.

<sup>49</sup> In December 2001 the Convertibility Law was finally abandoned, in the depths of Argentina's worst economic crisis in the postwar period.

<sup>50</sup> Virginia Moor-Koenig; Carlo Alberto Ferraro & Gabriel Yoguel, 'Situación y política PYMES en Argentina en los noventa', in Wilson Peres and Giovanni Stumpo (eds), *Las pequeñas y medianas empresas industriales en América Latina y el Caribe*, México: CEPAL, 2002; and UIA, *Evolución y Situación Actual de las Pequeñas y Medianas Industrias Argentinas 1995-2000*, Observatorio Permanente de las PyMIs Argentinas, n.d., specifically examine the situation of small industrial firms. Carlos H. Acuña, 'Politics and Economics in the Argentina of the Nineties', in William C. Smith, Carlos Acuña and Eduardo Gamarra (eds), *Democracy, Markets, and Structural Reform in Latin America: Argentina, Bolivia, Brazil, Chile, and Mexico*, Coral Gables, FL: North-South Center Press, 1994; and Vicente Nicolas Donato, 'Incertidumbre ambiental y procesos productivos "de alta densidad contractual": la dinámica estructural del la industria argentina durante el período de la megainflación (1975-1990)', *Desarrollo Económico*, 35:140 (enero-marzo 1996), pp. 601-627, discuss the effects of economic conditions on the industrial sector more generally.

abandoned offices in Buenos Aires with a sparse administrative staff. The CGE, or more accurately the few dedicated leaders that keep it alive, persistently search for opportunities to work with the government and other business organisations and thus regain a public role, but such opportunities are few and far between. In addition to the difficult economic conditions that would make collective action difficult in any case, the CGE's lack of access to the state seriously reduces firms' incentives to join and participate.

Ironically, the less politicised and more pluralist system of government-business interaction makes access to the state even more difficult for the CGE, which can no longer even count on its alliance with Peronism. In the 1990s, the remade Peronist party led by Menem had a fundamentally different base of social support than 'traditional' Peronism.<sup>51</sup> Under Menem's leadership, the Peronists had little interest in collaborating with and resuscitating this dying organisation. No longer could the CGE count on its external ally for help organizing smaller firms.

Comparing Argentina and Mexico, it is evident that the vicious cycle discussed with reference to CANACINTRA – where declining membership generates fewer resources to invest in services, which in turn makes it more difficult to attract and retain members – is even more evident in the case of the CGE. The moribund CGE plays virtually no role in government-business relations, but without either access to the state and or a stable membership base, it has been unable to reconstitute itself in democratic Argentina. Of course, CANACINTRA has also lost its external source of support: it can no longer count on compulsory membership or the political support of the ruling PRI. But at least the chamber has a legacy of organisational cohesion that saves it from suffering quite the same fate as the CGE.

It was largely in response to the demise of the CGE that a new organisation emerged to attempt to represent small firms in Argentina, the Assembly of Small and Medium Businesses (APYME). As indicated, the 1980s was a period of protracted economic adversity, marked by the debt crisis and repeated failure of programmes for macroeconomic stabilization and recovery, and where government-business consultation was dominated by a handful of Argentina's largest firms.<sup>52</sup> In this context, a group of small industrialists in and around Buenos Aires sought to build a new organisation specifically to defend the interests of small firms.

In contrast to ANIT, APYME grew dramatically in the 1990s. It created a network of regional associations throughout the country and claims to have approximately 10,000 members.<sup>53</sup>

Two important factors explain this distinct capacity for small business collective action in Argentina, distinct origins and external sponsorship. Whereas ANIT was born in competition with an existing organisation (CANACINTRA), APYME emerged explicitly to fill the gap left by the erosion of the CGE. Though these new associations in both Mexico and Argentina suffered from a lack of access, APYME, unlike ANIT, was never attacked by the state on behalf of a favoured rival: the Argentine state did not stunt APYME's growth, as appears to

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<sup>51</sup> Acuña (1994); Brennan (1998); Steven Levitsky, 'Organization and Labor-Based Party Adaptation: The Transformation of Argentine Peronism in Comparative Perspective', *World Politics*, 54:1 (October 2001), pp. 27-56.

<sup>52</sup> Ostiguy (1990).

<sup>53</sup> I interviewed APYME's president twice for this project, in March 2001 and then again in June 2003. In the 27 months that passed between visits – among the most trying times in Argentinean history – APYME had moved into significantly larger office space in Buenos Aires, so to have room for its growing staff.

have happened in the case of ANIT.<sup>54</sup> Collective action, always difficult for small firms, is even more difficult in space that is already occupied. In Argentina, however, this was not as much of a problem as it was in Mexico. Second, APYME benefited from its leadership's tight relationship with the Argentine Agrarian Federation (FAA) and the support of a bank based in Argentina's long-standing movement of credit cooperatives. The FAA and Credicoop provide small firms in Argentina with financial and administrative support that ANIT traditionally has lacked, reducing the dependence of the association on the limited resources of its leaders. This sort of invaluable 'external sponsorship' has allowed small firms in Argentina to overcome the otherwise daunting challenges to collective action.

Not only did APYME's membership continue to grow, but so too did its level of activism. APYME was intensely critical of the Convertibility Plan and the Ménem government throughout the 1990s. And as economic conditions further deteriorated towards the end of the decade, APYME embarked on a strategy of building new alliances with a wide range of social groups that sought fundamental change in Argentina's strategy of integration into the global economy. One prominent example of this activism is APYME's participation in a series of events and protests organized by the Confederation of Argentine Workers (CTA), the branch of the labour movement that posed the most consistent and active opposition in the 1990s. Indeed, in late 2001 APYME joined the CTA and a wide range of Argentine social movements and civil society organisations to create the National Front to Fight Poverty (FRENAPO).

In an important sense, however, APYME has been *too* successful in filling the space left by the CGE. APYME may express the legitimate grievances of many small firms, but it has even less of a role in policy making than the CGE did. Government officials pay virtually no attention to APYME, and the association is rarely consulted on matters that concern small firms. Indeed, the association's bimonthly magazine is full of articles and photos commemorating participation in public events and promoting alternative strategies of development, but rarely does one come across discussions with legislators or officials in the Ministry of Economy. Nor is there much collaboration between APYME and other Argentine business organisations.

APYME, ultimately, is a political movement that operates in a world of opposition movements, far removed from the day-to-day issues on which small firms need representation. APYME, like ANIT, has been successful in integrating small firms into broader networks of social protest, but without gaining access to policymaking. In neither case, however, has the movement-oriented strategy compensated for small industrialists' weakness in the realm of business organisations.

To the extent that any business organisation represents small industry in contemporary Argentina, it is the UIA. Historically the voice of Argentina's largest and most internationalised firms, the UIA attempted to become more broadly representative in the aftermath of military rule. The newfound interest in small firms is in part a function of the intense economic difficulties faced by the industrial sector in the 1980s and 1990s. What many industrialists perceived as hostility towards the manufacturing sector in general on the part of the Ménem government helped settle many of the sectarian conflicts that had long festered within the UIA.<sup>55</sup> The UIA created a specialized department to address the concerns of small and medium industry, the *Departamento PyMI*, and the UIA also launched a

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<sup>54</sup> Shadlen (2004), Chapter 3.

<sup>55</sup> Samuel Kait, *Quién es quien en defensa de la industria argentina*, Buenos Aires: Editorial Visual, 1997.

programme to gather detailed data on the performance of small firms, called the *Observatorio PyMI*.

Despite the recent interest in small firms on behalf of the UIA, a number of factors make this organisation an unreliable representative. Most importantly, power is allocated in such a way as prevent the interests of small firms from becoming urgent priorities of the organisation. The members of the UIA, industrial chambers, remain dominated by larger firms. And because voting within the UIA is weighted by production, those sectors with the highest density of large firms retain control over the UIA's agenda and political strategy. The result is a marked disjuncture between the research and analysis of the UIA and its positions on many key issues of public policy. The *Departamento PyMI* remains peripheral within the UIA, and the interests of small firms remain a low priority for the organisation.

In many ways the case of Argentina reinforces some of the important lessons from the Mexico case, namely high costs (and potential downsides) of autonomy. But more significantly, the Argentina case suggests that the issue is not just the difficulties of collective action, for the standard barriers have indeed been overcome by various mechanisms by small firms throughout the post-war period. Rather, the issue is the lack of the state as a useful resource for organisational development, something of critical importance for weak actors. Each of these points – the difficulties of collective action, the inability of weak actors to punch through and attain access on their own, and the key role of the state as resource and potential ally – are brought to life even more in the case of Brazil.

#### **IV. Brazil: From Marginalisation to Representation**

Brazil is the only of the three countries where democratisation was accompanied by an increase in small firm representation. As elsewhere, patterns of business organisation in Brazil were also shaped by corporatism and the nature of the post-war policymaking regime. Although corporatism initially led to reduced representation, such that we could classify small industry representation in Brazil in the post-war decades as the least of the three cases, the persistence of corporatism in the current period has facilitated improvements in representation. Thus Brazil stands out in both the post-war and contemporary periods, for the least and most amounts of small industry representation, respectively.

##### ***Rigid Corporatism and Small Business Exclusion***

The Brazilian corporatist framework emerged during the rule of Getulio Vargas (1930-1945).<sup>56</sup> The Consolidation of Labour Laws (CLT) established a hierarchical network of organisations, with local, sectorally-defined *sindicatos*, to which membership was compulsory; state-level federations; and national, sectoral confederations. Within industry, the National Industrial Confederation (CNI) was formally at the peak of the hierarchy. Because of the importance of São Paulo industry, the Federation of Industry of the State of São Paulo

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<sup>56</sup>On the origins of corporatism in Brazil, see Philippe C. Schmitter, *Interest Conflict and Political Change in Brazil*, Stanford: Stanford University Press, 1971, Chapter 2; Maria Antonieta P. Leopoldi, *Industrial Associations and Politics in Contemporary Brazil: The Associations of Industrialists, Economic Policy-Making and the State, with special reference to the period 1930-1961*, Doctoral Dissertation, Oxford University, 1984, Chapter 2; Kenneth Paul Erickson, *The Brazilian Corporative State and Working-Class Politics*, Berkeley: University of California Press, 1977, Chapters 2-3. The corporatist framework remained in place after the 1937-45 *Estado Novo*, though many controls were relaxed during the period of civilian rule that began in 1946.

(FIESP) became the most important actor in the CNI and the leading representative of Brazilian capital.

In contrast to Argentina, where business elites rejected (and ultimately abolished) corporatism, Brazilian business elites acquiesced to the corporatist constraints that emerged in the Vargas era. An important factor explaining these distinct reactions is that corporatism did not exacerbate intra-business conflicts, as it did in Argentina. Rather, the CLT was introduced with the principal objective of containing a growing labour movement. Much more than a framework for state-business interaction, the CLT was the cornerstone of the Brazilian system of industrial relations, in which the state sought to institutionalise industrial relations by channelling employer-employee conflicts through purportedly technical channels. Thus, workers were also channelled into a network of syndicates, federations, and confederations, and these official employer and employee organisations would be principally responsible for collective bargaining.<sup>57</sup>

The importance of these very different origins and purposes of corporatism cannot be understated. Vargas did not impose corporatism on Brazilian business, but rather, after initial hostility in the early 1930s, the ensuing arrangements represent what one scholar has labelled a “gauging of forces” between the state and big business.<sup>58</sup> In fact, the details of the corporatist framework in Brazil emerged out of negotiations between the Vargas government and leading business organisations. As a result, corporatism was much less threatening to business than in Argentina. The controls imposed on labour organisation and mobilization were significantly more limiting than those regarding employers: restrictions on union formation and activity were more onerous, workers had more difficulty forming associations outside of the corporatist framework, and when they did they were more easily suppressed.<sup>59</sup> Thus, business in Brazil would not adopt a strongly anti-corporatist position, for even after the *Estado Novo* terminated in 1945, leading sectors of Brazilian capital continued to benefit from and appreciate a corporatist system that brought labour control and minimized industrial conflict.<sup>60</sup>

To be sure, many business leaders found the regulations on organisation to be bothersome and formed voluntary associations outside of the corporatist framework. As in Mexico, this process was most pronounced among larger firms, not so much because they found corporatism more bothersome but because of their greater capacity to form their own associations. In fact, the state encouraged this more narrow form of business collective action by working closely with reduced groups of businesses in the implementation of sectoral

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<sup>57</sup> In this regard, the CLT also created a new ministry to regulate work-related issues and established a three-level labour court system to adjudicate disputes. See Erickson (1977); Kenneth Scott Mericle, *Conflict Regulation in the Brazilian Industrial Relations System*, PhD dissertation, University of Wisconsin, 1974; Schmitter (1971).

<sup>58</sup> Leopoldi (1984), p.371. Other analysts who emphasize the role of business elites in the making of corporatism include Schmitter (1971), p.182; Angela de Castro Gomes, ‘O empresário industrial e a implantação de legislação trabalhista’, in Eli Diniz and Renato Boschi (eds), *Empresario nacional e estado no Brasil*, Rio de Janeiro: IUPERJ, 1976.

<sup>59</sup> See Schmitter (1971), pp.117-118; Leopoldi (1984), pp.55-63; Mericle (1974), pp.78-79. More generally, see the discussion on the differential effects of corporatism in O’Donnell (1977).

<sup>60</sup> Not surprisingly, big business’s perspective on corporatism changed under the Goulart government (1961-1964), when state officials deployed the CLT to grant labour more concessions and thereby cultivate working class support. This opposition later subsided under military rule, where corporatist restrictions were deployed as instruments of labour control (Renato Boschi, *National Industrial Elites and the State in Post-1964 Brazil: Institutional Mediations and Political Change*, PhD dissertation, University of Michigan, 1978, pp.169-170; Erickson, 1977).

policy initiatives, in what came to be called “bureaucratic rings”.<sup>61</sup> Ultimately, these associations provided Brazilian business elites with greater flexibility in dealing with the state.<sup>62</sup>

In sum, because corporatism was not associated with an antithetical political project, and because corporatism was not imposed by the state on big business but rather imposed by the state *with* big business, it did not engender the same backlash as it did in Argentina. So long as corporatism solved labour problems for Brazilian industrial elites and remained flexible enough to allow for the establishment of alternative mechanisms for interest representation, little effort would be made to abolish the CLT.

While the reactions *to* corporatism distinguish Brazil from Argentina, the reactions *within* corporatism distinguish Brazil from Mexico. As indicated, many larger firms in both Brazil and Mexico created voluntary associations that operated alongside official corporatist organisations. Yet the relationship between the two types of organisations was different in the case of Brazil, where the mission of the voluntary associations was to complement the corporatist organisations. In fact, a division of labour developed in Brazil, in which corporatist organisations addressed issues under the rubric of the CLT and voluntary associations specialized in sectoral, micro-economic areas. Thus, some scholars describe the relationship between the two types of organisations as “mutual strengthening”,<sup>63</sup> while another refers to this as a “combined corporatist” arrangement.<sup>64</sup>

The strategy of operating within the corporatist organisations while simultaneously creating alternative forms of representation was driven by the nature of the CLT, which endowed the legally-recognised syndicates, federations, and confederations with irreplaceable functions. Some activities remained outside of the competencies of the voluntary associations, particularly issues having to do with labour relations. Official business played key roles in Brazil’s system of industrial relations.<sup>65</sup> Moreover, the creation of a National Industrial Training Service (SENAI) and Industrial Social Service (SESI) strengthened the official organisations by providing them with substantial financial resources to manage.<sup>66</sup>

The complementary roles of these two different types of organisations gave industrial elites something of a stake in both. As a result, even when large firms formed their own voluntary associations, they did not entirely abandon the official organisations. On the contrary, the

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<sup>61</sup> Fernando Henrique Cardoso, *Autoritarismo e democratização*, Rio de Janeiro: Paz e Terra, 1975.

<sup>62</sup> Among the various analyses of Brazilian political economy that emphasize the role of voluntary associations, see Boschi (1978); Eli Diniz, ‘The Post-1930 Industrial Elite’, in Michael L. Conniff & Frank D. McCann (eds), *Modern Brazil: Elites and Masses in Historical Perspective*, Lincoln: University of Nebraska Press, 1989; Leopoldi (1984); Schmitter (1971); Caren Addis, *Taking the Wheel: Auto Parts Firms and the Political Economy of Industrialization in Brazil*, University Park, PA: The Pennsylvania State University Press, 1999.

<sup>63</sup> Eli Diniz & Renato Boschi, *Empresariado nacional e estado no Brasil*, Rio de Janeiro: Forense-Universitária, 1978.

<sup>64</sup> Leopoldi (1984).

<sup>65</sup> Mericle (1974); Diniz & Boschi (1978).

<sup>66</sup> Mericle (1974), pp.79-80; Leopoldi (1984), pp.411-414. Weinstein argues that the laws governing these programmes allowed large firms to create their own in-house training programmes, thus mitigating the importance of these organizations (Barbara Weinstein, ‘The Industrialists, the State, and the Issues of Worker Training and Social Services in Brazil, 1930-1950’, *Hispanic American Historical Review*, 70:3 (August 1990), p.395). Schneider (2004) indicates that this “design flaw” was one of the many disincentives for big business to turn organizations such as FIESP into peak organizations of big business.

corporatist organisations and the parallel voluntary associations tended to share office space and administrative personnel, and they usually had the same leadership.<sup>67</sup>

The ensuing pattern of business organisation had important implications for small industry. As emphasized, corporatism in Brazil was more constraining for labour than business – but within the business sector corporatism was significantly more limiting for small firms. Small industrialists were less able to create their own associations outside of the corporatist framework: they were encumbered by the standard problems of collective action, and they were not on the receiving end of selective incentives in the form of participation in the ‘bureaucratic rings’. Nor were small firms successful in attaining leadership positions in and control over the official organisations.<sup>68</sup> The combination of small firms’ difficulties in creating associations outside of the corporatist framework and inability to commandeer official organisations within the corporatist framework meant that the weaker segment of national industry would not have its own organisation in Brazil.

For comparative purposes, it is worth recalling the process by which small manufacturing firms came to control CANACINTRA in Mexico. These firms did not displace large firms. Rather, they gained control over the chamber as large firms abandoned it upon creating separate sector-specific organisations. Business corporatism in Mexico gave official organisations but a single role, that of representation. To the extent that large firms could secure representation outside of the corporatist framework, which they could, and to the extent that the large firms could organise without the benefit of compulsory membership, which they could as well, official organisations such as CANACINTRA served little purpose to them. Were large firms to have retained an interest in CANACINTRA, positions of leadership would almost certainly have been out of the reach of small firms here as well. In Brazil, a very different and more substantial role for the corporatist bodies meant that such a process of abandonment made much less sense. In neither country did the corporatist frameworks call for organisations officially dedicated to small industry, but in Brazil, a pattern of association that did not include size-based abandonment meant that such an organisation was much less likely to emerge. The result was that small firms, less able to create organisations outside of the corporatist framework, remained comparatively more marginalized within the corporatist framework.<sup>69</sup>

### *The State and the Seeds of Representation in Contemporary Brazil*

In the aftermath of a long period of military rule (1964-1985), the late 1980s and early 1990s was a time of renewed political mobilisation on the part of Brazilian business.<sup>70</sup> This period witnessed a variety of projects to reconstitute patterns of business representation. For example, the Union of Brazilian Businessmen (UBE) was formed as an economy-wide body to lobby the national constituent assembly that was designing the constitution for the “New

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<sup>67</sup> Diniz & Boschi (1978), pp.175-178; William R. Nylén, *Small Business Owners Fight Back: Non-elite Capital Activism in ‘Democratizing Brazil’ (1978-1990)*, PhD Dissertation, Columbia University, 1992, pp.111-114.

<sup>68</sup> As one analyst of small business politics in this period has written, within the corporatist organizations “passage to positions of leadership was limited, if not blocked altogether” (Nylén, 1992, p.113).

<sup>69</sup> It should be noted, however, that voting within FIESP is evenly distributed among all the syndicates, regardless of how much they contribute to industrial production. This makes the Federation, arguably the most important organization in the industrial sector, less useful for large firms than CONCAMIN or the UIA. Schneider (2004) further develops this contrast.

<sup>70</sup> Leigh A. Payne, *Brazilian Industrialists and Democratic Change*, Baltimore: Johns Hopkins University Press, 1994, Chapter 5.

Republic”.<sup>71</sup> In addition, a group of small and medium firms in the National Thought of the Business Bases (PNBE) attempted to change the role and orientation of FIESP.<sup>72</sup> And a handful of Brazil’s largest and most influential firms attempted to create a new organisation, the Institute for Industrial Development Studies (IEDI), which would actively promote a strategy of industrial promotion.<sup>73</sup>

Despite the proliferation of organisational initiatives, scholars of Brazilian business tend to agree that these efforts had minimal impact on prevailing arrangements for business representation. Many of the key features of post-war business politics remain in effect. Business-government interaction has continued to be marked by the “combined corporatist” arrangements, featuring a hybrid system with official organisations and voluntary associations operating side-by-side.<sup>74</sup>

Underscoring continuity in patterns of interaction is continuity in institutional form. A key feature of contemporary Brazilian business politics is the endurance of corporatist regulations. Though the new constitution eliminated some of the more controlling aspects of the labour corporatism, most elements of the Vargas-era CLT were preserved in the course of democratisation.<sup>75</sup> With regard to business, this meant that compulsory membership, the official role of syndicates and federations, and the fairly rigid division of tasks within and among the official and voluntary organisations, have remained important aspects of the institutional environment in Brazil.

One reason for the endurance of Brazilian corporatism remains its distinct institutional design, that the CLT addresses both capital and labour. Changing business corporatism is more costly in Brazil, for it implies changes to the national labour code and the entire system of industrial relations. Indeed, reforming labour law is a complex and politically charged issue in many developing countries. In Mexico, for example, while the 1941 Chambers Law (the business-side of corporatism) was repealed in 1997, the Federal Labour Law of 1929 remained in effect throughout the democratic transition. But the option of changing corporatism in one arena but not the other is not available in Brazil, where the two sides of corporatism are fused.

For all the attention given here to business corporatism, the constraints that corporatism places on labour play a more significant role in daily affairs of workers and in industrial relations more generally. As a result, there are more interests (for and against) and change is more complex. That is a general rule. The point here is that because corporatism for business and labour are linked in Brazil, the easier change is impeded by the more difficult change. Thus, despite occasional initiatives to revise the CLT, both business and labour have been

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<sup>71</sup> Kurt Weyland, ‘The Fragmentation of Business in Brazil’, in Francisco Durand and Eduardo Silva (eds), *Organized Business, Economic Change, and Democracy in Latin America*, Coral Gables, FL: North-South Center Press, 1998; Ben Ross Schneider, ‘Organized Business Politics in Democratic Brazil’, *Journal of Interamerican Studies and World Affairs*, 39:4 (Winter 1997-98), pp. 95-127.

<sup>72</sup> Nylen (1992); Peter Kingstone, *Crafting Coalitions for Reform: Business Preferences, Political Institutions, and Neoliberal Reform in Brazil*, University Park: Pennsylvania State University Press, 1999; Schneider (1997-98).

<sup>73</sup> Peter Kingstone, ‘Corporatism, Neoliberalism, and the Failed Revolt of Big Business: Lessons from the Case of IEDI’, *Journal of Interamerican Studies and World Affairs*, 40:4 (Winter 1998), pp. 73-96; Kingstone (1999); Schneider (1997-98).

<sup>74</sup> Mahrukh Doctor, ‘Institutional Modernisation and the Legacy of Corporatism: The Case of Port Reform in Brazil’, *Journal of Latin American Studies*, 35:2 (May 2003), pp. 341-365; Schneider (2004).

<sup>75</sup> Power & Doctor (2004); Maria Lorena Cook, ‘Labor Reform and Dual Transitions in Brazil and the Southern Cone’, *Latin American Politics and Society*, 44:1 (Spring 2002), pp. 1-34.

generally reluctant to entertain fundamental changes to Brazilian corporatism, such as compulsory membership.<sup>76</sup>

The persistence of corporatism has had decidedly mixed implications for small industry representation. Not surprisingly, small business representation outside of official channels remains extraordinarily difficult. A wide range of voluntary associations have emerged throughout civil society in democratic Brazil, and small business associations have undeniably been part of this general tendency.<sup>77</sup> The National Movement of Small and Medium Firms (MONAMPE), to provide but one example, has constituted itself throughout most of Brazil's states. Yet such organisations are not well integrated into national politics: they can perform advocacy roles, but because they lack legal standing within the fairly rigid corporatist framework, they suffer from lack of access to important policymaking arenas. With sustained collective action an uphill struggle, these organisations' continued existence depends on the tireless work and the limited resources of a handful of activists.

Likewise, many instances of small firm collective action within corporatist organisations have continued to be blocked. Nylen's observations regarding the difficult passage to leadership still appears to be accurate.<sup>78</sup> The case of the PNBE's frustrated and unsuccessful effort to capture control of FIESP in the late 1980s and early 1990s certainly illustrates the obstacles that small firms confront in securing representation within the corporatist framework. On account of their 'insubordination' many PNBE members were removed from their positions within FIESP, and after being beaten back in the Federation's 1992 elections the movement withered away.<sup>79</sup>

Importantly, however, the persistence of corporatism regulations has also had a positive effect on small industry representation in contemporary Brazil. The most successful and enduring movement has emerged within the corporatist framework, with the creation in 1990 of an official Syndicate for Micro and Small Industry in the State of São Paulo (SIMPI). Though FIESP, on behalf of the member syndicates, strongly resisted the creation of this new organisation, SIMPI challenged the Federation in court and eventually prevailed.<sup>80</sup> According to the terms of agreement reached between the Federation and the new syndicate, all micro and small industrial firms in the state of São Paulo could choose which syndicate to join, a sectoral-based organisation, SIMPI, or both.<sup>81</sup> For the first time, Brazil would have an organisation specially dedicated to small firms that operated within the regulations of the CLT.

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<sup>76</sup> Cook (2002), p.22. As Power & Doctor (2004) write, support of corporatism on the part of business and labour "becomes the 'default' position whenever an actor feels threatened by change."

<sup>77</sup> For discussions of the growth of associational life and CSOs in the New Republic, see Leonardo Avritzer, 'Democratization and Changes in the Pattern of Association in Brazil', *Journal of Interamerican Studies and World Affairs*, 42:3 (Fall 2000), pp. 59-76; Elisabeth Jay Friedman & Kathryn Hochstetler, 'Assessing the Third Transition in Latin American Democratization: Representational Regimes and Civil Society in Argentina and Brazil', *Comparative Politics*, 35:1 (October 2002), pp. 21-42. For discussion of small business *associativismo* in the context of this larger trend, see Nylen (1992).

<sup>78</sup> Nylen (1992).

<sup>79</sup> William R. Nylen, 'Small Business and Democratization in Brazil', Paper presented at the Annual Meeting of the American Political Science Association, Washington, D.C., August 1997; Kingstone (1999); Schneider (1997-98). PNBE still exists, but more as a citizenship group that focuses on business ethics than as a representative of small industry.

<sup>80</sup> At the same time, and largely in response to this challenge, FIESP created an internal body dedicated to small industry, the Chamber for the Development of Micro and Small Industry (CADEMPI).

<sup>81</sup> "Termo De Compromiso Amigável Entre A FIESP, Seus Sindicatos, E O SIMPI," 15 April 1994.

The contrast between the success of SIMPI and the failure of the effort to create a separate chamber in Mexico for capital goods and metalworking producers reinforces the importance of collective action in unoccupied vs. occupied space.<sup>82</sup> In Brazil, no organisation within the corporatist framework had the role of representing small firms. SIMPI was not attempting to displace any existing organisation. SIMPI takes some firms away from some existing syndicates, but it does not directly and massively affect any single organisation. In Mexico, in contrast, CANACINTRA already represented firms in the capital goods and metalworking sectors. The existence of a new chamber in those sectors would have gutted CANACINTRA's membership. In both cases official organisations attempted to block the initiative, but the case for doing so in Mexico was significantly stronger.

As expected, SIMPI's official status has allowed it to overcome many of the difficulties that beleaguered small firm collective action in the New Republic. SIMPI has a vote within FIESP, and official status provides SIMPI with privileged access to government commissions and policymaking boards. Such access, of course, is an incentive that encourages participation. Corporatism also stabilizes the organisation's membership base. Though SIMPI's founder and president insists that the organisation does not accept the syndicate tax,<sup>83</sup> the obligation to join nevertheless makes SIMPI less vulnerable to oscillations in membership. Stable membership, in turn, makes investment in services more feasible and less risky: SIMPI is less likely to encounter the grave problems that CANACINTRA experienced in the 1990s, when it invested in services at a time of declining membership. Thus, operating within the corporatist framework, over the course of the 1990s SIMPI continued to grow. With thousands of members the new organisation gained an increasingly important role in Brazilian political economy. SIMPI represents small firms on key issues in the state (and city) of São Paulo, and, importantly, it is regularly consulted by policymakers in Brasilia as well.

To be sure, SIMPI's representative capacity is limited in important respects. It lacks genuine national reach, as it remains based almost entirely in São Paulo. SIMPI established similar organisations in other states, bringing them together under a national association (ASIMPI), but in no state has the success of São Paulo been replicated. Even more problematic is that SIMPI is limited to small and micro firms, as its name suggests. Medium-sized firms do not have the option of joining SIMPI, and no similar official organisation within the corporatist structure has emerged for such firms. These qualifications and limitations notwithstanding, the presence and role of SIMPI – and the trajectory of increasing representation – makes Brazil stand out among the three countries examined here. The persistence of corporatism has enhanced small firm representation.

An additional example of increased small business representation in Brazil, at the district level, reinforces the lessons derived from case of SIMPI. In the tiny municipality of São João do Aruaru, in the northern state of Ceará, small producers of wooden furniture formed a local association that gained an important role in local economic governance, helping state officials implement an innovative procurement programme and monitoring the performance of the firms that were involved.<sup>84</sup> Importantly, the emergence and stability of this association, the Aruaru Association of Furniture-Makers, is owed to the active encouragement and help of local government officials. As Tandler explains, local officials extended incentives to help these small firms create this association and thereby build local constituencies for the

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<sup>82</sup> Shadlen (2004), Chapter Three.

<sup>83</sup> Interview with Joseph Couri, 17 June 2003, São Paulo.

<sup>84</sup> Judith Tandler, *Good Government in the Tropics*, Baltimore and London: The Johns Hopkins University Press, 1997, Chapter 5.

procurement programme. Organised, small firms were then able to be formally included on the state's Industrial Council, for the first time in the state's history.<sup>85</sup> Here too, small industry representation increased not in spite of but rather on account of the state.

## V. Conclusion: Democratisation, the State, and Small Industry Representation

What are the most important points to be taken from this comparison of business interest organisation in Mexico, Argentina, and Brazil? First, it is clear that an open, unrestricted, and pluralist field of interest articulation, where firms are free to organize as they wish, is likely to be captured by associations dominated by larger firms that invest resources in establishing and sustaining such organisations. Small firms, in contrast, have more difficulty taking advantage of the new opportunities for interest articulation that emerge in the course of democratisation. Pluralism and democratisation are as likely to generate fragmentation than collective action.

The comparative analysis also demonstrates the importance of the state. Even where the obstacles to collective action are overcome, as appears to the case in Argentina with APYME, the lack of reliable access to the state can distort these small organisations' development by depriving them of incentives to build internal arrangements for coordinating and aggregating members' interests. Significantly, APYME, like ANIT, dedicates more resources towards coalition-building and social protest than towards improving its capacity as small firm representative. Thus, the comparative analysis suggests that Schneider's observation regarding big business, that lack of state support can produce low levels of organisational development, is relevant for small firms as well.<sup>86</sup>

In contrast to the cases of Argentina and Mexico, which point to the effects of state neglect, in Brazil we see how state *attention* can help small firms organize and secure more reliable representation. Producers in both São Paulo and Ceará have benefited from state concessions. Yet the Brazilian case also demonstrates that the form of organisational support need not be corporatism *per se*. Though small firms in São Paulo benefited from compulsory membership delivered through corporatism, it was a different form of state support that facilitated collective action and organisational development among furniture producers in the district of Aruaru. In this case the selective incentive for collective action was not compulsory membership, but participation in designing and implementing the government's procurement programme.

The comparative analysis thus suggests a re-evaluation of the political role of the state. To be sure, dependence on the state can distort interest representation, as clearly occurred in Mexico in the 1980s and part of the 1990s. But the absence of the state hardly appears to improve representation. Small firms would do well to distinguish between the state as a source of political control and the state as an ally that may allow them to overcome some basic political handicaps and be integrated into local and national politics. More generally, the analysis here points to the important role of the state in improving the quality of democracy by facilitating collective action and encouraging the development of richer and more substantial associational life.

To conclude, it is worth returning to the issue set out at the top of the paper, the increased attention that analysts of economic development place on small firms. Small manufacturers

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<sup>85</sup> Tandler (1997), p.130.

<sup>86</sup> Schneider (2004).

can make important contributions to economic development.<sup>87</sup> Most obviously, smaller and more labour-intensive firms can serve as an engine of job creation and thus address the serious problems of underemployment. Many economies in Latin America suffer from a problem of insufficient job creation, what the Economic Commission on Latin America has labeled the “Achilles’ Heel” of the neoliberal reforms.<sup>88</sup> In the context of growing population and expanding labour markets, and with investment concentrated in capital-intensive and natural resource-intensive sectors, even economies that have experienced growth have remained encumbered by persistent underemployment. Smaller, labour-intensive firms can generate jobs.

Under appropriate conditions, small industrial firms can also serve as mechanisms of industrial integration. The extent to which larger final goods producers operating in global markets use locally produced inputs, rather than imported inputs, has important developmental implications. Most obviously, import-intensive industrialisation, be it under developmentalism or neoliberalism, increases dependence on capital inflows and, subsequently, vulnerability to external financial shocks. In Mexico, for example, the import-content of exports is greater than 70 percent. However, the ability of larger firms to source locally while remaining competitive internationally depends in great part on the availability and quality of local suppliers. We generally might not expect tiny micro-enterprises to fit into larger production chains, but integrated industrial development requires that small- and medium-sized firms have such capacity.<sup>89</sup>

A development strategy that promotes employment creation and industrial integration requires that attention be paid to small firms, for how such firms adjust to economic competition has wide-ranging implications. To the extent that neoliberalism leads small industrial firms to idle capacity, to lay off workers, and relegates them to simple, non-dynamic activities, the consequences are felt in terms of employment (hence poverty and equity) and industrial integration (hence vulnerability to external shocks).

However, the potential contributions of small firms to economic development are unlikely to be realized without adequate representation. Understanding why gets to the heart of the themes developed in this paper. While responding to the needs of small firms is technically feasible, it involves political trade-offs – doing so may bring small industrialists into conflict with other actors with different preferences. Small firm assistance implies budgetary reallocations (in terms of outlays and patterns of government procurement), potentially new taxes, and sometimes even new regulations on larger firms. Thus, it is essential that we consider the capacity of small industrialists to construct durable and reliable mechanisms of representation that can articulate and defend their interests in the public arena. Doing so, critically, reorients analysis of small industry development away from a technocratic discussion of policies and towards, more appropriately, politics.

The importance of representation is illustrated with brief consideration of the small business programmes initiated in the 1990s in Latin America. Virtually all governments throughout the region recognize the importance of small firms and have introduced measures with the stated

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<sup>87</sup> Wilson Peres & Giovanni Stumpo, ‘Small and Medium-Sized Manufacturing Enterprises in Latin America and the Caribbean Under the New Economic Model’, *World Development*, 28:9 (September 2000), pp. 1643-1655.

<sup>88</sup> ECLAC, *Equity, Development, and Citizenship*, New York: United Nations Economic Commission for Latin America and the Caribbean, 2000.

<sup>89</sup> Amsden (2001); Addis (1999); Albert Fishlow, *et al.* (eds), *Miracle or Design? Lessons from the East Asian Experience*, Washington, D.C.: Overseas Development Council, 1994.

goals of helping small firms adjust to international competition.<sup>90</sup> But with minimal representation from below, it is not surprising that small enterprise development programmes in Latin America have aimed more towards correcting market failures, reducing information gaps, and teaching business administration than towards actively promoting industrial integration. Because activist programmes divert more resources they create more political opposition, which suggests they are less likely to go forward without representation from below. Someone has to demand these policies, not just on the street corner or even in the hallways of congress, but in the rooms and at the tables where small business policies are designed and negotiated.

But the problem with small industry policy in the region has not just been the predominance of the non-activist approach, but also an inability to maximize the possibilities even with the prevailing correcting-market-failure approach. That is, contemporary programmes have suffered from a chronic lack of resources and lack of commitment on the part of the governments.<sup>91</sup> Stronger political advocacy – the existence of durable and reliable small business representatives – can protect these programmes' resources and monitor results. Representation could break the pattern of new initiatives being introduced, starved of resources, abandoned, and then replaced with yet new initiatives. Again, the case of Ceará is instructive, for the local association of furniture makers played an important role in attempting to protect the resources dedicated to the government procurement programme.<sup>92</sup>

The discussion of representation and small business policy has particular relevance for contemporary discussions of participatory policymaking and state-societal synergies. Successful cases of market-completing second-generation reforms have featured the creation of national- and local-level networks of state-societal participation.<sup>93</sup> Whereas those who emphasized rent-seeking sought to minimize state-societal interaction, a new development paradigm at the dawn of the 21<sup>st</sup> Century has come to appreciate and value precisely such interaction.<sup>94</sup> Yet the creation of such participatory networks depends not just on the incentives that state officials have to include 'stakeholders', but also on social actors' capacities to participate. One of the fundamental problems with the current development discourse on participation is that it takes for granted the ability to participate. We need to take seriously the factors that affect actors' ability to collaborate constructively with the state in the making and implementation of policy.

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<sup>90</sup> Wilson Peres & Giovanni Stumpo (eds), *Las pequeñas y medianas empresas industriales en América Latina y el Caribe*. México: CEPAL, 2002, provides an excellent overview of these programmes. This volume was produced under the auspices of the Small and Medium Enterprise Programme of the United Nation's Economic Commission on Latin America (CEPAL), the site of the most comprehensive work on small firms in the region. The Inter-American Development Bank (IADB) has also coordinated a significant amount of research in this area, e.g. Juan Luis Lloréns, Robert Van der Host & Iñigo Isusi, *Compilación de estadísticas de Pymes en 18 países de América Latina y el Caribe*, Grupo Asesor sobre Pequeña y Mediana Empresa. Banco Interamericano de Desarrollo, 1999.

<sup>91</sup> Peres & Stumpo (2000).

<sup>92</sup> Tendler (1997), Chapter 5.

<sup>93</sup> See Richard Snyder, *Politics After Neoliberalism: Reregulation in Mexico*, New York: Cambridge University Press, 2001; and Alfred P. Montero, *Shifting States in Global Markets: Subnational Industrial Policy in Contemporary Brazil and Spain*, University Park: Pennsylvania State University Press, 2002.

<sup>94</sup> For the paradigmatic statement of the new development thinking, sometimes labeled a "good governance" approach, see World Bank, *The State in a Changing World: World Development Report 1997*, Washington, D.C.: The World Bank, 1997.

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The aim of the Crisis States Programme (CSP) at DESTIN's Development Research Centre is to provide new understanding of the causes of crisis and breakdown in the developing world and the processes of avoiding or overcoming them. We want to know why some political systems and communities, in what can be called the "fragile states" found in many of the poor and middle income countries, have broken down even to the point of violent conflict while others have not. Our work asks whether processes of globalisation have precipitated or helped to avoid crisis and social breakdown.

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### Research Objectives

- 1 We will assess how constellations of power at local, national and global levels drive processes of institutional change, collapse and reconstruction and in doing so will challenge simplistic paradigms about the beneficial effects of economic and political liberalisation.
- 2 We will examine the effects of international interventions promoting democratic reform, human rights and market competition on the 'conflict management capacity' and production and distributional systems of existing polities.
- 3 We will analyse how communities have responded to crisis, and the incentives and moral frameworks that have led either toward violent or non-violent outcomes.
- 4 We will examine what kinds of formal and informal institutional arrangements poor communities have constructed to deal with economic survival and local order.



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