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The reconstruction of business interests after the ISI collapse: unpacking the effect of institutional change in Chile and Uruguay

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ABSTRACT

This paper focuses on understanding the different evolutions of business' associational paths in post-Import Substitution Industrialization (ISI) Chile and Uruguay, offering an explanation at the crossroads of the institutional change and international trade literatures. The argument is that the different forms in which ISI institutions were transformed during the liberalisation period facilitated a greater mobility of factors to different degrees, triggering divergent enduring associational strategies on the part of business. The proliferation of narrow-based special benefits during the ISI fuelled preferences for the formation of sector-based coalitions oriented towards rent-seeking activities. Nevertheless, while ISI regulations were displaced in Chile during the military period, Uruguay followed a gradual process of layering of new rules alongside old ones. These diverging strategies, having different effect on established inter-sectoral regulatory distortions, propitiated alternative associational paths of local business.

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Introduction

The political construction of business interests has taken different forms across societies and historical periods. Business relations with the structure of economic governance and the state has been a belated but increasing focus of research for political scientists during the last couple of decades. This is an important topic as it recognises employers are not just economic but political actors. Precisely, the study of the political construction of business interests in Latin America allows for a better understanding of opportunities and barriers for the formation of different types of political coalitions. Understanding when and how business may cooperate with governments or organized labor is relevant for promoting not only economic efficiency, but also – in coordination with governments and labor movements – successful politics of solidarity; as evidence suggests for the developed world.¹ This paper looks into the role regulatory schemes have in affecting business incentives to centralise their interests in peak associations and how the form in which regulatory schemes are

modified may alter their strategies. The transition from the Import Substitution Industrialisation (ISI) model to the open market economy in Latin America offers a suitable setting for such a task. ISI policies tended to incentivize business to strengthen sector-based lobby strategies. Business' strategy, in the post-ISI period, moved towards long-term interests' centralization under the umbrella of a peak association in some countries, as it is the case of Chile; while in other countries the attempt to form such a peak association was short-lived. Uruguay belongs to this second group.

Building on the insights offered by the literatures on international trade and on institutional change, this paper offers an explanation for the consolidation of enduring interests centralisation in peak associations by showing how the state – as regulator – acts as an endogenous cause of business organisation. Inter-sectoral regulatory distortions, usually born from the distribution of ad hoc industry-based special – particularistic – benefits in the case of the ISI, incentivises business to abandon encompassing strategies for engaging in rent-seeking. Given this initial context, institutional change towards open market policies affects the organisation of business interests. Building on the framework for explaining institutional change proposed by Mahoney and Thelen,² I argue that the Chilean transformation, based on institutional displacement, rapidly lowered business associational costs by eliminating narrowly-oriented benefits. This encouraged enduring coordination in a peak association nucleating different sector- or industry-based associations. Conversely, institutional change based on gradual layering – the introduction of new rules alongside old ones – in Uruguay, made possible for a more effective defense of sector-based benefits and the prevalence of sector-based lobby.

Substantial intersectoral variation in regulation in a given economy has been shown to be correlated with the existence of conflict across class- or industry-lines. High levels of internal regulatory asymmetries lower the mobility of factors, causing businesses from different sectors to be at odds with one another over policy. When factor mobility increases, as regulatory distortions are reduced, the effects of trade on earnings divide actors along class lines.³ The argument is that a combination of long-term institutional characteristics and short-term processes of institutional change explain long-term patterns of political organisation of business interests in the post-ISI period. The innovation is to focus on the form and pace of institutional changes as a causal factor for long-term business associational strategies. While institutional change has historical causes, political organisation of business interests depends on the particular form in which such change is processed.

The first section of this paper develops a theoretical framework. The second section details research methodology and introduces the main hypotheses under analysis. The third section advances the analysis and conclusions about the merits of each hypothesis. Grounds for generalisations of the argument is advanced in the conclusions.

The political organisation of business interests

The political organisation of business interests had been given scarce attention in Latin America until the last couple of decades. The works of Frieden,⁴ Silva,⁵ Schneider,⁶ Kingstone,⁷ Shadlen,⁸ Tacker,⁹ Fairfield¹⁰ and Etchemendy¹¹ are among the most comprehensive ones on this puzzle. The works of Gates¹² and Fairfield¹³ on the related topic of the sources of business power are also relevant contributions. Most works on the region cluster within the

institutional change literature, identifying the state as the prime organiser of business interests, or are within the international trade literature, focusing on business economic interests. The work of Schneider,¹⁴ within the first cluster, proposes that business organisation depends on the cumulative effect of actions by state actors. The works of Frieden¹⁵ and Silva,¹⁶ among the second group, focus on how business groups influenced policy-making during the debt crisis in Latin America. Other literature, addressing how class position affects collective action, has been particularly informative on the organisation patterns of business in Latin America.¹⁷

These state-centred approaches depart from the literature addressing the issue in the context of advanced industrial economies, which identifies labour activism and party politics as the main explanations for cross-national variations. The labour activism argument builds on the idea that encompassing is a consequence of business opposition to labour mobilisation when the state does not adopt a repressive strategy. The strong encompassing tendency is aimed to oppose pro-labour legislation.¹⁸ The theory on partisan origins of encompassing argues that business is more likely to be represented in a single party than in multiparty systems with proportional representation. Conversely, two party systems tend towards catch-all units with employers dispersed across parties.¹⁹

Still a third approach to the problem, following Olson, is found in the classic collective action literature postulate that less and more powerful actors have higher likelihood to overcome collective action problems to organize themselves.²⁰ If such were the case, then the level of atomisation of business firms and the level of disparity of their interests make it more or less likely for them to organise in a peak association.

Finally, the literature of institutional change suggests that paths with increasing returns are found after critical junctures.²¹ Therefore, either organisational or ideological changes at a critical juncture should make such path dependencies possible.

The argument advanced in this paper builds on the notion that the state is an important agent influencing the organisation of business interests. However, the argument qualifies this assertion in the following way: instead of state actors, it is the regulatory scheme governing the ease at which factors are mobile in the production system that are the pivotal causal agents of change in terms of business interest organisation. This insight about the effect of regulation on patterns of political conflict is drawn from the literature on international trade.²² Of particular importance is Hiscox's finding that sector-based coalitions are more likely when factor mobility is low, while class coalitions are more likely as factor mobility increases.²³

In other words, although business does react to government actions in the short term, long-term organisational strategies depend mostly on incentives coming from the structure of the production system. From this it follows that an increase in inter-sectoral regulatory distortions reduce business' encompassing incentives, while processes of institutional transformation reducing or eliminating such asymmetries are expected to increase encompassing strategies. Mahoney and Thelen's institutional change theory, which proposes that there are different types of institutional transformation, among which *displacement* and *layering* – the process of setting new rules alongside the old ones – is particularly useful for this analysis.²⁴

Chile and Uruguay are among a select group of countries in the region whose production systems embarked on a strong industrialisation process during the second part of the twentieth century. In both cases, the state sheltered different export-oriented sectors with tariffs, quotas and subsidies. This created sector-based competence for those subsidies, usually incentivising rent-seeking strategies and discouraging centralised associational

strategies. Business interests remained independent, non-coopted by political interests in these two countries, unlike in Brazil, Mexico and Argentina.²⁵ However, the form in which Chile and Uruguay transitioned from the ISI posed different organisational incentives for business.

In Uruguay, the transformation operated as a slow-moving cumulative process with a slow-moving outcome: economic opening.²⁶ The process of institutional change was one of *layering*, where strong veto players opposed liberalisation and the reforms were processed in successive layers. In Chile, the change took the form of a rapid and profound displacement of ISI institutions under authoritarian rule, producing a strong discontinuity with previous arrangements.²⁷ Therefore, while Chilean business encompassed in a peak association during the post-ISI period, Uruguayan business remained organised by sector after a failed encompassing attempt.

Methods and hypotheses

The empirical strategy builds on a congruence analysis-based comparison.²⁸ The analysis establishes first the comparability of Chile and Uruguay under a 'most-similar' cases design, pondering and judging antecedent conditions that were the same despite differing outcomes, i.e. moving from the Import-Export model to ISI and the similarity in business strategies for the political organisation of its interests up until the post-ISI period. Five proposed hypotheses (see below), drawn from relevant theories on the subject, are evaluated for the transition out of the ISI within each case. This within-case congruence-based analysis serves the purpose of ruling out proposed causal conditions and assessing the plausibility of each of the proposed hypotheses. Once the hypotheses are evaluated within each case, a comparative analysis based on Mill's method of difference audit each hypothesis as plausible causes of either outcome. The main and alternative hypotheses advanced in this paper are:

H₁: [Chile] Rapid institutional change in the form of displacement allowed for the elimination of regulatory distortions between sectors of the economy, rapidly lowering the costs for business to encompass their interests, facilitating enduring centralisation of business interests.

H₁: [Uruguay] Gradual institutional change in the form of layering new rules alongside old ones obstructed the elimination of regulatory distortions between sectors of the economy, slowly lowering the costs for business to encompass their interests, producing only ad hoc centralisation of business interests.

H₂: Long-term encompassing in a peak association is a response to an intense period of class-conflict.

H₃: Having Chile and Uruguay a centralized political system, long-term encompassing in a peak association responds to the existence of a pro-business party with close linkages with business.

H₄: Long-term encompassing in a peak association is a response to a process of firm concentration, which lowers the costs for growing cohesion in the business sector.

H₅: Long-term encompassing in a peak association is a response to the form in which political conflicts at critical junctures are resolved which generate the necessary path dependencies to sustain such encompassing process.

Evidence was gathered from four main sources: secondary sources, parliamentary documents (50 transcripts from committee briefs and documents handled to those committees by interests groups), press research (300 releases in the two countries) and 60 in-depth interviews with business, labour and politicians.²⁹ Every analysed hypothesis is served by at least two different sources of evidence. In the congruence analysis, evidence is used to establish the value of independent and dependent variables, to then compare the value of the dependent variable with that predicted by the theory. The possibility of a causal relationship is evaluated for each hypothesis. The ulterior comparison eliminates any condition present in both cases, as it cannot account for the difference in the outcome. Conditions that are not present in both cases are regarded as possibly causally associated with the variance of the outcomes.³⁰ This strategy of a congruence analysis nested in the comparison reduces the danger of false positives or negatives.

Some issues associated with these hypotheses need to be discussed. First, it is important to distinguish between causes for the formation of peak associations from causes for the sustenance of long-term centralisation of interests. The first is a necessary albeit not sufficient cause for the second. The argument may arise about the main cause for encompassing during the post-ISI period being the presence of a strong actor that breaks down path-dependence processes. As Offe and Wiesenthal³¹ find, maintaining unity among business remains a problem when interests strongly diverge. Short-term factors may be suitable explanations for long-term ones only if associational costs are modified. This paper sheds light over the sustenance of long-term centralisation of interests.

Second, for the proposed causal mechanisms to work, institutions have to be strongly path dependent. The analysis shows how sector-based organisation of business interests consolidated during the ISI.

Third, two potential selection problems are addressed. In terms of exogenous selection, as rapid openings aren't randomly distributed, any perceived consequences of a rapid reform in terms of business organisation should be a consequence of the reform and not of the social and economic conditions that drove it. This potential problem is addressed by showing how the revitalisation of the Chilean peak association did not follow the military overthrow of Allende's government but occurred a decade later in the context of the liberalisation process. In terms of endogenous selection, a question about the direction of the relationship may arise. Does the institutional displacement process produce interests centralisation or does the latter allow for an unopposed displacement process? The analysis distinguishes, therefore, between the formal existence of peak organisations and the actual political lobby through them.

Comparative and within-case congruence analyses

The analysis begins by exploring the pre-ISI and ISI tendencies for the political organisation of business interests. There is sound secondary historical evidence to sustain that it experienced a centralising tendency between the turn of the twentieth century and the post-1929 crisis, in both countries, mostly as a reaction to governments advancing pro-labour legislation. This is consistent with business organisational trajectories in advanced industrial democracies³² and with the neo-corporatist theory of a centralisation pattern in small economies subject to the perils of the market.³³

While Chilean business formed the Commerce and Production Corporation (CPC) in 1934, business in Uruguay formed the Economic Surveillance Committee (CVE) within the Rural Federation (FR) organisational structure in 1929, to act as a watchdog for government economic policy.³⁴

The ISI, however, drastically changed the role of the state in the economy, incentivising governments to deliver special benefits to certain business sectors because of either organisational strength or strategic importance. Once again, this change occurred in both countries affecting business-encompassing strategies through two mechanisms. First, sector-specific protectionist regulations and decision-making instances in the state benefited the interests of some sectors over others. Second, these provided the opportunity for rent-seeking.

Once business interests were protected against market perils, the need for inter-industry aggregation was highly reduced. Both the CPC in Chile and the CVE in Uruguay languished; the former becoming a marginal political actor during the following decades, the latter eventually disappearing.³⁵ A path-dependence process of divergence of business interests was at play.

In Chile, business abandoned the CPC after the Production Development Corporation (CORFO) was created in 1939. There is agreement among scholars about the decline of the CPC at the expense of industry-based associations.³⁶ A detailed account of business participation in state planning commissions and development projects, offered by Silva,³⁷ illustrates the effect that ISI regulations had on business organisational strategies. Major business sectors were given a seat in the central bank and CORFO.

In Uruguay, governments also granted sector-based institutionalised participation in decision making through the creation of the Import and Export Control Commission (CIE) in the 1930s. This Commission controlled foreign exchange decisions, a prime tool for economic policy-making during ISI. Industrialists and exporters had more than 80 delegates each in other state commissions.³⁸

ISI in the two cases offered a buffer for the distributive conflict in the form of a state capable of cushioning it, at least in the short-run. As business embraced the new model, peak associations became less necessary and even problematic as special benefits were granted to sectors.

Diverging outcomes during the post-ISI period

Strategies for the political construction of business interests diverged during the transition from ISI to the open market economy. Business in Chile emerged from this process organised in a strong and well-connected peak association. Over the course of the next three decades, business successfully lobbied over policy-making, with the overarching objective of defending the status quo inherited from the military period. The CPC had been the most important agent for channelising business lobby.

Similar to the case of Pinochet in Chile, Samper in Colombia or Etcheverria in Mexico, the Lacalle administration (1990–1994) pushed business to form a peak association in Uruguay in the midst of a second liberalisation attempt. The debate over entering the MERCOSUR found business bitterly divided along sectoral lines, with the manufacturing sector against it, but exporters and commerce favouring it. Finally, business did form a peak association – Business Superior Council (COSUPEM) – reuniting the main seven chambers in the economy. However, it was short-lived and mostly ineffective, collapsing a decade later, in the midst of the 2002 crisis. How do we account for this divergent outcome during the post-ISI period?

The paper proposes to explore the five abovementioned hypotheses, among which the one in the intersection of the international trade and institutional change literatures is proposed as the main innovation. For this hypothesis to hold, we should find long-term encompassing strategies evolving alongside the elimination of regulatory distortions across sectors of the economy, or the lack of such long-term encompassing otherwise. A first step is to assess the pace and extent at which ISI regulations were reformed. Second, evidence should be found to link business organisational strategies to these processes of regulatory change.

In Chile, ISI regulation was displaced between 1974 and 1979. This process has been largely documented in the literature. Trade opening began with a plan to cut tariffs and quotas. In 1974, tariffs ranged from 0 to 750%, with a mean of 105%; in 1977, tariffs ranged from 10 to 35%, with a mean of 20%. By 1979, Chile met the goal of a uniform tariff rate of 10% on all imports.³⁹ At that point, ISI was officially abandoned and encompassing costs for business greatly reduced. After the early 1980s economic turndown, tariffs were increased to 15% until 1990, and no industry-based exceptions were made. In addition, two major tax reforms were advanced in 1975 and 1984. The first introduced a flat-rate VAT at 18%. The second simplified and reduced corporate taxes. The reforms suppressed exemptions and special categories, and lowered corporate taxes to a 10% flat-rate.⁴⁰

The opening process in Uruguay, on the contrary, included gradual reforms with tailored exceptions and particularities for different sectors. The military government approved a development plan in 1973, but reforms only began in late 1974 and were advanced more rapidly in the capital market than in the trade sector until 1978. Tariffs were scheduled to drop to an average of 35% by 1985, a process that was modified in late 1979 by including additional selective cuts over some 500 items.⁴¹ While taxes on exports were lowered from 21 to 2% of export value by 1976 for traditional goods, financial and fiscal subsidies were put in place for non-traditional exports. Tax rebates amounted to 15% of the value of exports by 1979.⁴²

The argument states, then, long-term patterns of business organisational strategies are caused by these changes in the regulatory environment. In both cases, it is the government that suggests business should form a peak association. In the 1970s, business in Chile was divided into an internationalised group, led by the finance sector that pushed for a quick and radical economic opening, and a gradualist domestic capital led group,⁴³ also pushing for liberalisation but at a slower pace. Both groups supported the military coup and subsequent regime, and did not coordinate but rather competed for political influence.

As late as 1982, the government forced business to resolve inter-industry conflicts before sitting at the negotiation table, asking them to agree on a single development plan. Pinochet's regime refused to deal separately with each sector. This led to bitter conflicts between liberalisation promoters and an industrial sector with protectionist preferences. One of the most problematic issues was tax reduction and tariffs.⁴⁴ Although the conflict was solved in favour of the liberal side, industrialists decided not to abandon the CPC. This process of forced business reorganisation is at the base of business political and industrial relations strategies from then to present. During the dictatorship, the CPC had a hegemonic role in restructuring the productive system, especially after the Social and Economic Council (SEC) was created to advise Pinochet in 1984.⁴⁵

A former President of the CPC during the 2000s agreed that the process of institutional change from ISI to a market economy was particularly helpful for building inter-industry alliances:

The ISI was very conflictive in terms of business relations, but the liberalization process produced an institutional balance, with differential adaptive costs. Special benefits did not survive (Former CPC President, personal interview 2010).

This piece of evidence from a key business actor, in conjunction with the evidence provided from secondary sources about business being able to agree on short-term ad hoc centralisation strategies before 1982, is a keystone to the proposed argument as it refers to the change in the regulatory environment as a prime factor changing business relations over the long-run.

In Uruguay, the abovementioned gradual regulatory change produced many loops and holes, which did not lower the cost of encompassing for business. Two citations from the Economy Undersecretary and an Industry Chamber leader, with reference to the overarching tax reform the first Frente Amplio administration put forward as late as 2007, are important evidence in showing how this gradual layering process had long-term consequences for business associational strategy:

This reform seeks to generate stable, credible and consistent rules that facilitate decision making with respect to investment and employment in the long term. The actual tax regime is undermined by historical reasons or the action of groups of interest (Mr. Bergara, Economy Undersecretary. *El Observador*, April 5th, 2006)

In the case of the manufacturing industry, the reality is totally different to the one of trade sector or those that sell non-tradable goods or services. Therefore, this situation [making employer's contributions to social security the same in all sectors at 7.5%] is harmful for the industrial sector because it is not fair to tax similar sectors with different realities (Mr. Villamil. Industry Chamber General Manager. House Hacienda Commission; Commission Brief 55, 1 June 2006)

The following citations, from business and labour leaders, a former Economy Secretary and a former Labour Secretary, provide further evidence about how problematic it was for business to centralise its political interests. These pieces of evidence together strongly suggest business inability for long-term encompassing was strongly related to the narrow defence of inherited special benefits acquired during the ISI period, which survived the gradual regulatory change:

The COSUPEM was dismantled when it faced the first problem. The FA government has a strategy of atomizing chambers instead of recognizing the largest ones as interlocutors. However, the economic opening has collaborated in improving synergy among chambers (CNCS Directive, personal interview 2010)

The COSUPEM had strong contradictions; each one looked after its own little business and there were huge problems with hegemony. For example, when the National Institute for Employment and Professional Training board of directors was formed [INEFOP], it had 21 members: 9 members from government, 6 from business and 6 from PIT-CNT. Business had to have 6 seats to be able to represent the whole sector, while PIT CNT had enough with 3 (Oil Public Firm [ANCAP] union leader, PIT-CNT leader and FA MP 2005–2009, personal interview 2010)

COSUPEM did not work because of internal divisions in business sector. The extreme positions were the industrial sector, which was born protected by the state during the Batllismo period and then during the ISI; the export oriented sector has a strong liberal tradition (Ex-Economy Minister, personal interview 2010)

Business does not understand the importance of building central institutions for bargaining. This is their most important weakness. In practice, the industrial and service sectors coordinate and this palliates the lack of central institutions (Labour Minister, personal interview 2010)

Overall, there are strong grounds against rejection of H_1 in both countries. Testing the other four hypotheses will provide further elements of analysis for assessing the overall picture.

The second hypothesis is on labor activism. Taking into account that both employers peak organisations languished – or disappeared – during the ISI, a long-lasting centralisation of business interests is expected because of an increasing conflict across class lines. During the military period – 1973–1990 in Chile and 1973–1985 in Uruguay – the labour movement was strongly repressed and therefore it is not possible to assess the hypothesis as such, even when conflict across class lines increased in both countries during the 1960s and up until the democratic breakdown.

After the military period, class conflict has not been a defining cleavage in Chilean politics. One of two conditions must hold for this hypothesis to be plausible, as it is presented in the literature: either a powerful centre-left party emerges with strong ties to organised labour, or at least a strong labour movement credibly mobilises in order to alter the status quo. However, neither of the two conditions are present in post-Pinochet Chile. On the one hand, the centre-left Concertación coalition has had feeble roots in organised society, in particular the labour movement.⁴⁶ On the other, the labour movement has been unable to unite or affect policy during the past decades. In conclusion, labour did not present itself as a credible challenger for the status quo.

In Uruguay, there was no attempt on the part of business to centralise its political interests during the 1960s amid growing conflict across class lines. As shown before, only ad hoc centralisation was possible over single relevant issues. This pattern is observed during the COSUPEM period and after, as it is in the case of business opposition to the comprehensive labour reform during the first Frente Amplio administration (2005–2009).

Differently from the Chilean case, Uruguay presents the conditions necessary for the hypothesis to hold. A left-party with strong ties to labour grew electorally during the 1990s (Frente Amplio). In 2005 a stable partnership between labour and government formed, which made possible comprehensive labour reform centralising wage bargaining at the sector-level. However, business has remained unable to produce long-term encompassing. Therefore, even when conditions are present for an encompassing strategy on the part of business, the failure of the COSUPEM and the inability to achieve intersectoral coordination on a stable basis demonstrates that labour activism is not a prime engine for business long-term encompassing after the post-ISI period.

The third hypothesis to be considered is on partisan competition. Chile and Uruguay have a centralised administrative system. Partisan competition hypothesis postulates that it is expected to observe long-term encompassing strategies as a direct result of business being closer to a pro-business party instead of being in a catch-all two party system.

The evaluation of this hypothesis is not straightforward in Chile. Chile has a pro-business party in the UDI, which was born as an alliance between conservative students from the Catholic University and a group of 'Chicago Boys' technocrats.⁴⁷ Luna⁴⁸ effectively demonstrates how the relation between business and UDI unfolds in terms of campaign financing and vote patterns.⁴⁹ A former president of the industrialists accounts for this long-lasting relationship:

After more than 20 years in office we [Sofofa] built confidence; but it has been the opposition [Alianza] the one that has had a more consistent pro-business position. Equality is more important than growth for the Concertación. The Alianza, instead, having a very well defined view on the equality topic, is well aware that those problems are solved promoting growth (Former Sofofa President, personal interview 2010).

However, it is not only necessary to have the link between a pro-business party and long-term encompassing on the part of business, but also to have the former causing the latter. As shown by secondary sources, the two processes – formation of the UDI and revitalisation of the CPC – occurred almost simultaneously between 1982 and 1983. Nevertheless, it can be argued that the military government had a pro-business profile in itself. However, H_1 better explains business centralisation, as regulatory displacement clearly antecedes business change in strategy.

Uruguay had a party system with two catch-all parties up until the post-ISI period, when Frente Amplio consolidated as a labour-based party.⁵⁰ While COSUPEM is a response to the centre-right Nacional government, it would be incorrect to label the Nacional party as a pro-business party. The following statement from a labour union leader about the relation between the Nacional party and labour during the liberalisation process strengthens the point:

Public workers had a discussion table with MEF [Economy Ministry], MTSS [Labour Ministry] and OPP [Planning and Budget Office] held at the MTSS. They were not discussion tables as such, but they were a place where workers could express their interests. Mr. Lacalle gave a good impulse to public firms bargaining tables (Oil Public Firm [ANCAP] union leader, PIT-CNT leader and FA MP 2005–2009, personal interview 2010).

Organised business lacked alliances with the political system. Business chambers have been unable to build alliances even with centre-right parties due to their atomised strategy focused on maintaining special benefits or exemptions. A former Economy Secretary from the centre-right Colorado Party illustrates this point:

At the beginning of my tenure, business sectors asked for special benefits; all sectors but the Chamber of Commerce. We fought continuously as I told them repeatedly that the government just needs to provide good conditions for market competition [...] But the attitude of the industrial sector has changed. They used to lobby for protection and subsidies, but now they are beginning to ask for better overall conditions (Ex-Economy Minister, personal interview 2010).

A Nacional Party Labour Secretary under a coalitional government with the Colorado party also illustrates the issue:

During my term as Labour Minister, around 20% of my activity was to call businessmen to ask them to rehire fired labour leaders. I had no legal provisions for pursuing this goal, but I called them anyway. (Labour Minister 2002–2005, personal interview 2010)

Overall, the lack of a pro-business party as a possible cause for business' long-term encompassing weakens the partisan competition hypothesis as an alternative suitable explanation in Uruguay.

The fourth hypothesis is the collective action one (H_4), which proposes that a process of business concentration is at the basis of growing cohesion among employers and therefore facilitates long-term encompassing on the part of business. Data on firm size was collected from economic censuses beginning in 1968–1969. [Figure 1](#) shows how in Chile there is a firm concentration process, but only taking off between 1985 and 1997. In Uruguay, a process of firm concentration takes place during the 1970s and 1980s, which is reverted between 1988 and 1997.

In Chile, the concentration process at the top does not occur before 1985, which is congruent with the idea that it is a consequence of the regulatory liberalisation process. However,

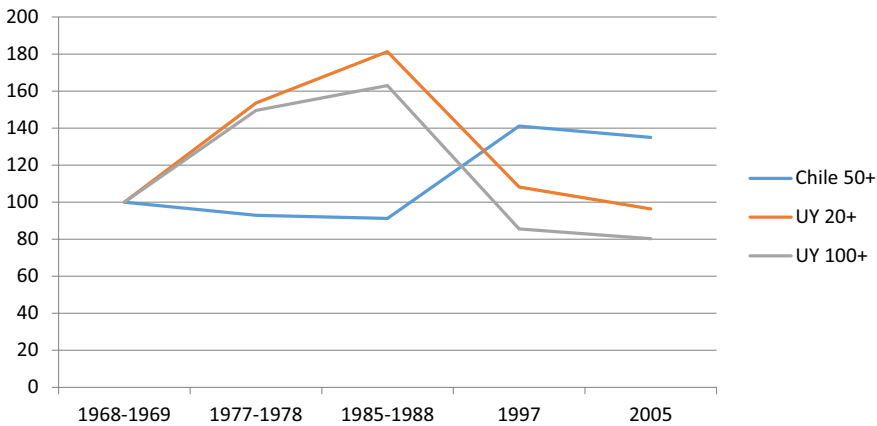


Figure 1. Industry concentration in the manufacturing sector (1968–1969 = 100). Sources: Yearly Industrial Survey, Chile (years 1969, 1977, 1985, 1997, 2005). National Economic Census, Uruguay (years 1968, 1978, 1988, 1997, 2005).

it is possible that the two processes of business interests centralisation and firm concentration reinforce each other during the next decade. In Uruguay, the initial process of firm concentration is consistent with the formation of the COSUPEM in 1992, while the reversal of the process is also consistent with the difficulties business had for long-term encompassing under the COSUPEM. However, evidence from interviews and parliamentary documents on business lobby during the 2007 comprehensive tax reform suggest the bulk of the conflict has consistently been across sectors. No reference is found about firm atomisation caused conflicts. Consistent with this, Uruguayan sectoral chambers have been historically successful in representing the interests of their members, not being challenged from within:

Rural sectors did not want to be taxed while trade sectors wanted an opening process. The industry sector did not want it; they have always been more protectionist. In the 1990s, business resistance to Mercosur was strong (OPP [Budget and Planning Office] Director 1993–1995, personal interview 2010)

After the 2002 crisis, business was very aggressive in demanding for special treatment, with the exception of the CNCS. But the government did not have to give anything except conditions for competition. Towards the end of the period and because the country began to grow again, business was quieter (Economy Minister 2003–2004, personal interview 2010)

To sum up, evidence from the Chilean case suggests the process of firm concentration may have been a reinforcing factor for the success of long-term encompassing on the part of business, but merits as an alternative explanatory hypothesis are not robust mostly because of a problem of timing. In Uruguay, the process of firm concentration first, and atomisation later, is consistent with the creation of COSUPEM as an encompassing association and with its dismissal a decade later. The within-case congruence analysis does not allow ruling out this hypothesis as an alternative or complementary explanation.

Finally, H_5 suggests long-term encompassing on the part of business is a consequence of path dependencies born out of a critical juncture. Three critical junctures are identified during this period in Chile. First, the threat to property rights during the Allende administration. Second, the Pinochet government forcing business to centralise its lobby in 1982. Third, the

process of regulatory displacement. It has already been shown how business engaged only in ad hoc centralisation of strategies following Allende's overthrow, enduring centralisation of interests being only observed after the second and third proposed critical junctures.

The question remains on how path-dependence works in this case. While I do not deny the importance of authoritarian rule as a cause for enforcing business unity up until 1989, I argue that such an explanation remains incomplete if not considering the existence of internally coherent interests across sectors; coherence I propose is born out of the regulatory displacement process. Therefore, I propose H_1 and H_5 are complementary explanations, the former nevertheless being more robust from a long-term perspective as business has remained united under the CPC for 28 years since the end of the military rule.

Similarly, the main identified critical juncture in Uruguay during this period is the liberalisation impulse taken by the Nacional Party administration between 1990 and 1994. Responding to government propositions, business created the COSUPEM, which was short lived and dissolved in 2002. The lack of success of this peak organisation over the next decade is consistent with the gradual layering process of regulatory change that took place.

Conclusions

The main hypothesis advanced in the paper (H_1) has merits for improving our understanding of business interests organisation in these two countries. In particular, it specifies in a novel and useful form the classic institutional change hypothesis.

H_1 and H_4 are complementary explanations. In the case of Chile, the analysis suggests economic opening precedes the process of firm concentration, which is consistent with the idea of increased factor mobility being at the basis of both interests cohesion and firm concentration. In Uruguay, a lower increase in factor mobility is consistent with difficulties for long-term encompassing. The firm concentration and atomisation processes, however, are also consistent with encompassing paths. However, less conclusive evidence from interviews and parliamentary documents strongly suggest business internal conflicts occur mostly on sectoral lines. It is also important to note that lack of evidence supporting H_2 for understanding the political organisation of business interests does not mean class politics are unimportant for understanding contemporary politics in these countries. The success of the Frente Amplio in Uruguay and the breakdown of the Concertación in Chile points to the contrary.

The analysis advances our understanding of the mechanisms that shape long-term encompassing among business sectors in contexts of important changes in economic policy. The paper shows that the role of the state in defining regulatory environments triggers a stable differentiation in business associational strategies. The pace at which institutional change took place built different scenarios for the political construction of business interests.

While it is undeniable that the authoritarian political context in Chile facilitated the displacement process, it is also true that liberalising governments in both countries succeeded in influencing business to centralise its interests in a peak association – in the short-run – irrespective of the form in which institutional change was being processed. The analysis shows that government initiative is not sufficient condition for maintaining business's long-term commitment to channel its political interests through peak associations. Therefore, considering the role of the state in shaping economic policy and institutional change allows a better understanding of the political construction of business interests in comparative terms.

Finally, a question remains on how far this argument can travel. Inferences from a comparison of two 'most-similar' cases should be done, at best, with extreme caution. However, evidence is consistent with the idea that encompassing costs are higher in contexts in which regulation is heavily distorted. If such a premise is correct, then the argument advanced in the main hypothesis (H_1) becomes a plausible hypothesis in the analysis of other cases. Only in Latin America, the experiences of Argentina, Mexico and Colombia are of particular interest because of government involvement in suggesting business coordination. The Brazilian and Mexican cases also show how peak organisations become dormant during different periods, suggesting meaningful changes in business strategies may have occurred.

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Notes

1. Martin and Swank, *Political Construction of Business Interest*; Swenson, *Capitalists against Markets*.
2. Mahoney and Thelen, *Explaining Institutional Change*.
3. Hiscox, *International Trade and Political Conflict*, 5.
4. Frieden, *Debt, Development and Democracy*.
5. Silva, "Capitalist Coalitions," 526–59; Silva, "From Dictatorship to Democracy," 299–320.

6. Schneider, "Organized Business Politics," 95–127; Schneider, *Business Politics and the State*; Schneider, "Organizing Interests and Coalitions," 456–79; Schneider, "Comparative Political Economy," 178–201.
7. Kingstone, "Corporatism, Neoliberalism," 73–95; Kingstone, "Why Free Trade 'Losers' Support," 986–1010.
8. Shadlen, "Neoliberalism, Corporatism, and Small Business," 73–106.
9. Thacker, "Private Sector Trade Politics," 161–87.
10. Fairfield, "Business Power and Tax Reform," 37–71.
11. Etchemendy, *Models of Economic Liberalization*.
12. Gates, "Theorizing Business Power," 57–95.
13. Fairfield, *Private Wealth and Public Revenue*.
14. Schneider, *Business Politics and the State*.
15. Frieden, *Debt, Development and Democracy*.
16. Silva, "Capitalist Coalitions," 526–559; Silva, "From Dictatorship to Democracy," 299–320.
17. Kingstone, "Corporatism, Neoliberalism," 73–95; Kingstone, "Why Free Trade 'Losers' Support," 986–1010; Madariaga, "Mechanisms of Neoliberal Resilience."
18. Korpi and Shalev, "Strikes, Industrial Relations," 164–87; Crouch, *Industrial Relations and European*; Huber and Stephens, *Development and Crisis*; Thelen, *How Institutions Evolve*.
19. Cusack et al., "Economic Interests and the Origins," 373–91; Martin and Swank, *Political Construction of Business Interests*.
20. Olson, *Logic of Collective Action*; Offe and Wiesenthal, "Two Logics of Collective Action," 67–115.
21. Pierson, "Increasing Returns, Path Dependence," 251–67.
22. Rogowski, *Commerce and Coalitions*; Frieden, *Debt, Development and Democracy*; Midford, "International Trade and Domestic Politics," 535–64; Hiscox, "Class Versus Industry Cleavages," 1–46; Hiscox, *International Trade and Political Conflict*, 5.
23. Hiscox, "Class Versus Industry Cleavages," 1–46; Hiscox, *International Trade and Political Conflict*, 5.
24. Mahoney and Thelen, *Explaining Institutional Change*.
25. Schneider, "Organizing Interests and Coalitions," 456–79.
26. Pierson, Paul. with space "Big Slow-Moving, and ... Invisible," 177–207.
27. *Ibid.*, 177–207.
28. George and Bennett, *Case Studies, Theory Development*; Beach and Pedersen, *Causal Case Study Methods*.
29. Press releases were collected for relevant parliamentary debates of labor and tax reforms in both countries for grasping the evolution of debates and for confirmation about information obtained from interviews. Interviews were semi-structured.
30. George and Bennett, *Case Studies and Theory Development*, 156.
31. Offe and Wiesenthal, "Two Logics of Collective Action," 67–115.
32. Swenson, *Capitalists against Markets*; Martin and Swank, *Political Construction of Business Interests*.
33. Joint Committee on Western Europe, *Order and Conflict in Contemporary Capitalism*; Katzenstein, *Small States in World Markets*; Crouch, *Industrial Relations and European*.
34. Haindl, *Chile y su Desarrollo*; Caetano, *El asedio conservador*.
35. Caetano, *El asedio conservador*; Arriagada, *Los Empresarios y la Política*; Zurbriggen, *Estado, Empresarios y Redes Rentistas*.
36. Gomá and Arriagada, *Orígenes Políticos y Económicos*; Silva, "From Dictatorship to Democracy," 299–320; Schneider, *Business Politics and the State*.
37. Silva, *State and Capital in Chile*, 36–7.
38. Zurbriggen, *Estado, Empresarios y Redes Rentistas*.
39. Zahler, "Recent Southern Cone Liberalization," 509–62; Haindl, *Chile y su Desarrollo*.
40. Cheyre, *Análisis de las Reformas Tributarias 1974–1983*.
41. Rama, *Protección y Crecimiento Industrial*; Hanson and De Melo, "The Uruguayan Experience," 477–508.
42. Bension and Caumont, "Uruguay," 499–530.

43. Silva, "Capitalist Coalitions," 526–59.
44. Silva, *State and Capital in Chile*, 161–6.
45. Gomá and Arriagada, *Orígenes Políticos y Económicos*; Silva, "Capitalist Coalitions," 526–59; Silva, "From Dictatorship to Democracy," 299–320.
46. Luna, *Segmented Representation*.
47. *Ibid.*, 98.
48. *Ibid.*, 98.
49. See Luna, *Segmented Representation*, 211–212, for detailed data on these issues.
50. Levitsky and Roberts, *Resurgence of the Latin American Left*.

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