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The State, business and *the restoration of the* neoclassical paradigm

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The author describes the neoclassical restoration, which, from the 1970s onwards, took a radical approach to the search for a theory of development by attempting to fuse the particular characteristics of developing economies with the central ideas of economic theory. Intervention with the aim of furthering development was perceived not as a solution but as part of the problem, and adjustment programmes were oriented not so much towards correcting imbalances as towards establishing an economic structure close to neoclassical precepts. Several East Asian economies were chosen as examples of the application of correct policy, since they were seen as being market-driven, but closer analysis revealed that behind their export success lay the firm guiding hand of the State. Aside from the market-State dichotomy, however, the discussion has overlooked the main actors: the companies. The perception of companies as agents who simply react to a series of opportunities suffers from limitations, as it fails to analyse how companies learn and how they may change when faced with different situations. In this sense, it would be appropriate to reexamine the costs and benefits of industrial promotion in developing countries. It would also be appropriate to analyse in more detail the current process whereby companies are seeking a new identity, in the context of new conditions. The author concludes that it is necessary to study companies more closely: they have never been the puppets of public policy and will not be mere automata in the marketplace.

I

The conceptual debate in relation to East Asia

1. Introduction

The ideas on economic development prevailing during the postwar period were subjected to a massive and radical frontal attack from the mid-1970s onwards. The aim of this offensive was to extend the scope of the notion that a freely operating market was the best known mechanism for attaining general welfare, so as to embrace developing countries too. The restoration of this view, which economists refer to as neoclassical, was to undermine the central hypothesis of the then current development theories, which held that the less developed countries were strongly conditioned by certain typical historical-structural characteristics.

One of the most important consequences of the restoration of the neoclassical paradigm was that it took away the authority of the current development promotion policy platforms. Even the development theoreticians' typical line of argument was turned on its head: now, far from being inherent in their historical condition, developing countries' problems were seen as the product of the pervasive and failed doctrine of "development promotion". Agricultural supply, for example, was attributed with a poor response capability; at another level, "external constraints" on growth were continually cited. In both cases, it was held that the problems which supposedly derived from structural conditions should actually be interpreted as the result of government interference which stifled or even blocked the operation of the market.¹

Finally, it was maintained that, in view of the manipulation of foreign trade barriers, public service charges, interest rates and nominal wages in accordance with the political designs of those in government, it should come as no surprise that genuine market opportunities could not be adequately perceived or grasped.

¹ For a systematic analysis of these issues, see Little, 1982 and Lal, 1983.

Clearly, if the arguments of the neoclassical restoration are conceded, there would not even be any need for a special field of knowledge known as development theory. The presumed specificity of developing countries could once more be put in a historical context, thus reestablishing the ideal of the unification of the core ideas of economic knowledge, which would thus have been only temporarily threatened by the dichotomy between a powerful central economy and the peripheral economies (Hirschman, 1980).

During the 1980s these ideas gained considerable strength, and their sphere of influence expanded. Suffice it to mention in this respect the application of the methods of economic theory (in other words, neoclassicism) to the study of phenomena hitherto considered essentially political in nature. In this connection, it is indispensable to refer to the work of Krueger (1974) on the practice of granting import licences, adopted by a number of countries in the postwar period. His position is that basically both parties—the applicant and the official who grants the licence—try, within certain limits, to maximize the benefits obtained from this "transaction". This creates a kind of archetype of the relationship between the public and private spheres, giving rise to the so-called "new political economics". The most salient features of this are the public authorities' rent-seeking activities and the transfer of these rents to clients in the private sphere. There is nothing particularly new about the analytical content of the study. It merely represents the application of conventional instruments of economic analysis to a relationship which had previously been seen more as an anomaly than a routine economic transaction. Nevertheless, it is difficult to overestimate the impact of this approach, both on the way in which we understand our economies and societies and on the economic policy agenda for developing countries. The main changes could broadly be described as follows:

i) Governments began to perceive themselves as having an aptitude for—indeed, being skilled in—

rent-seeking, and as being dependent on those rents. This phenomenon was of such importance that countries previously known as developing countries came to be known as "rent-seeking societies". Paradoxically, here again we see a differentiation of these societies from the central economies (although, as mentioned earlier, the critics of the 1970s sought to abolish this distinction), and in this case the differentiation was much more insidious than the characterization of under-development as being due to structural rigidity and barriers to growth.²

ii) So-called "adjustment" programmes, which hitherto had merely claimed to reestablish macro-economic equilibrium, took on new dimensions. It was no longer a matter of putting countries back on course, but rather of turning the page of history, ushering in a new kind of economy and a new society. Strictly speaking, criticism was no longer directed at the performance of the economy, which, in the last analysis, is of minor importance: the economy and society now began to be indicted for their structure and constitution, as though the malevolence formerly attributed to governments had profoundly infected economic agents and political actors.

iii) Reforms aiming to establish the rule of the market were no longer considered conservative. With the blame duly transferred to the local élites, the neo-liberal prescriptions also began to have a certain political appeal, even for those who had traditionally adopted a critical stance *vis-à-vis* the market and were generally opposed to capitalist culture. The movement had reached its peak: the notion of (localized) "market failures" had become "government failures", which in turn became failures inherent in the economy and society. Practically everything was now being repudiated.

iv) Putting the blame on the private sector (for being as it was, not as it should have been) radically transformed the relationship between economic policy managers and the economy. Theoretically endowed with not just scientific but also moral superiority, the (new) policy formulators saw the protest and resistance (and ultimately even the bankrupt-

cy) of private agents or interests as proof that they were on the right track. They conceived of the economy as a *tabula rasa* on which they aimed to write and install a new order. The fact that they were not inventing this order, but copying it from other market economies, was seen as giving their task an aura of neutrality and inexorability.

2. The difficulty of resisting the new proposals

There were many who, partly or wholly, refused to accept the new ideas. In practice, however, resistance to the wave of restoration proved utterly ineffective, which is extremely surprising, because on the one hand the movement ignored decades of accumulated knowledge, while on the other –and most importantly– once the new approach had taken hold, capital, companies and vested interests –all of them undoubted realities– began to be viewed with mistrust. The following explanations will help to understand how the overwhelming advance of the new proposals was made possible:

i) Since the 1950s there had been cases or situations of "frustrated development" (Pinto, 1959). By the end of the 1960s, rebellion against, and at times repudiation of, the development-centered perspective had become the norm among the very followers of that tradition. In the end, what seemed crucial was that development theories had proved incapable of explaining either the success of the "Asian tigers" or the "development disasters" which were occurring in Africa and in Latin America itself.³

ii) This restoration of orthodoxy occurred at practically the same time as in the developed central economies: Harry Johnson's anti-Keynesian crusade could be cited as a form of behaviour which *mutatis mutandis* was to be repeated among development critics of neoclassical stripe. In practice it meant that the formidable academic machine of the central countries, and most particularly the North American arm, was united in the attack on development theories.

² We will return to this topic below. Nevertheless, it should be borne in mind that a similarly negative picture had already been painted by Paul Baran and, particularly, Gunder Frank. This observation comes from Toye, who makes the point that neo-Marxism, by discrediting the State (and élites, it should be added) in developing countries, paved the way for the restoration of the neoclassical paradigm (Toye, 1987).

³ Theories of stagnation and dependence are completely inadequate for the study of what happened either in South Korea or –at the other extreme– in disaster-ridden Zaire under Mobutu Seko. For details on Zaire, which, to the delight of the new political economists, is an extreme example of the "predator State", see Evans, 1992.

iii) The indefinite duration of the macroeconomic upheaval unleashed by the debt crisis (with momentary slumps into hyperinflation), the virtual cessation of growth and the deepening of the overt misery of the big cities of Latin America all helped to create a climate of extreme pessimism. In this context frequently contradictory notions began to gain ground: on the one hand, the ills which afflicted our economies were seen as the expression of a past which was in many ways reprehensible, while on the other they were perceived as the result of repeated wrong decisions and choices made by governments of the day. In this way external influence was played down and a blind eye was turned to the effects of the powerful inflationary feedback and propagation mechanisms characteristic of chronic inflation.

In the case of Brazil, at least, this interpretation seems to bear no resemblance whatsoever to the reality of the situation. It was the collapse of the cruzado experiment that plunged the country into the mad macroeconomics of the late 1980s. This argument has been developed in another paper where, apart from considerations of a general nature, an analysis is presented of developments in the automobile industry as an example of the setbacks suffered in the second half of the 1980s. Briefly, the idea is that the deterioration set in late and was essentially a reflection of events in the macroeconomic environment, i.e., it had no connection with the origins or early years of the industry.⁴ As a General Motors executive put it, "Brazil at the end of the 1980s was a mess and the company was a mess".⁵

3. Advances, retreats and surprises in East Asia

In their critique of the import substitution route to industrialization, the opponents of development theory chose experiences in East Asia as a point of reference and contrast. They argued that East Asia had explored (external) market opportunities, instead of trying to reproduce at all costs an industrial structure like that which existed in the developed countries. Their experiences had, therefore, been market-driven. In Latin America, on the other hand, the public auth-

orities, in reaching decisions or guiding the decisions of others, had attempted to govern the market itself. Ultimately, then, failure in Latin America and success in Asia could be explained in the same terms: (greater or less) distance from the signals and opportunities of the market. Where the distance was greater, price manipulation ruled, hand in hand with unambiguously political objectives; where it was less, the (world) market directed and determined decisions.

This line of argument, tirelessly repeated by some, ultimately constituted a stumbling-block for the neo-classical restoration: perhaps its only setback to date. In fact, in the light of the accumulated knowledge of the experiences of the Republic of Korea, Taiwan and Singapore (in this sense, Hong Kong is an exception), it can in no way be maintained that the State's presence in these cases was remotely related to the orthodox model. A vast body of evidence shows that behind the Asian tigers' aggressive export drive lay the firm guiding hand of the State.⁶ This fact—an indisputable element in the heroic phase of Korean and Taiwanese industrialization—gave rise to a debate that is still raging. Some authors simply speak of a "third wave", toning down the conclusions reached in the literature of the 1970s (Evans, 1992). Others, taking more radical positions, argue that the classic case of Japan (Johnson, 1982) and, *a fortiori*, the "economic miracles" of the Republic of Korea, Taiwan and Singapore should be viewed as "State-led" experiments in development. By contrast, in countries where promotion of development yielded nothing, the failure is ascribed not to attempts to "govern the economy", but to mistaken forms of intervention, or even insufficient intervention, because of weakness on the part of the State (Migdal, 1988).

The cases of Korea and Taiwan bear out those who think the State *can* promote development. Thus, the problem with certain theories of development is not be that they acknowledge that this is possible, but that they tacitly accept that this *always* happens. However, once it is recognized that the promotion of development may or may not be successful, the focus of discussion tends to shift towards the question of what elements are essential to enable the State to stimulate and influence decisions which produce development. Selecting appropriate objectives, for

⁴ A preliminary version of this study was published in Barros de Castro, 1993.

⁵ E. Sanchez, 1994, quoted in Shaiken, 1995.

⁶ See especially Wade, 1990 and Amsden, 1989.

example, demands considerable independence and great competence. Even simply keeping those objectives firmly in view over the course of time—a fundamental requisite if decisions are to be coordinated and forecasts are to become self-fulfilling prophecies—requires very sound institutions and firm political will. As to the internalization of national objectives on the part of companies, this presupposes a substantial degree of trust and motivation, which demands a certain level of acceptance of the broad policy options.

The World Bank recently revised and moderated its position somewhat, in the light of the accumulation of evidence (World Bank, 1993). However, critics of the Bank's new report soon abounded, so that clearly it would be difficult to stick to the initial positions set forth in it. This is not the place to go over those arguments again,⁷ but what should be noted is that the World Bank study continues to be fundamentally concerned with the opposition between market failures and government failures, thus ignoring the question of the actors involved. In other words, it continues to skirt around a question that development economics—and indeed, *mutatis mutandis*, Keynes himself—had basically evaded: what State? what company?

Unless progress is made towards answering these questions (and I believe that the debate on East Asia enabled a good deal of progress to be made on the first one), it will not be possible to continue an

inquiry which is of fundamental importance to those who—impelled by the current rapid growth in Asia—are now trying to reopen issues which were formulated and addressed in pioneering fashion by postwar theoreticians and politicians: how to produce miracles that are not fleeting and illusory, or, from another angle, how to enable companies to operate as vectors of development policy without losing their character or altering their profile.

Finally, the debate on East Asia highlights not only the ingenuousness of development theories (as regards the State and policy) but also the determinism that imbues them. It also shows up the falseness of the neoclassical reading of events in East Asia and, in this sense, invalidates the comparison between Latin America and the Asian tigers in the form in which it was presented by the neoclassical restoration. On the other hand, it should perhaps be added that the tremendous success of the Asian tigers on the one hand and the “development disasters” on the other focused attention—rightly, but perhaps too much—on the quality of public authorities. Greater understanding is needed of an actor that has a direct relationship with those authorities: the company. It is particularly necessary to look into companies' decision-making processes, as is done below. In the final analysis, it is the companies that carry out, sometimes half-heartedly but sometimes also wholeheartedly and creatively, many of the changes that constitute economic development.

II

The company as a problem in the reforms inspired by the neoclassical restoration

1. The microeconomics underlying the reforms

It is a tenet of conventional economic theory that companies make decisions on the basis of given prices—those of factors, inputs and rival products. In other words, these prices form the elements of an economic calculation which determines what position each economic agent chooses (decides) to adopt.

Few people realize that this does not imply any attempt to outline or describe the decision-making process: on the contrary, it is claimed that economic agents' decisions do in fact derive from certain rational criteria (Arrow and Hahn, 1971, p. v). Lucas states quite clearly that economic theory is used to calculate how certain variations in a situation will affect behaviour, but that these calculations *are neither a reflection of nor a model for the process of adaptation* through which a decision is reached (Lucas, 1986, p. S402).

⁷ See especially Rodrik, 1994; Wade, 1994; and Amsden, 1994.

According to Friedman's well-known image, in practice an economic agent proceeds like a billiards player. He does not openly make the calculations needed to select the angle at which he should hit the ball, yet the success of his stroke shows that he has obeyed the relevant laws of physics (Friedman, 1953, p. 22). The message is clear: a physicist does not need to take account of the style or the mood of the player, and the economist, similarly, should concentrate solely on the logic of the decision. In this context, decision essentially means calculation. This may remain implicit (as in the case of the billiards player) but it nevertheless identifies, for instance, the point at which marginal income equals marginal product for each factor or input. In short, there is no need to concern oneself about the character of the economic agent, nor about the "context", just as there would be little or nothing to be gained in knowing the history of a game (or of the players): each individual play obeys both the laws of physics and the rules that make billiards the game it is.

Against this background, we shall now try to study the significance of the reforms suggested by supporters of the neoclassical restoration. What is particularly interesting are the reactions these reforms produced and, more specifically, the difference between the reactions it was assumed would be produced and those which companies actually tended to evince.

The aim of these reforms is to reestablish the idea that prices are reliable indicators both of shortages and of consumer preferences. The assumption is that, with prices adjusted by the processes of liberalization, privatization and deregulation –and, it should certainly be added, the new political economics, given the drastic reduction in opportunities for obtaining sinecures and privileges from public bodies– companies will reexamine their purchasing and selling policies. In so doing, they will try to adjust to the (new) signals from the market, which will now be free of government interference. Basically, then, they will adjust their aim and keep on firing, which would not, in principle, be a cause for concern.

It has to be recognized, naturally, that under certain circumstances price correction impairs companies' opportunities. However, in these (tacitly deemed exceptional) cases this is simply seen as the end of a promiscuous relationship with the State –the "guichet model"– whereby economic difficulties were resolved by the granting of favours. In short, the reforms inspired by orthodox thinking ultimately signify a re-

turn to the rule of neoclassical rationalism and the disappearance of the spurious political dimension inappropriately acquired by companies. Only one area of compromise is recognized: the acknowledgement that in practice there are imperfections or failures in the market, as for example in the fields of education and basic services, which will generate external economies for companies as a whole. In such cases, and after careful examination (since government errors are usually worse than market errors) it would be legitimate to implement certain policies.

2. Beyond the maximizing agent

Some highly respected and increasingly influential authors do not agree with omission of the adaptation process through which decisions are reached (Lucas). Indeed, for Schumpeter, Simon, Penrose, Chandler, Rosenberg, Nelson and Winter, Freeman, Porter and Dosi, companies do not by any means limit themselves to merely "responding" to the relative prices they face, in at least two senses.

First, study of the development of companies over time leaves no doubt that they organize themselves, or rather, structure themselves so as to establish long-term positions in the markets they are most interested in (Chandler, 1962; Nelson and Winter, 1982). In order to do this, they need the capability to make decisions under changeable and inescapably unpredictable conditions. This in turn leaves (or should leave) a space in economic theory for the incorporation of multiple, open-ended solutions rather than fixed, unequivocal ones and, in particular, for recognition of the importance of strategies (Possas, 1996). Moreover, as a result of their efforts to get greater and better yields from the resources available to them (particularly their workers), and because of the competitive context of their development, companies tend, over the course of time, to be constantly acquiring knowledge. This is how new opportunities come to light and unique identities can be established for different companies.⁸

⁸ This idea was developed by Penrose and deservedly highlighted in Burlamaqui and Fagundes, 1996. As regards the uniqueness and differentiation of experiences, a radical position can be found in Caulliraux (1996), who concludes, on the basis of a study of information technology companies, that companies in the same sector, making the same product, with the same scales of production and the same relationship with the market, may nevertheless have different business/production strategies.

In acknowledging these two characteristics, which are what effectively define and differentiate companies, it should be recognized that company behaviour cannot be adequately represented by models which focus primarily on optimization. Companies do not in fact even lay claim to this level of rationality (Simon, 1982). Furthermore, in the light of their accumulated experience, the challenges and constraints they face and the creativity they embody to a greater or lesser extent, they also innovate from time to time. Conventional analysis thus leaves out an important dimension which would allow us to understand company decisions: it lacks a theory of action which is not based on choices, but on the creation of new opportunities and the discovery of new approaches.⁹

The importance of the changes that arise within companies –and it is now not unusual for them to be generated on the shop floor itself– forces us to take greater account of an issue which is missing from conventional microeconomics, i.e., communication and cooperation among those who work within a company. A minimum of communication was essential for production even in the Fordian system, and that minimum is multiplied many times with the intellectualization of production brought about by computerization (Valle, 1996).

To conclude these brief remarks, it may be recalled that in many sectors, not only in the industrial area but also in the field of modern services, there has been a noticeable increase in “extra-market” inter-company relations. Subcontracting, cooperation with suppliers and clients (and even between competitors)¹⁰ and the granting of autonomy to government departments and services –often by making them business units– have given rise to a network of companies very different from that which existed in the past. Multiple centres, all with relative autonomy, compete and, at times, cooperate with each other in widely varying ways and degrees (Burlamaqui, 1995). This suggests not only that companies are not monolithic (as though they were equipped with a chip which optimizes results under restrictive conditions), but also that they are social creatures, or are on the way to becoming so. From this simple fact arise problems of coordination which take on special importance once reforms are in place.

⁹ This observation, which refers to Porter’s position, is from Rumelt, Schendel and Teece, 1991.

¹⁰ This seems particularly true in cases where the cost of new technological advances practically demands that costs and risks should be shared (Prochnik, 1996).

It goes without saying that these few comments take us right away from the “reflex” concept, according to which, as mentioned above, the decision-making process of business companies is in practice limited to constant repositioning in response to the fluctuations of relative prices on the market. This argument cannot be side-stepped through the mere enhancement of neoclassical models by working in transaction costs, uneven access to information, learning curves and the like. The crucial point is that, by resolving (or getting round) a given situation in a particular way, companies learn and quite likely change. Decisions in some way become a part of companies’ history and culture, and may alter their repertoire of typical reactions (sometimes called path dependency). Clearly, however, what is learned may be superseded or even “forgotten” in the future and in the light of new experiences (Lundvall, 1995).

3. On the reactions to the reforms: preliminary aspects

In the past, manufacturing companies in developing countries could generally rely on benefits stemming from public policies, and this was of decisive importance in the case of those which were covered by the planning and goals of the State. In most cases, such policies, together with quite favourable regulatory regimes,¹¹ offered a high degree of protection from foreign producers, credit on favourable terms and fiscal favours of various kinds.¹² Companies frequently also had access to goods and services offered by the public sector at subsidized rates. Lastly, they naturally had cheap labour available, although this did not necessarily mean lower labour costs per unit produced.

In practice, these advantages were offset to some extent by the challenges and difficulties involved in introducing new activities and sectors into the manufacturing field,¹³ in contrast with the comfortable and safe option of traditional activities (including trade). It was not simply a matter of “blazing a trail”

¹¹ See Katz, 1995, on the crucial role that regulatory regimes may play.

¹² For a careful reconstruction of the incentives available in Brazil in the 1970s, see Suzigan, 1978.

¹³ An extreme case where the granting of great privileges was combined with the challenge of great disadvantages was Polo Petroquímico da Camaçari, in Bahia. See Araújo and Dick on the complex operation launched to set this venture up.

through an environment devoid of industrial culture,¹⁴ where adequate suppliers and a reasonable infrastructure were unavailable. There was also the risk of policy swings which could partly or totally dismantle the regime of benefits which had hitherto prevailed. The history of Latin America includes several such instances, some of which had disastrous consequences for industry.

To the extent that they exceeded the disadvantages inherent in the less developed environment, the benefits mentioned above encouraged the rise of "quasi-rents" – a term generally used to characterize the profits obtained in markets where supply is for some reason limited. This type of quasi-rent resembles the profit generated by innovations (the so-called Schumpeterian profit). We should not, however, ignore the fact that shortages connected with true innovations are generated in the innovating company itself, whereas in this instance they originate in (and are guaranteed by) government decisions. In the final analysis, this is a government "reward" to those who diversify the structure of production by moving into non-traditional activities. When these initiatives are due to the government's desire to give a spectacular impression of modernization to the populace, the result can be (indeed, usually is) the production of "white elephants", incapable of evolving towards a modern industrial system.¹⁵ However, in other cases the aim may be to promote the establishment of an industrial structure with modern characteristics. If successful, this policy brings robust economic growth, and genuine companies spring up. Two conditions are necessary for this to happen. First, the quasi-rents must be used in the same way as Schumpeterian profits and be reinvested, along with new credits, in the sectors where they originated, which ensures the rapid expansion of those sectors. Moreover, throughout the evolutionary process thus initiated, lessons should be learnt and economies of scale and scope should be obtained, leading to a

gradual reduction in the need for promotion and protection.

This is not the place to address the opportunities for high, sustainable growth rates in the economy as a whole that can be presented by growth through diversification. It should be noted, however, that there is now renewed interest in this road to growth, owing to the impact of the current experiences in East Asia.¹⁶ Strictly speaking, as is well known, various Latin American examples have already shown that this could be a good way to raise GDP. The experiences in East Asia (particularly in the Republic of Korea, Taiwan, and Singapore), which were on a far greater scale, showed that this road could bring countries close to the technological frontier, with solid, competitive companies where wages rise rapidly.

As to the second condition (or bid) mentioned above, in a number of cases the promotion of diversification certainly did not lead to the creation of industries with high levels of efficiency and productivity. This was particularly evident where industry was essentially oriented towards the domestic market. What happened in those cases was that the limitations and uncertainty of local conditions tended to give rise to insufficient scales of production and over-reliance on vertical integration (in response to the lack of local suppliers). Scale, in particular, appears to be a crucial factor in explaining the modest results (in comparative international terms) of many of these experiments.¹⁷ The relationship between small markets and competitiveness, however, is not so clear. Faced with narrow markets with little prospect of liberalization, companies may opt – as seems to have happened in the Argentine metalworking sector – for learning routes which are not only different from those of companies in the central countries but also largely, and indeed excessively, "idiosyncratic"

¹⁴ The lack of entrepreneurial spirit, essential for the launching of new projects, was considered by many to be one of the main obstacles in the path of developing countries. For a study of the ideas behind this view, see Leff, 1979.

¹⁵ This links up with other topics previously discussed, relating to the State as actor and, in particular, to the autonomy and competence of those who formulate and implement economic policy. See Evans, 1992.

¹⁶ In this respect, see the stimulating article by Lucas (1993). The best-known contemporary call for growth through diversification, as opposed to growth stimulated by lower costs, is to be found in Porter, 1991. On the subject of rapid growth *per se*, see Hikino and Amsden, 1994.

¹⁷ Referring to transnational corporations operating in Argentina, Kosacoff and Bezchinsky state that the scale of production of a typical industrial plant of the local branch of a transnational corporation was generally no more than one-tenth that of a plant producing the same good in developed countries (Kosacoff and Bezchinsky, 1993, p. 252). On scale, vertical integration and other characteristics (and peculiarities) of Argentine industry, see the important work by Katz and Kosacoff, 1989.

(Katz, 1993, pp. 396-397). It is also important not to lose sight of the fact that, even where substantial benefits were derived from the application of policies, the introduction of new equipment (which generally brought technical progress with it) and changes in the production, marketing and other fields themselves produced effects which compounded the impact of those policies. This is not to say, by any means, that learning and, ultimately, higher yields take place automatically: the aim is simply to explain that the benefits derived from economic policy should not overshadow the improvements made in the companies' own performance. This suggests that, bearing in mind the various levels of decision-making, although winning favours may be important, it is only one dimension of the process whereby companies seek to establish themselves. It is worth repeating that ignoring these latter elements means ignoring the decision-making process followed by business firms, which is all the more serious at a time like the present when they are faced with real transformations in their environment.

In the light of all the foregoing, it is necessary to be cautious when analysing the connection usually perceived between the shortcomings of industries promoted by government policies and the benefits assigned to them. It should not be forgotten that as far back as the late 1970s United States and European companies felt threatened by Japan's export drive and that of the recently-industrialized countries, of which the most important at the time were Brazil and Mexico (OECD, 1988), and this despite the fact that these countries had started at an enormous disadvantage. This reaction continued during the 1980s (this time with reference to the competition of Japan and the Republic of Korea) and took the form of increasing adherence to a new organizational and technological paradigm.¹⁸ Meanwhile, companies located in Brazil, Argentina and to some extent in Mexico—whether domestic companies or subsidiaries of transnationals—were undergoing the disorientation of the macroeconomic turbulence of the 1980s. It goes without saying that local industries, seeing their favourable position evaporate rapidly after the State's fiscal crisis, and obliged to resort to any measures to protect their capital resources, were in no condition

¹⁸ See Proença, 1996, for a comparative appreciation of total quality control, the Toyota system of production, and just-in-time production.

to keep pace with the feverish technological renewal produced by flexible automation and the new generations of products which were beginning to find their way into the marketplace.

The combination of the severe recession of the early 1990s and the start of liberalization sparked an intensive movement for change with the aim of reducing the need for working capital, eliminating everything that was superfluous, and raising labour productivity. Initially, the profound changes focused on management and organization (Fleury and Arkader, 1996); investment in equipment was generally put off for a later date.

Most recently, the stabilization process, coinciding as it has done with an increase in liberalization, a change in the parameters of the State/company relationship¹⁹ and changes in sectoral regulatory frameworks, has forced a thorough review of the behaviour of enterprises. Their capital resources are enhanced by stabilization (wealth effect) but threatened by the qualitative leap forward produced by the pressures of competition. The image of the main competitor (or market leader), which is an obligatory point of reference in the formulation of strategies, has also altered dramatically. In an open economy, copying makes practically no sense, and this calls into question some of the lessons learned from previous experience. Local connections, on the other hand, are more highly valued, partly because potential foreign investors may wish to be able to take short cuts. In the face of such contradictions, national companies, like multinationals in the same location, face a situation which demands decisions but at the same time makes them more difficult. Their own identities, shaken by the apparently interminable inflationary whirlwind from which they are finally emerging, call for an authentic redefinition. Defensive or offensive strategies may be adopted.²⁰ There may be tactical retreats (by-passing more technologically advanced production lines) or, in contrast, specialization may be deemed more promising, with or without associations with other companies. Taking a position on such important issues requires great discernment and entrepreneurial

¹⁹ For an analysis of the changes in the relationship between the State and business firms in Brazil in the early 1990s, see Erber and Vermulm, 1993.

²⁰ Kosacoff was a pioneer explorer of this topic: see, for example, Kosacoff, 1993. Company reaction to liberalization plus stabilization is also examined in Barros de Castro, 1994.

spirit. This is particularly true if governments, faithful to the doctrine of the neoclassical restoration, focus on a policy of results in macroeconomic terms and establish new "ground rules", abandoning the functions of delimitation and coordination of decisions (Barros de Castro, 1995).

In line with the ideas expressed in this article, the study of possible company reactions to the current transformations in the economy requires an appreciation of the extreme variety of their positions. Thus, even for multinationals, being previously installed in a country or not makes a crucial difference as regards the strategies that need to be defined. What is more, some of the most important "information" needed to make a decision simply does not exist, since it depends on decisions that have not yet

been taken. Under such circumstances, there is little point in persisting with the idea that transparent, friction-free markets are being established which simply convert families' desires for consumption and entertainment into decisions on production and employment (Solow, 1989). If there is a genuine wish to explore the practically virgin territory of the reactions of economic agents to changes in parameters²¹ and to formulate useful hypotheses as to what can be expected from the current reforms, it is as well to start with a good typology of companies. In this respect, there is one thing that can already be asserted: existing companies have never been the puppets of policy and will never be mere automata in the marketplace either.

(Original: Portuguese)

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²¹ It should be remembered that the Schumpeterian school helps to understand ruptures when these are the result of companies' own initiatives. Here, however, the lack of continuity is due to policies which claim to be natural and neutral.

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