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NÚMERO 89

Ben Ross Schneider

ELUSIVE SYNERGY: BUSINESS-GOVERNMENT RELATIONS AND DEVELOPMENT
Elusive Synergy: Business-Government Relations and Development


Capitalism and bureaucracy have found each other and belong intimately together.

Max Weber (in Evans p. 29)

Business and the State\(^1\)

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Introduction

Big business is back. After a puzzling absence, business politics and relations between business and the state have once again become a privileged locus for analyses of development and democracy, and for contending theoretical perspectives in comparative political economy. I say "once again" because business-state relations occupied a similarly central locus in the late 1970s in comparative political economy. Back then, big business was a prominent protagonist in theories of dependent development and bureaucratic authoritarianism, as well as other efforts to explain the highly exclusionary patterns of growth and politics, especially in Latin America. For industrial countries, capitalists were primary interlocutors in Marxist theories of the state and in analyses of corporatism that sought to explain the big questions of the unequal distribution of power in advanced capitalism as well as the variable capacity of capitalist democracies to respond to the economic challenges of the 1970s and 1980s.

In the 1980s capitalists faded from the top of the research agenda on developing countries.\(^1\) The causes of the untimely eclipse are opaque, but several trends contributed. Attention shifted to non-elite social actors who, through political liberalization, were becoming more politically active and vocal. The retreat from political economy and the return to the autonomy of politics, also shifted attention to the formal political arena where capitalists were often only dimly visible. Lastly, much of the debate in the 1980s on economic reform hinged on the dichotomy of states and markets -- impersonal markets where big business was not an issue.

In fact, as became clear in the wake of neoliberal reform, the opposite of state-led development is not market-led but rather business-led development. This is the most important message of the volume *Big Business and the Wealth of Nations*. The volume begins with the premise that since the late 19th century, "the large industrial enterprise has continuously played a central role in the dynamic growth of

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\(^1\) In scholarship on industrial countries business remained closer to the top of the research agenda. In Europe, interest in corporatism, and later governance, kept the focus on relations between state and society. Greater consensus seemed to hold among europeanists that relations between business and the state are major determinants of economic policy and performance. See, for example, Hall (1986), Katzenstein (1984, 1985), Zysman (1983), and Soskice (1991). In the study of Japan there has been greater controversy between statist such as Johnson (1982) and anti-statist such as Friedman (1988). However, more recent scholarship takes a more ecumenical view that both business and the state, and good relations between them, are indispensable in the analysis of Japan's economic success (see Samuels 1987, Okimoto 1990, and Calder 1993). Among industrial countries, scholarly interest in business flagged most notably in the study of the United States during a period paradoxically when business influence was resurgent. See Pierson (1995) for a review. Vogel (1989), Martin (1991), and Ferguson (1995) have done much recently to redress the neglect.
the international economy and the economic transformation of all major nations" (p.
24). The chapters in the volume cover mostly the now developed countries, however,
the book is relevant for students of contemporary development because the essays
concentrate mostly on the history of big business in the transformation of these
economies from agricultural into industrial societies. The fact that the book contains
only a few chapters on developing countries (Korea and Argentina) is a reminder of
how far empirical research on business in developing countries lags behind business
history in developed countries, and how difficult it would be to compile a
companion volume on big business and continuing poverty in many nations based
on existing empirical research.

Recent research on developing countries has begun to fill this gap and has
increasingly come to the conclusion that relations between business and the state are
crucial to explaining patterns of development in the late twentieth century. Students
of strong states in East Asia discovered increasingly that it was not just state power
or good policy choices that explained performance, but rather a web of public-
private ties that simultaneously constrained state autonomy and enhanced state
capacity. Students of weaker states in southeast Asia found that business-state
relations were key in explaining variation in economic performance. Richard Doner,
for example, finds “differences in the relations between governments and business to
be the most important explanation of cross-national variation in sectoral bargaining
performance” (1991: 4-5). Comparisons of economic policies and performance
among Latin American countries also highlight differences in relations between
business and the state. Rosemary Thorp, for example, concluded that economic
policy has been consistently more effective in Colombia than in Peru. One of the
two principle reasons was that the relationship between the state and the private
sector in Colombia was “characterized by greater mutual confidence and respect”

Eduardo Silva’s book is a prime example of the renewed interest among Latin
Americanists in relations between business and government. Silva’s book examines
the case of neoliberal reform in Chile during the dictatorship of Augusto Pinochet
(1973-89). Silva’s overall argument, similar to much of the revisionist literature on
economic success in Asia, is that neoliberal reform in Chile cannot be understood as
merely the result of an autonomous, authoritarian regime imposing its will on a
powerless civil society. Instead, he argues, the pace and content of reform depended

2 Besides the works reviewed here, see also Gereffi (1990), Haggard (1990), Johnson
(1987), Mintsyre (1994), and Woo (1991). For a recent literature review, see Doner and Hawes

3 See for example Maxfield (1990), Maxfield and Anzaldua (1987), Tirado (1994) and
Durand (1994). Earlier literature on business-state relations in Latin America concentrated on
multinational corporations (MNCs). See for example Moran (1974), Evans (1979), Evans and Gereffi
(1982), Gereffi (1983?), Bennett and Sharp (1985), and Shapiro (1994). Domestic business, the focus
here, suffered relative neglect.
on the nature of the changing relations between the state and various capitalist coalitions. He divides the process of economic restructuring into three periods or phases—gradualist (1973-75), radical (1975-82), and pragmatic (1983-88)—and analyzes the different relations between business and government in each. The government privileged access by different types of business in each period: to big business generally in the gradualist phase, to a handful of internationally oriented, finance-based conglomerates in the radical phase, and to peak business associations in the last pragmatic phase.

This essay takes stock of the revived interest in business-state relations and their impact on development. The literature on business and democracy has also expanded rapidly, but the focus here is on development. The review focuses primarily on Embedded Autonomy because it has had pervasive theoretical reverberations, especially in the literature sympathetic to comparative institutional analysis. In the analysis of Evans' work, both the book and related articles, I also draw heavily on related arguments by Alice Amsden which are usefully summarized in her chapter in Big Business. Less systematic attention is devoted to the edited volume by Chandler et al. and Silva's book on Chile. These works have had fewer theoretical reverberations yet they are important works in filling in some of the holes in the broader work by Evans and Amsden and for extending their research agenda, particularly in the analysis of business organization. It is impossible to justice to 19 chapters in Big Business, written mostly by distinguished business historians, which include cases studies of the United States, major European and Asian countries, and two post-communist economies, as well as seven comparative and thematic chapters. My review will be more selective, focusing largely on the chapters most relevant to the issues of business-government relations and business organization. Amsden's chapter receives most attention, since it is the only one with a series of general arguments on developing countries. The coverage of Silva's book is also selective, since it deals almost exclusively with only one country. However, Chile is a crucial comparative case. As the top economic performer in Latin America over the past decade, Chile is a good place to start to assess how arguments drawn from the experience of successful economic development in Asia travel to Latin America.

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Evans' point of departure is that state intervention has been a necessary component of rapid late industrialization, especially in Korea, the primary empirical referent embedded autonomy. In fact, Evans' book is more about the subtitle "States and Industrial Transformation," than about the oxymoronic title. Evans is resolutely on the state-friendly side of the perpetual debate, that will not be further rehearsed here, over the relative merits of markets and states in promoting development. His core contribution lies in elaborating what exactly it is that states do to promote industrial transformation. In the venerable tradition of Alexander Gerschenkron (1962), Evans further specifies distinctive roles and functions undertaken by states in successive rounds of industrialization. Evans distinguishes four roles that states play in industrial transformation: custodian, demiurge, midwife, and husband (in the sense of husbandry). In layman's terms, these roles refer respectively to regulation, state production in public enterprises, state creation of private firms, and further state promotion of these firms. In Evans' empirical examination of the computer industry in India, Korea, and Brazil, he finds examples of each role: custodial regulation, state enterprises that produce computers or other informatics products, state creation of private computer firms, and in the most successful cases state husbandry of private firms into global competitors. The roles most effective in promoting industrial transformation depend on the characteristics of the sector, especially how it is structured internationally, and how various state roles are combined (p. 14). Embedded autonomy is beneficial to all roles but indispensable to successful midwifery and husbandry.

Evans argues that "embedded autonomy," —where bureaucrats have close ties to business yet are still able to formulate and act on preferences autonomously—"is the key to the developmental state's effectiveness" and best explains divergent development performance (1989: 574). Embedded autonomy depends on "an apparently contradictory combination of Weberian bureaucratic insulation with intense immersion in the surrounding social structure" (1989: 16). Yet by itself neither element works; "a state that was only autonomous would lack both sources of intelligence and the ability to rely on decentralized private implementation" (p. 12). A state that is only embedded is ripe for capture and dismembering. "Only when embeddedness and autonomy are joined together can a state be called developmental" (p. 12).

* Assessing Evans contribution to understanding Korean development is beyond the scope of this review and my competence. The best sources for comparison would be Woo (1991) and Amsden (1989). For Woo's assessment of Embedded Autonomy, see Woo-Cumings (1996?). Other recent works on business and government in Korea include Fields (1995) and E. M. Kim (1997).
For Evans, different state roles require different bureaucratic capacities, but Weberian bureaucracy, characterized by "highly selective meritocratic recruitment and long-term career rewards" (p. 12), is the best all around capacity builder. In addition, effective Weberian bureaucracies require appropriate and selective policy instruments, coherence, autonomy or insulation, and embeddedness (see also Rueschemeyer and Evans (1985) and Nordlinger (1987)). Administrative coherence is an essential feature of successful developmental states, and Evans attributes some of Korea's greater success in informatics to the fact that its bureaucracy is less fragmented than the Brazilian bureaucracy. Moreover, "the Brazilian state connected better [than the Indian state] with local entrepreneurs, but fragmentation made it hard to pursue a coherent program of transformation" (p. 209). Beyond administrative coherence, Evans argues that Weberian bureaucracy creates "corporate coherence" that in turn provides the foundation for state autonomy. Corporate coherence, in the sense of group identity, provides the basis for "statist" preferences and for the ability to resist capitalist persuasions.

Silva agrees with Evans on the importance of administrative coherence: "an authoritative hierarchy among ministries, with financial agencies at the apex, remains a key factor because it offers policy coherence" (p. 208). However, in Chile Weberian bureaucracy was not a feature of the economic bureaucracy that enacted neoliberal reform. For the first decade of authoritarian rule the Pinochet government appointed large numbers of policy makers who had previously worked in major firms. These appointees undermined corporate coherence (which was subsequently based on Chicago training rather than common experiences in government) and wilted insulation. What insulation there was derived more from authoritarianism than bureaucratic structures and careers. Silva's argument is that the lack of insulation from a few conglomerates in the radical reform period contributed decisively to the economic collapse in the early 1980s. In the mid 1980s the bureaucracy did become somewhat more insulated, though not Weberian, as Pinochet nominated more bureaucrats to top policy positions, and non-bureaucratic nominees were also more independent from particular economic interests. These appointees had greater autonomy from particular firms and greater ability to manage conflicting demands by various sectors or firms. Silva considers these more technocratic bureaucrats to be a crucial ingredient for the more successful interaction between business and government, and the ensuing economic growth, in the 1980s and 1990s (p. 208).

Evans qualifies autonomy with embedded to emphasize the fact that effective bureaucrats have very close relations with business. Measures of embeddedness

Schattschneider raised similar concerns many decades ago: "it is good governmental practice to stop the leakage of special information to favored interests. A career civil service with a strong corporate sense, able to resist the temptation to accept private employment, is an elemental necessity" (1935: 290).
include what proportion of the bureaucrat's time is spent with businessmen and the density of more formal networks linking bureaucrats and industrialists. Formal forums for discussions between business and government have been common in Europe and were an important source of embeddedness for developmental states in Asia. In Chile, business associations were well represented in policy forums before 1970 and again after 1984 when the government created the Social and Economic Council and other sectoral commissions (Silva, pp. 191, 204).

As Evans puts it, an essential foundation for institutional arguments is the fact that "states are not generic. They vary dramatically in their internal structures and relations to society" (p. 11). How states vary is a major point of debate among institutionalists. Evans has greatly advanced this debate by indentifying key features of state structures (as in fragmentation) and civil service practices (Weberian bureaucracy). However, incorporating career incentives permits greater precision in identifying the conditions in the economic bureaucracy which favor administrative coherence, reciprocity, autonomy, and embeddedness. In other words, a dose of methodological individualism could enhance Evans' sociology. For example, the consequences of administrative fragmentation depend heavily on the careers of people who work in the fragmented agencies. The federal bureaucracies in Brazil and in the United States are both highly fragmented, yet bureaucratic careers and therefore preferences are much more closely tied to the administrative structure in the United States where bureaucratic infighting is consequently more intense with deleterious consequences for policy formulation and implementation.

Embeddedness also depends on career incentives within the bureaucracy: officials will spend time with industrialists if it advances their careers. In Taiwan, for example, bureaucrats in state banks are held personally responsible for the performance of loans they approve for private firms which gives these bureaucrats strong incentives to collect information and monitor private firms (Amsden 1991: 284). Lastly, the movement of personnel from the public to the private sector can also enhance embeddedness. French, Japanese, and Korean firms hire large numbers of top bureaucrats who generally retire early (see Schneider 1993; Steers, et al. 1989: 44; Amsden 1997: 365). This well established, informal career track allows firms to hire new managers who come with already dense networks of contacts in the bureaucracy and further embed officials who remain in the bureaucracy.

In general, the importance of competent, coherent, and autonomous bureaucracy to economic development, especially in cases of more interventionist states of the kind Evans analyzes, is well supported in the mainstream literature. In fact, bureaucratic competence was a major theme of a recent World Development Report (World Bank 1997), a bellwether of conventional wisdom (and the Report in

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8 I provide only a few examples here to illustrate the benefits of a career approach to bureaucratic behavior since I have tried to make a full case for the approach elsewhere (Schneider 1991 and 1993).
fact drew on Evans' research). What Evans book adds is an argument on the necessary conditions for maintaining bureaucratic autonomy in cases where bureaucrats are embedded in close and potentially collusive relations with private business. It is this relationship that is more theoretically innovative and controversial.

Reciprocity and Embeddedness: Conceptual Advances and Empirical Lags

Reciprocity and embedded autonomy are both variable characteristics of a relationship. This relational focus represents a giant conceptual step forward and beyond constraining dichotomies like state versus market or state versus society. In field research however such relational variables can be slippery operationally and the collection of solid evidence on the relationship as yet lags well behind the conceptual advance. In fact, in the hundreds of pages of close empirical analysis in the work of Evans, and Amsden before him, there are very few passages where the reader can see just how reciprocity changed the behavior of some capitalist or how embeddedness altered the decision of a particular bureaucrat. Silva's detailed empirical examination of relations between business and government provides a good example of the kinds of evidence necessary (and the cost of getting it) to unveil the policy impact of very close relations. Before turning to Silva's empirical contribution, this section first examines the concepts of reciprocity and embeddedness.

Reciprocity is one element of embedded autonomy. Amsden pioneered the study of reciprocity as a stand-alone concept in her explanation for Korea's economic success. For Amsden, government promotion works only if officials make sure that capitalists make productive use of the subsidies they receive. Amsden's general argument is that “the more reciprocity that characterizes state-firm relations..., the higher the speed of economic growth” (1989: 146). Dispensing subsidies, quotas, protection, market shares and other favors are common activities for most states in developing countries. What distinguishes Korea and other successful late industrializers is reciprocity: “in direct exchange for subsidies, the state exacts certain performance standards from firms” (1989: 146). And since the allocation of

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9 Samuels (1987) used the term “reciprocal consent” to characterize relations between business and government in Japan. The term is more like Evans' embedded autonomy than Amsden's reciprocity: “reciprocal consent is the mutual accommodation of state and market. It is an iterative process of reassurance among market players and public officials, one that works better where the parties to these negotiations are stable, and where institutions that guarantee their compacts are enduring” (1987: 8).
subsidies has been disciplined, "the government has been able to prevent the 'wrong' prices from being incorrect" (1991: 285).  

At first glance the concept of reciprocity appears uncomplicated. At closer range, more questions arise. Is reciprocity a long or short term relationship? How do bureaucrats know if capitalists are complying? What do bureaucrats do if they are not? Neither Evans nor Amsden provides a complete, comparative framework for analyzing these aspects of reciprocity. As a first step in devising such a framework I would recommend distinguishing among four distinct stages or features of reciprocity: performance standards, monitoring, sanctions, and keeping the state honest. Reciprocity is mostly a one-way, hierarchical relationship in which state protagonists act to elicit the desired behavior on the part of business. Only in the last of the four phases do social actors become protagonists in ensuring the requisite probity on the part of the state bureaucracy.

The first stage in exacting reciprocity is to let subsidized firms know what is expected of them. When a bureaucrat and a capitalist shake hands on the transfer of some subsidy, does the capitalist know what is expected and when? If the goal of a policy is merely some kind of quantitative growth of exports, production, or regional activity, then expectations may not be problematic. Often, in the case of applications for subsidized government credit, the outcomes are specified in great detail. However, other programs seek to elicit technological development or greater efficiency, and measurement is problematic. In Korea the standards appear to have been general and relative. General in that "good performance [was] evaluated in terms of production and operations management rather than financial indicators" (Amsden 1989: 16); relative in the sense that "good" was usually determined in comparison to other firms in the sector or other chaebol overall. In her chapter in Big Business Amsden argued that "firms were disciplined informally, in the form of bureau chiefs . . . telephoning company CEOs or top managers and lecturing them on appropriate behavior ranging from buying locally made inputs, introducing specific foreign technologies, investing (or not) in new capacity (all capacity expansions required government approval), diversifying export markets, and improving product quality" (1997: 364). Yet the relationship still appears to be one of general, long term exchange, rather than trading particular subsidies for specific outcomes.

Monitoring is the second stage in exacting reciprocity. Bureaucrats have to have access to information to allow them to determine if firms are complying. Yet it is costly to get reliable information on performance targets that are not simple and

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10 Amsden argues further that, "in other countries . . . subsidies have been dispensed primarily as giveaways. In Korea the 'wrong' prices have been right because government discipline over business has enabled subsidies and protection to be less than elsewhere and more effective. If the big business groups of Korea have been loaned long term capital at negative real interest rates, the government has demanded that they use the borrowed capital productively, not speculatively. If they have been allowed to sell in protected domestic markets, they have had to produce and sell in the export market" (1989: vi).
easily measured. Moreover, firms have strategic reasons to manipulate information: if subsidies are contingent on performance, then firms have strong incentives to distort information on their performance. Two things facilitated monitoring in the Korean case. First, as noted above, bureaucrats did not have to make absolute judgments on performance, but rather could compare firms against each other. Second, performance was also determined largely in export markets: “The sternest discipline imposed by the Korean government on virtually all large size firms ... related to export targets” (1989: 16). Amsden calls exports “the most efficient monitoring device” (1991: 285) or the “most important performance standard” (1997: 363). Export performance is both easier to measure than say technological improvement or operations management and harder to distort.

The importance of exports to monitoring reciprocity raises an interesting comparative hypothesis about the development strategies. Much has been made of the invidious comparison between export oriented growth in East Asia and import substituting industrialization (ISI) in Latin America. The general argument is that export oriented development is superior because it creates internationally competitive firms. However, it may be less trade per se that has a positive impact on growth, but rather trade in countries where monitoring by scarce bureaucratic personnel is essential to reciprocity and therefore to the success of industrial policy. The administrative requirements for monitoring reciprocity in ISI may exceed the bureaucratic capacity of sponsoring states. Evans highlights these problems in the SEI (Special Informatics Secretariat) that was responsible for monitoring the highly protected computer market in Brazil: “with well over a hundred firms in the hardware market alone and hundreds of technologically complex products being introduced, timely certification of the authenticity of each purported local innovation would have required a staff many times the few dozen that struggled in SEI to perform the myriad functions demanded of them” (p. 121).

Third, state actors charged with monitoring performance have to be able to punish deviance. Reciprocal agreements lose credibility if state actors have full information on a firm’s non-compliance yet hesitate to act on it. Such hesitation may be prudent for several reasons, key among them is the ability of firms to retaliate against the would-be sanctioner. In Turkey, for example, bureaucrats went through some of the formality of requesting reciprocity, but they actively avoided monitoring for fear of the political risks of merely possessing data on non-compliance (Biddle and Milor 1997). Even in less vulnerable situations, bureaucrats may not want to alienate potential supporters. Bureaucrats in Brazil also faced this dilemma in the computer industry: “Local abusers of greenhouse privileges may have been outlaws, but they were still part of the policy’s core political constituency. To expose them would have been to alienate key supporters and to discredit the greenhouse in the public eye” (Evans, p. 121).
In Korea, enforcement took the form of shifting subsidies from worse to better performing firms. In extreme cases the government refused to bail out failing firms and instead transferred their assets to better performers. Because the large chaebol operated on the brink of bankruptcy, the leash was relatively short (see Cumings 1984; Woo 1991). Amsden provides anecdotes on several dismembered chaebol (1989: 15), but is unfortunately less systematic in noting the terms of reciprocity in the dozens of industrial firms she studied. In her chapter in Big Business Amsden argues that “if a targeted firm proved itself to be a poor performer, it ceased being subsidized -- as evidenced by the high turnover among Korea's top-ten companies between 1965 and 1985” (1997: 336). What would have been especially forceful for sealing Amsden's argument would have been clearer evidence that industrialists were in fact responding to reciprocity rather than 'animal spirits' or other incentives.1

Lastly, Amsden notes that if the state disciplines business, then someone has to discipline that state. In other words, what keeps business from bribing bureaucrats into ignoring non-compliance? In her book Amsden notes at the outset that the answer to this question lies outside her purview but would have to consider “meritocracy in the civil service, militarism, raw material scarcity, and not least of all, a hyperactive student movement that mobilized popular support to keep the government honest” (1989: vi). Although not a full answer it is more plausible than Amsden's most recent argument that “Korean companies grew big enough to insist on a workable standard of honesty and efficiency on the government's part” (1997: 337). Big companies elsewhere have regularly preferred to collude with government rather than insist on honesty. And big companies in Korea, at least some of the time, engaged in corrupt practices. It is on this fourth dimension that the corruption scandals of the 1990s in Korea raise so many questions. How could a world leader in growth become also a world champion in corruption? And, if the industrial promotion part of the Korean state remained relatively untainted, what sustained this schizophrenia within the government? Political support, including large political contributions, was always part of the reciprocal obligation for the chaebol, but at what point does it become dysfunctional for economic performance?

Compared to reciprocity, Evans' concept of embedded autonomy is more complex and interactive. In principle, reciprocity can be a short-term, specific, mostly one-sided relation whereas embedded autonomy is a more two-way

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1 In principle each of the first three aspects of reciprocity can be operationalized though in practice data collection is problematic and still incipient. Progress on the empirical side is likely to come from disaggregation and comparison. Disaggregation would permit observation of precisely which subsidy was tied to which performance outcome. Another research strategy for demonstrating the explanatory power of reciprocity is comparative. This is a tack Amsden herself is taking in research in progress on Brazil (personal communication, July 1996). There performance standards were spelled out in great detail, but reciprocity foundered on inadequate monitoring and enforcement in contrast to Korea where the monitoring was constant and intense yet the standards were vague.
relationship of ongoing, generalized exchange. Reciprocity is an element of embedded autonomy but so too are information exchange, flexibility and renegotiation, and of course state autonomy or bureaucratic insulation. For reciprocity, information flows are crucial in a narrow sense to monitoring. For Evans, the information that flows through embedded autonomy has important policy benefits as well. Embeddedness allows state actors to “secure full information” (p. 54). In India, Evans highlights the lack of policy networks that would allow officials “to collect and disseminate information” (1992: 174). Moreover, the “Indian state cannot count on the private sector... as a source of information about what kind of industrial policy will fly” (p. 69).

Embeddedness also allows officials to “count on the private sector for effective implementation” (pp. 54, 69). Here Evans' analysis approximates and relies on Amsden's arguments on reciprocity. Discipline and reciprocity are crucial to the state's fourth role of husbandry (p. 91) designed to get existing, sometimes large and powerful, firms to do the bidding of bureaucrats. However, where the key in Amsden's argument are bureaucrats wielding carrots and sticks, Evans highlights consensus building and “joint projects” (for example, pp. 69, 228). Embeddedness also “provides institutionalized channels for the continual negotiation and renegotiation of goals and policies” (p. 12). Here, embedded autonomy promotes not only willing executors but also useful feedback for policy makers.

If the empirical progress on Amsden's reciprocity is only incipient, that on embedded autonomy is even more rudimentary. The autonomy part of the concept has been considered at length, if not necessarily resolved; the embeddedness feature has not been subjected to the same scrutiny. Relative levels of embeddedness may be easy to gauge in extreme cases such as India on the non-embedded end of the spectrum versus Japan and Korea on the other. In the many other intermediate cases in which embeddedness, or more likely some elements of embeddedness, may exist in some sectors or periods, disaggregation is essential, as Evans notes in his consideration of Brazil and India. It is equally important to “unpack” the relationship of embeddedness to spell out the causal connections. What is as yet missing is a clear differentiation of the consequences of particular facets of embeddedness such as data collection, “private sector expertise,” “negotiation and renegotiation,” “consensus,” and so forth. This differentiation is especially important for the mass of “intermediate” states that cannot hope to achieve autonomous Weberian bureaucracies in the short run but that just might be able to reap some of the benefits of embeddedness. In the end, Evans has a compelling correlation that deserves further “process tracing” research to substantiate the causal relationships between features of embeddedness and various economic outcomes. He finds clear

12 Evans and James Rauch (1997) and Rauch and Evans (1997) have a broader cross national project on Weberian bureaucracy which finds a positive correlation between Weberian bureaucracy and economic performance. See also World Bank (1997).
covariation in relations between business and government on the one hand and
economic performance on the other, both overall and in information technology in
his three country studies. Less common in the book is clear evidence that particular
capitalists or bureaucrats acted differently, with positive consequences, because of
some feature of embeddedness.

The great strength of the Silva book is precisely in fleshing out the
correlation. The State and Capital in Chile does not take on the embedded autonomy
argument directly, yet it nonetheless provides concrete empirical examples of
embeddedness and examines its direct influence on policy making. Silva's spares no
effort to uncover the networks of capitalists and government officials and their
myriad university, family, career, and financial connections. Clear examples of
how close collaboration between business and government affected government
policy emerged in the first gradualist period. The military officers who took power
in 1973 were not previously embedded. They lacked training in economics,
experience in economic policymaking, and close relations to business, so they turned
for help to the private sector, months before the military coup of September 1973.
Military officers asked a group of economists and representatives from major
conglomerates, known informally as the Monday Club, to devise an economic
program for the military government. The economists who wrote the program were
by training and ideology radical neoliberals (later known as Chicago boys), but
because they were embedded in networks dominated by traditional conglomerates,
their report, called the Brick, was more moderate in its policy recommendations (p.
75). Roberto Kelly, a retired Navy officer with close connections to the Edwards
conglomerate, became a key conduit between the Monday Club and the military
government (p. 73). To the extent he became embedded, Kelly then becomes the
carrier from the private sector to the government, both of the Brick as well as its
authors who were subsequently appointed to positions in the new government (p.
86).

What emerges starkly from Silva's analysis of very close relations between
government and big business in authoritarian Chile is not career civil servants
embedded in business networks but rather career capitalists embedded in the
economic bureaucracy. Until the mid 1980s, the triumph of each new set business
interlocutors with the state was consolidated with the appointment of businessmen
with very close ties to their respective constituencies to pivotal positions in the state.
This pattern is common in the Americas, both North and South, and very different
from the Asian traditions where very few capitalists are given policy making
positions in government. The question from Evans perspective would be, does the
fact that a businessman is embedded in the state somehow change the behavior of

13 Among his sources Silva lists 43 interviews with business leaders and policy makers. In
addition he scoured scores of company reports and career trajectories to establish linkages among the
positions pivotal individuals held in government, associations, and firms.
the appointee? Silva's answer is generally no; business appointees acted in the interests of their constituency and the behavior of capitalists in government thus varied across the three periods according to the nature of the constituency (a handful of financial conglomerates in the 1970s versus the broad peak associations of the 1980s).

Silva's conclusion on business constituencies in Chile can be stated more generally: cross-national variations in reciprocity, embeddedness, and other aspects of relations between business and government depend greatly on the organization of the public and private sectors which vary greatly across time and countries. The previous section considered the organization of the state; the next turns to the organization of business.

Organized Capitalists: Big (and Encompassing) is Beautiful

Embedded autonomy typically involves only a small group of top bureaucrats and the heads of organizations, firms or associations, that aggregate multiple firms (rather than owners and managers of atomized single-product concerns). Korea, for example, was a world leader in both growth and the size of the conglomerates that drove it. What, if anything, is the link between conglomeration and growth? The conventional wisdom in the world of business in the United States is that any correlation would be strongly negative. After the wave of conglomeration in the 1960s and 1970s, business leaders and corporate raiders in the 1980s woke up to what one observer called "the biggest collective error ever made by American business" (Economist, 27 April 1991, p. 44, cited in Davis et al., 1994: 548). For the developing world there are reasons to suspect that this conventional wisdom does not apply.14 Evans concludes that "an organized class of industrialists facilitates a joint project of industrialization" (p. 228). Amsden is more categorical and specific: one of four core institutions that contribute to successful late industrialization is the "diversified business group" (1989: 8).

What do these authors mean "organized class" or "diversified business group"? Business firms and associations in developing countries come in all shapes and sizes. Table 1 provides a matrix to categorize the empirical variations in business organization by form and dimension. In terms of horizontal organization in any one product market, firms can coordinate informally through oligopolies, or formally through outright monopolies, cartels, or sector/trade associations. Firms can organize vertical integration through informal means such as the long term subcontracting relations found in Japan (see Smitka 1991) or the vertically

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14 Chalmers Johnson was one of the first scholars to wonder if the zaibatsu in Japan and their counterparts in Korea and Taiwan were inherent and necessary elements of successful developmental states (1987: 162).
integrated, multidivisional corporations common in the United States. Vertical business associations that organize upstream and downstream firms along a productive chain are rare but do crop up occasionally. Vertical organizations unite firms in different sectors but in the same productive chain whereas the products of firms belonging to diversified organizations have no necessary connection (also known as diversification into technologically unrelated sectors). These diversified business organizations can be sustained informally through personal ties and interlocking directorates, often reinforced by cross shareholding among firms (as in Japanese keiretsu or Mexican grupos (see Granovetter 1994)); through direct ownership in conglomerates; or through multisectoral peak associations or confederations which unite various sectoral associations. Amsden's term "diversified business group" refers usually to corporate conglomerates though at times includes more informal groups like the keiretsu and Latin American grupos. The chapters in Big Business concentrate primarily on large, vertically integrated corporations and other forms of coordination through ownership with little discussion of associations or informal coordinating relations.

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<th>Dimensions</th>
<th>Informal</th>
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<td>Horizontal</td>
<td>Oligopoly</td>
<td>Monopoly</td>
<td>Cartels and sector associations</td>
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<td>Vertical</td>
<td>Long term</td>
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<td>Upstream-downstream associations</td>
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<td>Diversified/</td>
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Textile associations in Asia sometimes bring together up and down stream firms. See McNamara (1995) and Wade (1990). States in Brazil and Mexico encouraged temporary "vertical" organization to smooth the process of trade liberalization (Schneider 1997).

In each dimension organization addresses a different source of uncertainty. Firms have incentives to organize horizontally if output (or sometimes input, especially labor) markets are volatile and fixed costs are high (see Bowman 1989). Firms tend to organize vertically if transaction uncertainty and costs are high (Williamson 1985). Lastly, capitalists have incentives to diversify across product lines to spread general and political risk (Leff 1978; Fligstein 1991). The causes for variation across the horizontal axis are many including preexisting ethnic or other networks, legal frameworks (especially contract law and antitrust regulations), and mostly importantly direct state encouragement for particular forms. A brief exploration of the origins of cross national variations in business organizations is left for the next section.
The types of organizations most likely to facilitate collaboration with Weberian bureaucrats are the diversified, multisectoral, and usually huge ones on the bottom row of Table 1. Why? In principle, diversification and hence encompassingness alter the preferences and behavior of the capitalists who head these organizations. Leaders of encompassing multisectoral organizations are more likely to focus on what is best for industry or the economy as a whole rather than particular sectors or firms (Olson 1982: 48-53). Multi-sectoral organization in industry gives managers and business representatives a more state-like perspective (see Nordlinger 1981: 35). Multi-sectoral organizations, like cross cutting cleavages, break up Olsonite distributional coalitions. Encompassing associations can further assist collaboration between business and government by resolving intersectoral disputes in house. Multisectoral associations can thus reduce the dangers, that Evans highlights, of fragmented government for policy coherence.

Despite the exhaustive empirical coverage on the organization of Chile's major conglomerates and business associations, Silva's book lacks an overall theoretical conclusion of the consequences of variations in organization. Such a conclusion is not, however, difficult to extrapolate from his comparison of the three periods of neoliberal reform. Reforms clearly worked better, especially in the last pragmatic phase, when the interlocutor from the business side was a strong encompassing association. In the "more 'successful' system of interaction" "state officials deal with organized business groups capable of forging broad agreements on a policy agenda and able to effectively represent the general and sectoral interests for which they claim to speak" (p. 208). Reforms in this period of the 1980s worked better and the economy grew thereafter at a faster rate than in the previous period of radical reform when government policy makers worked closely with only a handful of conglomerates. The radical reform period of the 1970s ended with a calamitous collapse of the financial system and deep ensuing economic depression.

The sustained growth in Chile after 1985 depended on close relations between business and government as in the cases of successful developmental states in Asia. However, several differences stand out. In Chile the close working relationship between business and government was the unintended result of Pinochet's efforts to court business and thereby divide the political opposition to his rule rather than an explicit effort to promote growth through closer relations.

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17 For example in Austria and Switzerland, "peak associations of business proved very important... in staging and resolving the intense political conflicts within and between industries. As a result, political conflicts within the business community did not immobilize the public agenda and government machinery" (Katzenstein 1984: 197). State actors, in more top down fashion, in Mexico and Taiwan relied on encompassing associations to reconcile divergent interests concerning trade policy (see Puga (1994) and Wade (1990: 281), respectively).

Moreover, collaboration in Chile depended more on particular appointments of top officials (as it would in most other appointive bureaucracies of Latin America) rather than institutionalized Weberian bureaucrats. Thus, Chilean style embedded autonomy is more contingent and the bureaucracy is more vulnerable to capture, as in the 1970s. Due in part to this vulnerability, embedded autonomy in Chile and Latin America more generally may be more likely to thrive when the business interlocutor is a formal, encompassing association. Such associations have incentives to displace individual capitalists and thereby reduce the dangers of capture. The functional equivalent in Latin America for the dense, long term, personalized networks in East Asia may be transparent, formal, routinized meetings between technocrats and leaders of business associations.

Evans, Amsden, and the other authors in *Big Business* barely mention formal business associations, multisectoral or otherwise. However, associations can in fact be crucial to many of the functions of reciprocity and embedded autonomy. Associations can enforce reciprocity, for instance, even where states are incapable of sanctioning business. Retailers associations in Mexico, the Colombian coffee federation, and Turkish textile associations all exacted reciprocity from member firms that were beneficiaries of government programs (see respectively Kaufman, et al. 1994, Thorp and Durand 1997, and Biddle and Milor 1997). For embedded autonomy, associations can provide the core conduits for information exchange, networking, and negotiation. In Korea and Taiwan ex-government officials staffed major associations which reinforced public-private networks and facilitated the flow of information (Wade 1990; Fields 1995 and 1997). In Chile in the 1980s associations invested heavily in research departments which generated studies and proposals that association leaders took to new business-government commissions and working groups (Silva, p. 205).

Although usually applied only to business associations, the "encompassingness" argument also holds for conglomerates and business groups. For policy implementation, diversified, multisectoral firms are a boon. By definition industrial policy or market oriented reform favors some sectors over others. Firms with all their assets in one sector are more likely to oppose shifts in priorities, while encompassing, multisectoral conglomerates can move resources within their groups. From the bottom-up, the view is that of the heartless conglomerate that shuts down one of its many plants without regard for the workers or the community as opposed to the local owner of the single product factory who goes with the mayor and head of

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19 Evans mentions some associations active in particular sectoral stories as in Brazilian informatics (pp. 118-9), Korean informatics (p. 125), and Korean textiles (p. 90), but makes no general argument about their role in industrial transformation or embedded autonomy.
the union local to the district legislator to block change. For Leff, conglomerates provide a “mechanism for capital mobility between activities,” function like a capital market, and relieve the government of responsibility for micro-managing industrial policy (1978: 672-3).

In Chile, neoliberal reform, especially trade liberalization and financial deregulation, benefited sectors such as export agriculture and finance and hurt protected manufacturers. Much of the literature on trade liberalization focuses on political tactics for reducing opposition by losers in protected industries and generating support from exporters. However, when winning and losing firms are subsidiaries of the same conglomerate, the politics of reform are less zero-sum and contentious. As Silva shows, diversified conglomerates can support trade liberalization (preferably gradual rather than immediate) because they shift resources from losing subsidiaries to winning subsidiaries, without dramatic losses overall, as Chilean conglomerates like the Edwards group rapidly did (p. 113).

Furthermore, multisectoral groups and conglomerates like Japanese keiretsu and Korean chaebol compete overall and in particular markets rather than taking full unfair advantage their sizable market power. Several aspects of conglomerate promote competition and the consequent efficiency gains. Diversification into unrelated products is not driven by any single economic logic, so the pattern of diversification varies from group to group. Hence, differentially diversified groups have fewer common interests which inhibits collusion across sectors. Amsden argues that huge diversified groups in a growing economy have strong reasons to compete in all markets to maintain overall parity with other groups. Huge multisectoral groups also inhibit collusion by making nearly all markets contestable, even where

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21 In the United States in the 1970s the dominant model of corporate organization became the “firm-as-portfolio” and consulting firms devised strategies of “portfolio planning” in order to minimize the knowledge central managers needed of firm operations (Davis et al. 1994: 553). These models fell out of favor in the United States, but while in operation they presumably gave managers more encompassing, non-sectoral preferences regarding particular policies.

22 An econometric study of French industry supports these arguments in showing that differentially diversified groups were less likely than unlinked firms to exploit market power in individual markets (Encaoua and Jacquemin 1982: pp. 25-26, 42-48). Amsden argues that, “the likelihood of intense competition also rises in the presence of uncertainty and multiproduct oligopolists. When it is unclear which markets will grow fastest, and when demand is rising rapidly in a number of markets, multiproduct oligopolies will be inclined to compete vigorously in all of them to maintain parity in terms of, say, sales at the group level. Parity is particularly important when group affiliates are subject to central coordination. Finally, when the government dispenses largesse according to criteria that are corrupt but performance oriented, competition becomes almost a certainty” (1989: 130). See also Amsden (1989: 149-153) and Cho (1994: 72). Jones (1987: 173-4) offers a different explanation and implies that chaebol are competitive because they compete with smaller firms rather than with each other.
technological or financial barriers to entry are high. Large conglomerates can consider entering almost any market, especially with a nudge from government; and markets where other firms are exploiting market power may be especially attractive. Korean chaebol, for example, rarely seemed daunted by the prospect of entering oligopolistic, capital-intensive sectors (see Chang 1990: 27; Cho 1994: 72). Moreover, in terms of reciprocity, competing conglomerates may be more likely to expose laggard subsidy recipients usually indirectly by outperforming them. As noted above, if expected performance standards are relative, reciprocity only works if firms compete for subsidies. Curiously, Korean industrial policy may not have been market conforming in the sense of getting prices right, but market conforming in the sense that competition for subsidies had the same salutary effect on efficiency as competing in markets (see also Tendler 1968). The competitive pressure though comes from the state not the market.

Encompassingness is the main benefit of diversified conglomerates, yet conglomeration also promotes concentration, and sheer bigness can have several independent benefits. The benefits of bigness, primarily in undiversified firms, is one of the repeated conclusions of the chapters in Big Business and the Wealth of Nations. For Dosi, for example, "there are size thresholds for the ability of firms to internalize the capabilities of mastering the activities of innovation, production, and marketing in complex products, so that, other things being equal, 'bigness' confers a differential advantage" (p. 466). For Chandler and Hikino large industrial enterprises made four types of contribution to economic growth. Big business: 1) exploited economies of scale; 2) became the “locus of learning for the initial development and continued enhancement of their product-specific intangible organizational assets;” 3) was the core of a “network of suppliers, equipment makers, retailers, advertisers, designers...” and 4) was the “primary driver of technological advancement through their heavy investment in research and development activities” (p. 26). The chapters in Big Business return repeatedly to the technological contribution. Unfortunately they do not attempt a sustained comparison of the technology hypothesis to other explanations for economic development, nor do the authors attempt to specify the relative contribution of big business as compared to other factors.

Another benefit of hugeness in developing countries is that huge domestic firms offer alternatives to MNCs. In Korea, huge firms supplanted “the need for multinational firms to undertake major investments in targeted industries” (1989: 9). While supplanting MNCs is rarely a policy issue in the ever more open economies of developing countries, it remains a crucial historical variable in any effort to explain the divergent development paths in East Asia and Latin America. In the context of

21Chang (1990: 27) argues that, “the fact that the chaebols as conglomerates are potentially able to move into any line of business makes it difficult for a particular chaebol to keep a particular industry as its fiefdom. Unless it remains reasonable efficient, other chaebols can easily persuade the state that they can do a better job and get the state support in the next round of capacity expansion.”
business-government relations, concentration also reduces the numbers of capitalists with whom bureaucrats interact. Small numbers facilitates most aspects of embedded autonomy including exchanging information, negotiating “joint projects,” and developing trust. For Amsden, “the smaller the number, the easier the monitoring” and the “arm-twisting” characteristic of informal discipline (1997: 352, 364; see also Zysman on France 1983: 148). Silva’s analysis offers a limiting case for the benefits of small numbers: the collapse of the radical neoliberal restructuring of the 1970s was due in part to the fact that government reformers interacted primarily with three conglomerates, to the exclusion of the rest of business.

After this onesided treatment of the positive aspects of bigness and multisectoral organization, it is prudent to end with Silva’s example of the well-known dangers posed by powerful and highly organized capitalists. In the absence of disciplined, autonomous, and Weberian states, bigness and organization may only facilitate the abuse of market power and capture of state agencies. Like nuclear power, the potential benefits of organized capitalists may be great yet the practical applications limited if the safeguards are insufficient to rule out catastrophe.

The Neglected Political Impetus to Organize

Where do big businesses come from? If big business is associated with rapid industrialization, then the analytic challenge is to explain why big business arises in some contexts and not in others. Chandler (1962 and 1977), for instance, pioneered the study of the multidivisional corporation in the United States and argued that this form was superior for managing larger business units. The essays in Big Business and the Wealth of Nations explicitly follow Chandler’s framework. The argument for the rise of big business is largely endogenous; firms grow big by exploiting technological and managerial economies of scale. McCraw highlights the “transcendental fact” that “in the absence of very strong and specifically targeted government policy, industry structure in every country is determined largely by basic industry conditions -- that is, by the underlying technology and demand conditions of the industry” (p. 526). Market size is probably the most important variable that explains the early emergence of big business in the United States and its slow development in most other smaller countries. In their introductory overview the volume editors offer a number of other factors, on a case by case basis, that retarded the development of big business ranging from inappropriate training for managers in France to macroeconomic mismanagement in Argentina. Unfortunately, these and other insights are less helpful in explaining variations among still developing countries where big business has taken a fundamentally different form. The authors concentrate heavily on technological development and the rise of big business in single or technologically related markets. The chapters deal only in
passing with the question of diversified conglomerates, yet this is the predominant form big business has taken in the latest industrializers.

At first glance, late industrialization appears everywhere to generate large diversified conglomerates comprised of many technologically unrelated subsidiaries (Amsden 1989: 125). Leff claimed that large diversified groups were rational responses to imperfect markets, especially for capital and risk (1978: 666-67).

Amsden and Hikino (1994) develop a more systematic and ambitious argument for the prevalence of diversified business groups in late industrialization. Industrialization in the late twentieth century depends on the rapid absorption of foreign technology and hence generates economies of scope. Diversified business groups thrive and have a competitive advantage over non-diversified groups because they develop a generic expertise in project execution that can be applied across technologically diverse sectors. Specifically,

Through a learning process associated with internalizing the elements of foreign technology acquisition, especially related to establishing or expanding a plant facility (attainment of basic and detailed engineering, equipment procurement, supervision, construction and start-up), the business group could acquire a generic asset that enabled it to diversify into start-up industries relatively quickly and at low cost (1994: 141).

While they note some variation among developing countries, their intent is to provide a general explanation for convergence in the organization of business in late industrialization. What is lacking is a general argument on variation in the organization of big business across late industrializing countries. Even Leff, who argued that the business group was nearly universal, concludes with the question of “why groups or a similar pattern of industrial organization has not emerged with equal frequency in all development contexts, both contemporary and historical” (1978: 674).

A full explanation for differences in business organization has to incorporate political factors: what state actors do, deliberately and unintentionally, to promote or discourage organization. In his chapter in Big Business and the Wealth of Nations, Thomas McCraw addresses directly the influence of government on the formation of big business (and excuses the other authors in the volume for not doing so by noting that their charge was to examine the role of big business in generating development). In Japan, the role of government stands out, but “it is nearly always a background

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See Fields (1995: chapter 1), Granovetter (1994), and Strachan (1979) for a full reviews of various economic, social, and political explanations for firm organization.

In the Korean case Amsden concluded that, “one may venture to guess that the group’s ability to enter new industries rapidly and cost effectively became a major economy of scope” (1989: 129). Amsden uses a modified notion of “economies of scope” to describe increasing returns to management assets across multiple sectors (see Chandler 1990: 21-31 on economies of scope).

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24 See Fields (1995: chapter 1), Granovetter (1994), and Strachan (1979) for a full reviews of various economic, social, and political explanations for firm organization.

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role" (McCraw, p. 544). Nonetheless, recounting the history of big business without reference to government “is a story of Hamlet without the prince, or at the very least without the queen” (p. 544). To me it seems more like Hamlet without the ghost of his father, at least for developing countries.

Evans concludes that “a robust and coherent state apparatus facilitates the organization of industrial capital” (p. 228). Facilitate though is too weak a word to describe how some states have organized business. Some states provided benefits to large firms which subsequently grew faster than smaller competitors as in the Korean chaebol or Japanese zaibatsu (Morikawa 1997). President Park was explicit from the beginning of his rule that “mammoth enterprise” like the Japanese zaibatsu was “indispensable” to Korean growth (Amsden 1997: 364). The government program to develop heavy and chemical industries in the 1970s was particularly favorable to the chaebol: the sales of the top ten chaebol went from 15 percent of GNP in 1974 to 60 percent in 1988 (Amsden 1997: 337; see also Kim 1997). In a book length comparison of business organization in Korea and Taiwan, Fields concludes that state institutions are the “key determinants of enterprise organization” (1995: 23).

In Latin America, radical neoliberal reformers, though less purposively than President Park, also promoted dramatic transformation of dominant conglomerates. Privatization in Argentina, Mexico, Chile and to a lesser extent Brazil displaced traditional big business and created huge new conglomerates. Silva provides a detailed history of government fomented conglomeration, especially in the 1980s, when privatization and financial deregulation created in the space of a few years several giant conglomerates that dominated the Chilean economy. From 1974 to 1977 the BHC conglomerate grew from 18 to 62 companies and the Cruzat-Larraín group exploded from 11 to 85 companies. By the end of 1977 “these two conglomerates alone controlled 37 percent of the assets of Chile's largest 250 companies [and] 40 percent of private sector banking” (p. 113).

In other instances the political impetus for conglomeration is unintentional. In the United States “the major impetus to this new strategy [diversification into unrelated products] was unintentionally provided by the federal government” (Fligstein 1991: 321). By 1950, half of the one hundred largest firms were facing antitrust suits and thereafter “all vertical and horizontal mergers became problematic” (Fligstein 1991: 321). The informal subcontracting arrangements and keiretsu groups in Japan would be illegal or highly suspicious in the United States (Gerlach 1992: 28). So, U.S. corporations acquired firms in unrelated markets. In the 1980s, the Reagan administration loosened restrictions on both acquisitions in related sectors and on hostile takeovers and these changes paved the way for the deconglomeration of the 1980s (Davis et al. 1994).

In developing countries, unstable, arbitrary, or highly interventionist states exacerbate political uncertainty which in turn encourages conglomerations in order to diversify risk (Leff 1978; Strachan 1979: 244-5). Capitalists may also create huge conglomerates in order to maximize political influence. In Mexico one of the two major motivations for conglomerations was “the general enhancement of bargaining power vis-à-vis the government” (Vernon 1963: 21). In sum, capitalists diversify as a defensive strategy to cover their vulnerability; they also merge and grow as an offensive strategy to enhance their influence with the state actors who can make or break them.

Variations in the political impetus to conglomerate are consequential for subsequent behavior of the business. Even studies that acknowledge the primary role of the state in creating big business, rarely relate the political conditions of origin, or midwifery in Evans terms, to how the firms act later on, and hardly ever do so in comparative perspective. Following Evans metaphor, Dosi concludes that institutional “birthmarks seem to carry over their impact also up to much later stages of industrialization and also shape subsequent forms of corporate organization” (p. 479). But he does not specify what those impacts are. Even the few cases mentioned here offer the basis for some preliminary hypotheses. If state actors make it a regular practice to prod firms into new sectors, as in Korea, they increase the expected future value of a generic, in-house capability for project execution and promote dynamic, expansionist conglomerates. If in contrast state actions prohibit conglomerations into technologically related areas, as in the United States, then something akin to increasing returns to capacity for project execution is unlikely to emerge. Amsden and Hikino (1994: 139-40) note that within U.S. conglomerates there was very little of the exchange of information, expertise, and personnel among member firms as in Korean chaebol, and hence little firm-wide expertise emerged in project execution. If the core strategy of diversification is to reduce political risk as in the cases mentioned by Leff (1978) in Latin America, then again there is no reason to expect chaebol-like dynamism to emerge. In Chile, the financially aggressive and highly leveraged conglomerates generated by radical reform in the 1980s did not survive the end of easy money and government support. In sum, without careful consideration of their political origins we will not be able to account for wide variations in the strategies and performance of similar looking conglomerates.

Although largely neglected in the books reviewed here, similar political arguments can be constructed for cross national variations in the way business organizes into associations, especially multisectoral peak associations. In Latin America, for example, industry grew substantially in all of the large countries from the 1930s through the 1970s, yet the organizational activities of the new capitalists varied greatly. State elites were influential in the evolution of all sorts of business associations. State actors in many countries, especially in Brazil and Mexico, forced business into elaborate corporatist structures (Schmitter 1971 and 1974; Durand and
Schneider/Elusive Synergy: Business-Government Relation and Development

Silva 1998). Business elites created peak associations in Chile in 1935, Venezuela in 1944, Argentina in 1946, Mexico in 1975, and Peru in 1983. Brazilian capitalists, arguably the most dynamic of the region, never formed a peak association. In all instances state actors were heavily involved in impeding and sometimes later promoting the formation of peak associations. In the cases of Mexico and Peru, the precipitating state actions were land and bank nationalizations, respectively, that indirectly provided the impetus for defensive collective action by big capitalists (see Durand 1994, Luna 1992, Luna and Tirado 1992).

In sum, business organization, in both associations and firms, varies substantially across countries. Theories of business organization must account not only for contrasts between earlier and later industrializers, as Amsden and Hikino and other authors in Big Business do, but also for variation among late industrializers. In this as yet incomplete second theoretical task, state actors should figure prominently since they have been major protagonists in organizing business.

Contending Societal Perspectives on Business-Government Relations

Evans, Silva, Amsden, and many of the other contributors to Big Business and the Wealth of Nations share the view that state actors have an independent impact on the character of relations between business and government and on the organization of business in firms and associations. In this view, analyzing how business performs, how it organizes in both firms and associations, and the kinds of interests business pursues requires close attention to the state. At a broader theoretical level, the statist argument is that preference formation on the part of capitalists and collective action by them depend heavily on state actions and prior patterns of business organization, rather than on immediate, unmediated economic interest. In concluding it is important to note that this view is not universally shared, especially among non-statist approaches.

Recent work on capital mobility, sectors, and social capital examine business and relations between business and government from a much more, often exclusively, societal perspective. The common thread in these contending arguments is that social and economic factors drive state actions, and therefore it is not important to examine carefully what states do and how they are structured. The countries covered in these societal approaches are often outside of northeast Asia or authoritarian Latin America where states have been 'harder' and more autonomous. Nonetheless, the general theoretical claim of societal studies is that the primary source of developmental performance lies outside the state. The brief contrasts in this concluding discussion cannot do justice to the nuance and sophistication of contending societal approaches. It is nonetheless worthwhile to lay out in simplified fashion key points of disagreement and consider their implications for future research.
Analyses of social capital are methodologically congenial for institutionalist arguments on development. The preferences, organization, and performance of business are not deducible but rather contingent on social networks. When these networks are dense and mutually reinforcing they constitute social capital which is in turn the major determinant of business performance. Social capital, like economic capital, increases productivity though usually indirectly by reducing information and transaction costs. Studies of social capital analyze social relations similar to those found in embedded autonomy and reciprocity, including repeated interaction, enduring informal networks, norms of reciprocity, and trust, though the focus is exclusively in society and business. The challenge to statist perspectives comes in the direction of the causal arrows. In Putnam's (1993a) analysis of Italy, for example, centuries of development and accumulation of social capital determines government and economic performance in the closing decades of the 20th century: "strong society, strong economy; strong society, strong state" (1993a: 176). However, elsewhere Putnam (1993b: 42) argues that "wise policy can encourage social capital formation," so the relationship between social capital and the state is, at least in some contexts, two-way (see also Fox 1996).

If there is still a potential for independent state influence on social capital, the next question for statist becomes how conceptually to relate the dense networks within society that generate social capital to the dense networks between bureaucrats and capitalists that embed autonomous states. One option would be to subsume relations of embedded autonomy as one sub-account on a country's ledger of social capital (as Evans 1996b seems to advocate). This option though stretches the concept of social capital to the detriment of both concepts (Sartori 1970). For one, the stock of social capital and the quality of embedded autonomy can presumably vary independently; high levels of social capital could co-exist with autonomous yet not embedded states. Moreover, differentiating the two concepts might help get causal connections between them closer to the top of the research agenda. Major research questions on these causal connections would include, how do business-state relations affect the accumulation of social as well as economic capital, and how might social capital be mobilized to discipline state actors?

A more direct challenge to statist perspectives comes from the study of business as capital, especially highly mobile capital. If capital flight drives policy making, then it reduces state actors to highly constrained and therefore minor players. Generally the preferences of business are predictable (stability and profitability) and collective action is not problematic since capital moves in waves

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27 On the development of the concept of social capital, see Coleman (1988 and 1990) and Putnam's review (1993a: chapter 6). For recent applications to developing countries, see the symposium in World Development, volume 24, no. 6, June 1996.

without explicit coordination. Both Evans and Amsden acknowledge the issue of
capital mobility, but do not grant it much weight, in part because it was not a major
issue in the countries they examined. In Korea, restrictions on capital mobility were
one of five major types of state control over business (Amsden 1989: 17-18; see
Woo 1991). How useful are notions of reciprocity and embedded autonomy in
countries where the capital account is fully liberalized? Certainly their importance
is reduced since unrestricted capital flight shifts the balance of power in favor of
business and often to foreign investors far outside the networks of embeddedness.
But, embeddedness may still be relevant in the sense of promoting voice (through
close communication between business and government) to mitigate exit (especially
via capital flight) (Hirschman 1970 and 1978). Exit is a very blunt and volatile
signal; while embeddedness would provide clearer and fuller information on what
those with mobile assets deem acceptable. A major question for future empirical
research is whether close relations between business and government have any
impact on capital flight and government responses to it.

Sectoral analyses offer the most direct challenge to statist approaches. From
this perspective, sectoral characteristics (capital intensity and asset-specificity in
particular) determine the types and intensities of business interests as well as their
capacity for collective action (capital intensive sectors, for example, have a small
number of large firms for whom collective action is easy). In the extreme,
researchers can merely read the preferences and behavior of business off a database
of the economy broken down by industrial category, without considering the
organization or business or its interaction with government. In Frieden's (1991)
examination of development strategy and democratization in Latin America in the
1980s, the state is not just constrained by economic factors like capital mobility but
rather is merely a passive register, in the pluralist tradition, of dominant sectoral
pressures. Shafer's theory (1994 and 1997) is similar to Frieden's yet more nuanced
and accords the state a central role. However, the autonomy and capacity of the state
are themselves a direct function of prior sectoral development. When large capital
intensive firms dominate the export sector, as in mining for example, then states are
likely to develop specialized expertise and taxing capacity (as well as general
sympathies) relating only to this sector so that the state has little capacity to promote
industrial transformation or diversification in the economy. Moreover, Shafer agrees
that sectors with few large firms can act collectively to make sure that the state
directs resources to them rather than other sectors.

Amsden notes that “legislation passed in Korea in the 1960s stipulated that any illegal
overseas transfer of $1 million or more was punishable with a minimum sentence of ten years'

The Chilean case, after the financial liberalization of the 1970s, would be a crucial test
case. In Silva's analysis, capital flight plays little role in influencing government policy.
Anyone working in a statist framework should take care to consider capital mobility and sectoral urges. However, these challenges are blunted by their simplifying deductions on preference formation and collective action. For many authors in the societal camp, the preferences of business can be read directly off the asset structure in the economy without any need to consult the organization of the firms in groups or associations, and the next step, from common interests to collective action, is usually mechanistic as it is either spontaneous in the case of capital flight or unproblematic in sectoral analyses which rely on Olson's (1965) theory of collective power in small numbers. On the state side, preference formation receives more varied treatment though it is always secondary: for Frieden state preferences are purely a function of societal preferences; for Shafer they derive from dominant export sectors; and for those working on capital mobility, the preferences of state actors become closely attuned with capitalists who control liquid assets. Almost none of the authors working on sectors or capital mobility devotes much attention to the kinds administrative structures and career issues that are the core sources in institutionalist perspectives of the preferences of state actors. Nor do they consider how empirical variations in the organization of business that might affect capitalists' preferences and incentives for collective action.

At a minimum, the work of Amsden, Silva, and Evans convincingly demonstrate that such simplifications of preference formation, for both state and business actors, and of the sources of collective action are unwarranted. The sources of collective action by business, both as firms and as associations, are multiple and depend usually on prior state actions that promoted or discouraged various forms of organization. Variations in collective action by business in turn have their own independent impact on preference formation on the part of capitalists. In this sense the works of Evans, Amsden, and other institutionalists still offer surer beacons for future research than the sirens of deduction in contending societal approaches.

31 Silva's research offers a potent antidote, especially to sectoral analysis. Silva draws on Frieden and delves deep into the asset structure (financial, export, competitive manufacturing, etc.) of Chilean firms. However, Silva takes the crucial next step of aggregating and weighting the assets of firms against other firms within the same conglomerate. The conclusion Silva reaches is that conglomerates typically have multiple sectoral interests as well as the ability to shift assets rapidly among holdings. It is therefore highly problematic to attempt to deduce the preferences of those who own conglomerates.
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