

Memorandum on models of capitalism and democracy

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Abstract: There are three models of capitalism: the American, the Japanese, and the European or social democratic. The choice criterium is efficiency – what will lead Latin American to choose a combination of the social-democratic and the Japanese (developmental) model. As to democracy, it is a end in itself or a means to freedom and peace, not to economic development. Thus, trade-offs between growth and democracy should not be considered.

The opposition between the market-led American model and the state-society led Japanese model of capitalism is both a fascinating question, when we try to understand present economic performances of nations and regions, and a false problem, when we discuss the policy choices. It is a reality because, indeed, the weight that market competition and state-society administration play in resource allocation varies from one to the other model. But it is a false question, first, because the two models – or the three if we add the European one –, although distinct in ideological terms, are not so different in real terms; second, because, regardless the neo-liberal or neo-conservative wave that invaded Latin America in the late 1980s, an “American model of capitalism” is not a viable nor a predictable alternative either for the region or for the United States itself.

It is an appealing research program to discuss contemporary models of capitalism, but the differences should not be overestimated. England and the United States were the first two countries to industrialize and develop. Given the particularly favorable conditions for the rise of industrial capitalism, the state played a minor coordination role in it. The major role was performed by a cohesive civil society (as in Japan and Europe) and a well institutionalized market. Since then, however, no other country underwent substantial economic growth without the state playing a strategic role. In this century, even in England and in the United States, state intervention significantly increased.

It is true that the state is *in retreat* in the last 20 years in the developed countries and in the last 10 years in Latin America and in the rest of the world. It just not retreated in the East and Southeast Asian countries, where market-oriented reforms are also taking place, but an actual state withdraw is rather rhetoric. In the developed world, in the former soviet-type economies and in Latin America there is a common cause for this retreat: the *fiscal crisis of the state* and the correlated crisis of the state mode of intervention (the welfare state, the statist or command economy model, and the developmentalist strategy, respectively). This double crisis opened room to a utopian, “minimum state oriented”, neoliberal critique.

The “American model of capitalism”, is in part the outcome of the intellectual imaginary associated with this neoliberal critique. In no other country the neoliberal credo was more successful than in the United States. Additionally, it is a suitable way of explaining or justifying the higher Japanese growth rates in comparison to United States and the sizable trade surpluses in bilateral trade. It is a way to *explain* for the ones that want the American to converge to the Japanese model of capitalism. It is a way to *justify* for the ones that believe in the excellence of the American model and advocate pressing Japan to abandon its economic practices. According to Stallings and Streeck (1994: 25): “a country that is unable to converge towards a superior model may try to employ political and military power to make the latter converge on itself.” Yet, some convergence is already taking place on the part of the U.S. on the part of the Clinton administration, despite the fact that in the last 20 years the country has been victim of an immoderate ideological bias. But we should not forget the U.S. are also the birth of pragmatism.

As to Latin America, Stallings (1994) refer to Jorge Castañeda’s option for a mixed Japanese-European model of capitalism.¹ I have been also speaking of a social-democratic (European) and pragmatic (Japanese) approach to Latin America economic development. This is a very common view in Latin America – a view that is apparently in contradiction to Stallings’ basic hypothesis (1994: 13) that “the policy packages (models) selected by third world countries will resemble those advocated by the countries that buy their goods, supply their finance, and provide their ideological guidance”, if we assume that Latin America will tend to be more closely linked to United States in a regionalized world economic system. Yet, I believe that it is a more realistic view. The adoption by Latin American countries of a development strategy that resembles more the Japanese and the European models than the American will not be the outcome of a policy choice, but, as it is the case of United States, a condition for growth resumption, once the fiscal crisis of the state is overcome. Presently, this crisis is being overcome and growth prospects are today brighter in Latin America than they were a few years ago. The neoliberal critique, the adoption of market-oriented reforms, and the new emphasis in fiscal discipline were essential in confronting the crisis of the state but are not enough for an effective growth resumption. I am not rejecting Stallings’ hypothesis. I am just suggesting that, as Latin Americans will have to *rebuild* its state, United States faces the same challenge. Additionally, I would argue that, differently from the Pacific and the Caribbean Latin America, a substantial part of the Atlantic Latin America – represented by the Mercosul countries – have as many possibilities of engaging in an American regional bloc as in a European one.²

The adoption of market-oriented reforms and of a neoliberal rhetoric in Latin America was not primarily the outcome of American trade, financial and ideological leverage, although this influence is obviously important, but the unavoidable response to the crisis of the state. The worst was the crisis in a country (Bolivia, Peru, Argentina, where hyperinflation was the main symptom), the more acute was the “liberal chock” that initiated the reform of the state. When the state becomes fully unfunctional, as it happened in these countries, the local elites have no other alternative but to wildly liberalize, privatize, and deregulate, i.e., to incur in a liberal chock. In other countries, like Chile, Colombia, Mexico and Brazil, it was possible to introduce reforms in a more ordered way. In all countries, market-oriented reforms are reforms of the state, that is not being directed to the “minimum state” goal, but it is being rebuilt in order to perform new economic roles.

Yet, the Latin American model of capitalism will not be a repetition of Japanese or European model. The crisis of the state and the neoliberal critique will not be consequenceless. Stallings underlies “the new international context of development” as a constraining factor. In this context, besides the end of the Cold War and the new ideological currents, the reduction of economic distance (or of transport and communication costs), the intensification of international competitiveness, the explosive increase in international finance and in capital flows, the new emphasis in human capital investments, the more flexible, labor and technology-intensive, methods of production are imposing substantial changes in the three “developed” models of capitalism. In Latin America the changes will have to be correspondingly large. Besides assuring the macroeconomic fundamentals, the state will have to provide large investments in education, health-care and infrastructure. Industrial policy will not be oriented to the protection of inefficient industries, but to the promotion of the competitive ones at international level. It will be less a problem of picking the winners, and more a problem a negotiating access to international markets with the other countries and regional blocks, in a context where managed trade is as much a reality as it is trade liberalization and increased international competitiveness.

In synthesis, there are severe limitations to the debate on models of capitalism. First, because the differences are more rhetoric than real; second, because anyway they will have to converge to the more efficient one, that may be near the more institutionalized Japanese-European model, but that will not be this one, giving the dynamic character of capitalism.

If there are clear limitations to the debate on the models of capitalism, the limits to the debate on models of democracy are still stricter. The suggestion of a populist democracy, a plebiscitarian democracy, and a delegated democracy, opposed to a representative or liberal democracy, and to a participative or social-democratic democracy may be attractive but creates more conceptual difficulties than offers solutions for them. First, because the actual difference between a liberal and a participative model of democracy is minor if any. Second, because the “other models of democracy” are just less developed, less stable and semi-authoritarian forms of democracy. It is worthwhile to study them if the objective is to better understand Latin America. But if the objective is policy choice, they cannot be chosen, unless we view political regime choice as a means to economic growth, unless we subordinate democracy to the economic sphere, instead of regarding it as an end in itself.

In this case we could discuss if authoritarian or semi-authoritarian regimes are more suited to Latin American economic development than democracy. Personally, I don't believe that this is true. Most of Latin America already overcomes the mercantile stage of primitive accumulation, where capitalism requires authoritarian forms of surplus appropriation. Besides, if capitalism is an institutional tool to welfare, if it is a form of economic organization whose legitimization depends on how effective it is in promoting growth and income distribution, democracy is not a means to economic objectives, but an end in itself or a means to political objectives: freedom and peace. If, in the case of capitalism, nations are supposed to choose the more efficient model, the one that better assures growth and income distribution, in the case of democracy, the problem is to choose the model that better assures freedom and peace. If, in the first case, nations have little real choice, since competition will constrain them to adopt the superior model, in the second case they have still fewer choice possibilities, since the inner demand for freedom and peace impose a continuous improvement of democracy.

There are clear relations between capitalism and democracy, but no trade-off between them is legitimate. As market coordination is a form of solving economic conflicts, democracy is a form of solving political conflicts. Democracy only became historically widespread when capitalism turned dominant. In contemporary society they are mutually dependent. The choice of alternative capitalist models may be an interesting debate, although the effective choices are limited. The choice of democratic models makes no sense, since it would require that we accept trade-offs between two institutions – capitalism and democracy – that are oriented to different and final goals: growth and distribution on one side, freedom and peace on the other.

References

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¹ See, for instance, my essay in Bresser-Pereira, Maravall and Przeworski (1993).

² For the concept of “three Latin Americas”, in the discussion of regional blocs options see Bresser-Pereira (1994).