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State-Making and the Origins of Global Order  
in the Long Nineteenth Century and Beyond

## The Social Origins of State Capacity: Organizations, Institutions and Late Development

Agustín Goenaga Orrego

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# The Social Origins of State Capacity

## Organizations, Institutions and Late Development

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### Abstract

Cases of successful developmental states constrained by democratic institutions pose challenges to the literature on the political economy of late development. On the one hand, the dominant view is that successful developmental states tend to rely on authority-based coordination mechanisms corporatist arrangements, labor repression, professional bureaucracies insulated from popular pressures to solve the social dilemmas created by state intervention in the economy. On the other hand, neo-institutionalist political economy argues that electoral competition should limit the incentives and capacity of rulers to create rents by using state authority to distort markets, transfer resources across private actors, and seek to plan and direct economic activities. Therefore, both of these lines of thought expect democratic developmental states to be rare, short-lived, and unsuccessful. Through a comparative historical analysis of Argentina, Mexico, France, and Sweden, this article expands neo-institutionalist arguments to show how democratic institutions actually made state-led development possible in cases where it was preceded by popular incorporation. However, democratic institutions only performed this coordinating function where the popular classes were also mobilized by internally democratic societal organizations. Where these conditions were present, popular organizations contributed to the success of state-led development by, first,

monitoring state-business relations and preventing the capture of industrial policy by private interests; and, second, by maintaining popular support for the developmental program by extracting compensatory public goods that improved living conditions for the population.

# I Introduction

At the dawn of the 20th century, Argentina's real GDP-per-capita represented 70% of that of the richest country at the time, England. Argentina was richer than European powers such as France (63%), not to mention other countries in the periphery of the global economy, like Sweden (45%) and Mexico (27%). By the 1970s, Argentina's real GDP-per-capita was only 47% of that of the United States, now the world's economic leader; Mexico remained roughly at the same level as eighty years before (30%); and Sweden and France had closed the income gap at 82% and 78%, respectively.<sup>1</sup> For most of those years, these four countries were governed by states that actively pursued programs of economic transformation. Why did some succeed while others failed?

State-led development entails a particularly complex collective action problem: in order to provide a long-term public good (the structural transformation of the economy), developmental states must transfer resources across economic sectors, generating in the short term private costs and benefits (Öniş 1991, 110-111). This creates incentives for actors to capture those resource transfers and to resist paying their costs.

The literature on state-led development has emphasized authority-based coordination strategies to explain why some developmental states have succeeded in solving this large-scale social dilemma: corporatist relations between business and the state, state control over organized labor, professional bureaucracies insulated from popular pressures and democratic accountability, and the adoption of economic planning as a matter of national security.<sup>2</sup> Democratic institutions are either ignored or seen as a hindrance to the long-term success of the developmental efforts (e.g., Johnson in Woo-Cumings 1999, 50-54). Part of the reason for this "anti-democratic bias" is that the literature has been largely shaped by the experiences of authoritarian and semi-authoritarian developmental states in East Asia during the late 20th century. However, high levels of democratic accountability and responsiveness to popular pressures

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<sup>1</sup> Based on the simple average of the real GDP-per-capita of each country for 1890-1900 and 1970-1980 as estimated by Maddison (2013).

<sup>2</sup> See, Gerschenkron (1962); Johnson (1982); Wade (1990); Woo (1991); Amsden (1992); Wu (1994); Evans (1995); Woo-Cumings (1999); Kohli (2004); Chang (1994), (2003). For a recent review of this literature see Kohli in Fioretos, Falletti, and Sheingate (2016).

characterized an earlier generation of successful developmental states in post-war Europe, such as Sweden and France.

Conversely, neo-institutionalist political economy has argued in recent years that democratic institutions—in particular, electoral competition—foster economic development by preventing states from creating rents and distributing private goods to their supporters.<sup>3</sup> From this perspective, the collective action problems posed by state-led development should make it incentive-incompatible with democratic politics. Democratic competition should push those paying the immediate costs of economic transformation to demand the repeal of developmental policies before they can actually achieve the public good they are meant to produce. Here again, successful cases of democratic developmental states challenge these explanations.

Through a comparative historical analysis of Argentina, Mexico, France, and Sweden, this article expands neo-institutionalist arguments to show how democratic institutions actually made state-led development possible in cases where it was preceded by popular incorporation. However, democratic institutions only performed this coordinating function where the popular classes were mobilized by internally democratic societal organizations.<sup>4</sup>

Contrary to the East Asian cases where popular incorporation was delayed due to colonial subjugation well into the 20th century<sup>5</sup>, the developmental states that emerged in Europe and Latin America in the 1930s were already deeply embedded in their societies through interlocking interests between the state, business elites, and popular organizations such as mass-based political parties, labor unions, and peasant confederations. Furthermore, the push for economic transformation came precisely from the rise of mass political participation. These two factors limited the effectiveness of authority-based coordination strategies. Instead, democratic institutions allowed successful cases to preside over large scale collective action through

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<sup>3</sup> For example, North (1990); North, Wallis, and Weingast (2009); Acemoglu, Johnson, and Robinson (2001); Acemoglu and Robinson (2013); Mesquita et al. (2004).

<sup>4</sup> The term “popular classes” refers here to the peasantry, the working class (in the formal and informal economies), the unemployed, and the lower middle classes. By political incorporation I mean the expansion of universal male suffrage and the emergence of mass-mobilizing parties that claimed to represent the interests of these classes.

<sup>5</sup> On the differences in sequencing and timing of state-led development in different parts of the world, see for example Kohli (2004) and Kohli in Fioretos, Falletti, and Sheingate (2016) *passim*, as well as Evans (1995, 232) and Woo-Cumings (1999, 22).



other coordination strategies based on political competition and processes of collective preference formation. However, democratic institutions only served to solve these coordination challenges at the state (or macro-) level where the popular classes also relied on democratic coordination strategies at the organizational (or micro-) level. Where these multi-level complementarities were present, popular organizations performed two key functions that were necessary for the success of state-led development. First, democratic popular organizations monitored state-business relations, giving the state the autonomy to sanction private actors that sought to capture resource transfers at the expense of the long-term priorities of the developmental program. Second, by negotiating compensation in the form of additional public goods, popular organizations lengthened the time horizon of those who were not immediately benefitted by the developmental agenda. This allowed democratic states to maintain developmental policies in place for long enough to fundamentally transform the economic structure of their countries.

What determined whether a country would develop internally democratic popular organizations? The incorporation of the popular classes was a critical juncture that pushed countries in different path-dependent trajectories of institutional evolution, depending on pre-existing inequalities in the distribution of organizational resources—that is, in the ability (and not merely the legal right) to join, create, and lead societal organizations.<sup>6</sup>

On the one hand, in places where organizational resources were unequally distributed and controlled by elites, as was the case in Mexico by the turn of the century and in Argentina increasingly after 1930, the popular classes were incorporated by personalistic organizations led by strongmen that acted as intermediaries between their clienteles and the state. These coordination strategies pushed these strongmen to exchange the political support of the organizations they led for state-supplied private (excludable and rivalrous) goods, which they could then redistribute among their supporters. Consequently, social order, the survival of organizational leaders at the helm of popular organizations, and the survival of rulers in power, became tied to the allocation of private goods, fostering political systems that were incentive

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<sup>6</sup> For similar views of popular incorporation as critical junctures of institutional evolution see Collier and Collier (1991) and Kurtz (2013)

incompatible with the long-term goals of state-led development. As rulers had to prioritize social order and their own political survival, the developmental efforts were either depleted by rent-seeking actors (as it occurred in Mexico) or derailed by political polarization and chronic instability caused by the constant struggle to capture industrial policy (as it occurred in Argentina).

On the other hand, in places where organizational resources were more evenly distributed, as in France and Sweden by the end of the 19th century, the popular classes mobilized at arms-length from elites, and entered the political arena through societal organizations based on democratic coordination strategies: deliberative processes of collective preference formation and mechanisms of internal accountability between leaders and members. As a result of these coordination strategies, popular organizations mobilized around the demand for public (non-excludable and non-rivalrous) goods, and threatened to withdraw their support from political leaders that distributed private goods to other actors. As these states launched developmental programs, popular organizations either managed to take a preponderant seat in corporatist arrangements that directed industrial policy (as in Sweden) or monitored state-business relations at arms-length from corporatist institutions (as in France). In both cases, popular organizations functioned as a bulwark against the capture of rents created by industrial policies by private interests, and ensured that these resources were reinvested according to the long-term priorities of the developmental agenda. At the same time, these organizations pushed for the expansion of compensatory public goods as part of the strategy of economic transformation, which was crucial to maintain popular support for state-led development.

By the 1980s, as changes in the global economy forced developmental states to retrench industrial policies, the legacies of these divergent paths became evident. In those countries where low levels of organizational inequality preceded popular incorporation, state-led development produced a high-skilled labor force, internationally competitive firms in high productivity sectors, robust welfare states, and consolidated democratic institutions. Conversely, in those countries where high levels of organizational inequality preceded popular incorporation, state-led development eroded democratic institutions, and fostered the emergence of rent-based economies dominated by monopolistic and oligopolistic firms, a low-skilled workforce, and narrow and segmented welfare states.

The following section offers an overview of the literature on developmental states and neo-institutionalist theories of development

and discusses why democratic cases of state-led development pose a challenge to these approaches. The second section argues that the greater ability of democratic systems to coordinate large-scale collective action is not the result of inter-elite competition, a claim that has been at the core of neo-institutionalist political economy, but comes primarily from the ways in which the egalitarian distribution of organizational resources in society fosters the coordination of collective action through a combination of competition and deliberation. These coordination strategies lengthen the time horizons of state and societal actors and are better able to produce complex public goods than purely authority- and market-based strategies. By making this shift in emphasis, neo-institutionalist political economy can then explain successful cases of democratic state-led development. After a short discussion on method and case selection, the fourth section presents the comparative historical analysis of Argentina, Mexico, France, and Sweden.

## II Democratic institutions and economic development

### Developmental states

Developmental states use their authority to provide a long-term public good: national economies that foster capital accumulation and improve the position of the country in the international system (Evans 1995, 6). They do this by enacting policies that transfer resources from less productive to more productive economic activities. These policies include price distortions through market regulations, state subsidies for R&D, investments in infrastructure and human capital, direct production of strategic industrial inputs, and credit for businesses through state-owned industrial banks, among others (Chang 1994, 58–59; Evans 1995, 13–14; Kohli 2004, 12–16).

Like any public good, the transformation of the economy represents a social dilemma: everyone will be better off if the developmental program succeeds but actors have strong incentives to defect by shirking costs and capturing rents. These coordination challenges are particularly intense in the case of state-led development due to the long time horizon

of economic transformation. Developmental states must keep unpopular industrial policies in place for several decades before widespread improvements in living standards are noticeable, which often triggers opposition from those who have to pay the short-term costs of economic transformation: taxpayers, consumers, workers, and less productive firms and sectors (Hall 1986, 157; Chang 1994, 85; Evans 1995, 230). Similarly, since developmental states create large amounts of rents, business-owners have strong incentives to engage in rent-seeking behavior, channeling resources to gain control over industrial policy rather than to increase profit margins through improvements in competitiveness (Johnson 1982, 309–10; Chang 1994, 82–84; Evans 1995, 46; Woo-Cumings 1999, 12).

Previous research has explained successful cases of state-led development by pointing at three general factors that allowed them to overcome these coordination challenges. First, successful developmental states tended to be governed by authoritarian regimes that actively repressed organized labor, while encouraging collectivistic norms of solidarity and personal sacrifice by framing economic transformation as a matter of national security (Amsden 1992, 10; Woo-Cumings 1999, 23; Kohli 2004, 22). Second, these regimes established corporatist arrangements that gave the state oversight over firm behavior and served as an arena for the *ex ante* coordination of investment and production between the state and domestic firms (Johnson 1982, 308–9; Chang 1994, 61; Evans 1995, 47–60). Finally, successful developmental states counted with professional bureaucracies, insulated from private interests and democratic control and capable of implementing policies on behalf of the collective interest (Chang 1994, 86; Johnson 1995, 13; Kohli 2004, 22).

In other words, the emphasis has been placed on authority-based solutions to the coordination challenges of state-led development (Johnson in Woo-Cumings 1999, 53). Hierarchies, rather than markets, electorates, or publics, coordinated collective action through coercion and cooptation rather than competition or deliberation. Even when these arguments have been extended to analyze state-led development in democracies (most famously in France and Japan after WWII), the literature has focused on the role played by actors and institutions at the margins of democratic accountability (e.g., the MITI in Japan and the Conseil d'état in France) (e.g., Johnson 1982; Loriaux in Woo-Cumings 1999). As a result, the literature on state-led development has not produced a parsimonious theory of how bureaucratic autonomy and

economic planning can thrive in democratic systems where public officials are sensitive to popular pressures.<sup>7</sup>

## Neo-institutionalist theories of political and economic development

Since the 1990s, neo-institutionalist political economy has argued instead that democracies are better suited to produce more and more complex public goods (North 1990; Lake and Baum 2001; Mesquita et al. 2004; North, Wallis, and Weingast 2009; Acemoglu and Robinson 2013). Competitive elections restrict the ability of rulers to use the powers of the state to create rents that benefit only a narrow coalition of private interests, since this would motivate a backlash from the rest of society that would vote them out of office. Because of these restrictions on rent-creation, in democratic systems social order and political survival depend on the supply of public goods to the entire population: the rule of law, even-handed policing, environmental legislation, public infrastructure and services, and – most importantly – the protection of secure property rights and open markets. According to Douglass North, John Joseph Wallis and Barry Weingast, institutionalized inter-elite competition is the main constraint on otherwise predatory rulers (2009, 25–27). In other neo-institutionalist accounts, it is only when the ruler needs to maintain the support of a large share of the population to remain in power that competition structures politics around the exchange of state-supplied public goods (Mesquita et al. 2004, 65–68, 91–99; Acemoglu and Robinson 2013, 82). Despite differences in emphasis on the role of popular participation, these neo-institutionalist theories of development see political competition as the driving force that characterizes democratic systems.

Conversely, autocracies limit popular participation and political competition, allowing rulers to remain in power by distributing private goods to a narrow coalition of supporters whose private interests become tied to the stability of the regime. These private goods can take the form

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<sup>7</sup> An important exception to this claim is Peter Katzenstein’s work on the political economy of small European states (1985). This article seeks to expand Katzenstein’s insights into a more general theory of democratic state-led development.

of direct cash transfers, but can also be rents created through protected markets, tax exemptions, subsidies for special interests, and legal privileges (Mesquita et al. 2004, 101-2; North, Wallis, and Weingast 2009, 18-21; Acemoglu and Robinson 2013, 84).

According to these arguments, since state-led development is based on the reallocation of private goods in order to produce a public good in the long run, it should be incentive incompatible with the political logic of either type of political system and therefore be unlikely to succeed. In fact, when referring to developmental states, neo-institutionalist arguments have tended to see them as unstable systems that can only survive temporarily, before being captured by rent-seeking actors or forced to roll back interventionist policies by democratic pressures (Acemoglu and Robinson 2013, 91-93, 149-150).

In principle, an “enlightened dictator”<sup>8</sup> might be able to keep unpopular policies (such as those related to labor-repressive state-led development) in place for long enough to transform the economic structure of the country, as long as the beneficiaries of those policies are members of the coalition that keeps him in power. The ruler can then make sure that at least some of the rents created by these policies are reinvested according to the priorities of the developmental program by threatening uncooperative members to withdraw access to state-supplied benefits. This pattern fits well with the East Asian cases of state-led development. The success of such a strategy, however, depends not only on the presence of a “selfless” ruler that will not use his power to capture rents for his private benefit, but also on the assumption that this ruler is insulated from private interests and therefore does not need the support of any specific actor to remain in power (Mesquita et al. 2004, 64). However, if particular societal actors become irreplaceable members of the ruling coalition by virtue of the resources they control, autocratic rulers cannot credibly threaten to cut them out of the spoils system. As these actors are emboldened to capture greater amounts of private goods, they endanger the success of the developmental objectives.

Developmental states should be even less likely to succeed in democracies. Since in the short term state-led development entails sacrificing profitability and, at least for some, improvements in living standards, it is likely to trigger widespread opposition in electorates with

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<sup>8</sup> By “enlightened dictator” I mean an autocrat with no appetite to capture rents for his self-enrichment.

high discount rates (Pierson 2011, 41–42). This opposition should be accentuated by the perception that certain actors are benefitting unfairly from industrial policies. Consequently, political competition should make rulers hesitant to implement developmental programs that will damage their popularity, and, if they do, they should not survive for long enough to achieve their goals. If state-led development seems to be incentive incompatible with political competition, how can neo-institutionalist arguments explain the ability of democratic developmental states to maintain ambitious industrial policies in place for several decades in the aftermath of WWII?

### III Social Origins of State Capacity: Political Equality and the Coordinating Capacity of States

In this section, I present a new argument about the role of democratic institutions in facilitating state led-development. The main insight is that the ability of democratic systems to solve large scale collective action problems comes not only from political competition at the state level but primarily from the coordination strategies that society develops to interact with the state when organizational resources are equally distributed in society.<sup>9</sup>

Popular incorporation was a critical juncture that determined the coordination strategies that political systems developed to structure leadership selection and survival in office, to maintain political order, and to produce complex public goods. Once the popular classes were politically activated, states became entangled in dense networks of interlocking interests with societal actors that made it impossible to rely purely on authority to coordinate collective action. Instead, democratic institutions offered alternative coordination strategies based on deliberative processes of collective preference formation and mechanisms of vertical accountability through political competition. However, these coordination strategies only succeeded at the state level

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<sup>9</sup> Therefore, even though this argument echoes North, Wallis and Weingast's (2009, 257–67) point about the importance of looking at the internal structure of organizations to understand how they interact with formal institutions, it shifts attention from elite organizations to popular organizations.

if they were buttressed by an ecology of societal organizations that relied on similar strategies to solve their internal coordination challenges. Where the popular classes created internally democratic organizations to enter the political arena, they acquired a preference for state-supplied public goods, and opposed the distribution of private goods to other actors. As a result, rather than threatening state-led development, these popular organizations acted as bulwarks of state autonomy. On the one hand, they monitored state-business relations and prevented the capture of industrial policy by rent-seeking industrialists. On the other hand, by demanding compensation for their members primarily in the form of public goods, these organizations disciplined societal resistance to industrial policy without opening the door for rent-seeking on the part of the popular classes.

The rest of this section develops the argument in more detail in terms of the antecedent conditions that made countries respond differently to the critical juncture of popular incorporation, and how this set them in divergent paths of institutional evolution that affected the policy choices and performance of state-led development. Table 3 below offers a schematic summary of the causal logic of the argument.

## Antecedent conditions: organizational inequalities

Even where freedom of assembly is recognized and protected by law, inequalities in the ability to join, form and lead organizations can emerge from the structure of social relations of trust, loyalty, and solidarity, which serve as resources to coordinate collective action (Putnam, Leonardi, and Nanetti 1993; Warren 1999). In societies where high levels of land inequality and coercive labor were still present at the eve of popular incorporation, the livelihood of rural workers continued to be tied to the paternalistic and exploitative protection of local elites, structuring these social relations around *cross-class alliances of local solidarity* under the control of local strongmen. Conversely, low levels of land inequality and the early commercialization of agriculture eroded the moral economy of rural societies, destroying the ties of loyalty and



solidarity between peasants and landowners.<sup>10</sup> As a result, elites did not control organizational resources, and *trans-local alliances of class solidarity* had the opportunity to develop.

## Critical juncture: popular incorporation

The expansion of universal suffrage and the legal recognition of mass-mobilizing organizations at the turn of the 20th century abolished de jure political inequality among citizens (or, more precisely, adult males), but did not erode pre-existing organizational inequalities. On the contrary, those inequalities shaped the coordination strategies that the popular classes adopted as they entered the political arena. As mass participation triggered political crises, states could only preserve order by adopting coordination strategies that were compatible with the internal coordination strategies of popular organizations.

As instances of collective action, popular organizations required (1) a way to motivate the participation of individuals (motivation requirement), and (2) a way to identify and sanction non-cooperative behavior (monitoring requirement).<sup>11</sup> In societies dominated by cross-class alliances of local solidarity, collective action was coordinated through a combination of selective incentives (motivation requirement) and personal relationships of trust (monitoring requirement), which fostered *personalistic organizations* characterized by hierarchical patron-client structures (Eisenstadt and Roniger 1984, 48–49; Keefer 2013, 4). Collective action in these organizations was based on the position of their leaders as intermediaries between state actors and their personal networks of clients. This position allowed them to exchange the political support of their clienteles for state-supplied private goods that they then distributed among their followers. Since rulers could only secure the support of personalistic organizations through the brokerage of their leaders, political order became tied to *spoils systems*. Personalistic organizations thus developed a position of patrimonial subordination vis-à-vis the

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<sup>10</sup> On the relationship between labor relations in agrarian economies and political organization see Moore (1966); Paige (1978); Wolf (1969); Popkin (1979); and, more recently, Boone (2014).

<sup>11</sup> A vast literature has studied political mobilization as a paradigmatic collective action dilemma. See, for instance, Olson (1971); Lichbach (1996); Wintrobe (2006).

state. This meant that collective action at the intra-organizational and state levels relied on the same coordination strategies: the distribution of selective incentives to motivate cooperation and strong expectations of personal reciprocity to sanction non-cooperative behavior.

In societies shaped by trans-local alliances of class solidarity, the popular classes could form organizations that were autonomous from local elites and that could mobilize larger numbers across greater geographical distances. However, these features meant that they could not rely on selective incentives and personal ties of trust and loyalty to coordinate popular mobilization. Instead, these *impersonal organizations* coordinated collective action through deliberative practices that helped members identify shared preferences for state-supplied public goods (motivation requirement), and developed internal institutions of vertical accountability to ensure that their leaders only pursued the collective interests of the organization (monitoring requirement) (Thompson 1963, 9–10; Habermas 1985, 1:18; Habermas 1985, 2:126–28; Keefer 2013, 5–6). Since this meant that organizational leaders were always vulnerable to losing their position, they could not credibly commit to state actors that they would discipline their members in exchange for private goods. Therefore, rulers could only keep the support of popular organizations by responding to their demands for certain public goods. Moreover, since the supply of private goods to other actors would undermine their relative bargaining power, impersonal organizations also pushed for institutions that would help them monitor and sanction the use of public resources for private benefit. These pressures fostered the emergence of *social contracts* based on dense ecologies of institutions of societal accountability.<sup>12</sup> Incentive compatibilities again connected similar coordination strategies at the intra-organizational and state levels of collective action: motivation through deliberative processes of collective preference formation and monitoring through institutions of vertical accountability.<sup>13</sup>

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<sup>12</sup> This claim is consistent with Katzenstein's point about the origins of democratic corporatism in Northern Europe (1985, 31–32). On the notion of societal accountability, see Smulovitz and Peruzzotti (2000).

<sup>13</sup> We can also formulate this argument using the conceptual framework of Selectorate Theory (Mesquita et al. 2004). Popular incorporation—i.e., the expansion of suffrage—meant the expansion of the selectorate (*S*), but not necessarily the expansion of the winning coalition (*W*). Where the popular classes were incorporated through personalistic organizations, the winning coalition did not grow accordingly since state leaders could remain in power by cajoling the support of a handful of organizational leaders who could in turn mobilize the support of their clienteles as a block (Mesquita et al. 2004, 64). However, this was not a problem where the popular classes were incorporated through internally democratic organizations. In these

These categories are of course ideal-types. All states supply different mixes of public and private goods (North, Wallis, and Weingast 2009, 24; Mesquita et al. 2004, 58). The claim is not that states only provide one or the other type of goods, but rather that institutional complementarities between intra-organizational and state levels of collective action tie popular mobilization, social order and leadership survival to distinct political logics. As a result, state actors will only be able to overcome additional collective action problems, such as state-led development, through solutions that are incentive-compatible with the dominant coordination strategy of the political system.

## Aftermath: state-led development

Depending on the dominant institutional logic of the system, popular organizations contributed to either the success or failure of state-led development. As mentioned before, in order to succeed, developmental states must transfer resources across private actors over long periods of time. Therefore, rulers must, first, be able to remain in power, maintain political order, and keep the policies in place despite imposing significant costs on actors who are likely to resist and threaten the stability of the political system. Second, rulers must ensure that private actors reinvest those resource transfers according to the strategic priorities of the developmental program instead of capturing them for other purposes that may be more privately profitable but socially wasteful.

In spoils systems, the state is poorly differentiated from private interests since leadership survival and political order are tied to the

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cases, intra-organizational democracy meant that the winning coalition grew along with the selectorate as a result of popular incorporation. The reason for this is because the leaders of democratic organizations had to secure the support of a large number of members to maintain their position, and thus could not rely on the distribution of private goods for the same reasons of cost-efficiency that make rulers at the state level shift towards public goods when  $W/S$  is large. Therefore, even if popular organizations mobilized their political support as a block, state leaders could only obtain it by responding to their demands for certain public goods. This made popular organizations publicly-oriented actors that had strong incentives to cooperate with the developmental program, to monitor other societal actors and deter them from capturing rents, and to demand compensation only in the form of additional public goods that did not jeopardize the developmental program.

distribution of private goods to specific actors. This limits the ability of rulers to prevent rent-seeking and leads to lower levels of public goods provision. These problems are aggravated when spoils systems launch developmental programs that entail substantial rent creation by the state. In principle, rulers in spoils systems can discipline the firms that benefit from resource transfers typically, industrialists by threatening to replace them if they do not reinvest those resources according to the directives of the state. However, this creates incentives for powerful societal actors to demand private goods that not only are highly profitable but that also make them indispensable for the political survival of the ruler or for the maintenance of political order. This means, for example, that large industrialists will demand policies of Import Substitution Industrialization (ISI) rather than export-led growth, since the former entrench their clout over state actors. Since their profits are not related to productivity improvements, these industrialists will then divest resources to gain control over new economic activities regulated by the state (Chang 1994, 79). As a handful of business groups control larger portions of the economy, their continued support becomes essential for the maintenance of political order, and thus they gain additional leverage over the state. They can then extract even more private goods, ultimately depleting the resources that were originally destined to develop competitive industries in sectors with high added value.

At the same time, personalistic popular organizations do not oppose the colonization of the developmental efforts, as long as they can also extract private goods from the state. Where these organizations are relatively weak compared to other societal actors and the state, rulers can coopt them and bring them into the spoils system, building cohesive corporatist institutions that allow rulers to maintain political order and remain in power, but at the expense of the long-term objectives of the developmental program. Where the cooptation of personalistic organizations makes the costs of expanding the spoils system unaffordable for the state, the constant struggle between societal actors to capture state-supplied private goods will lead to periods of chronic political instability.

In social contracts, developmental states also transfer huge amounts of resources towards key industries, and the firms that benefit from those transfers have the same appetite for private goods as in a spoils system. However, impersonal popular organizations will threaten the political survival of the ruler if industrialists benefiting from resource transfers

fail to reinvest them according to the priorities of the developmental agenda. This gives the state greater autonomy from business elites, and consequently the capacity to retarget resource transfers when industrialists fail to comply with the directives of industrial policy. Under these conditions, where rents can be withdrawn at any time, the beneficiaries of industrial policy are forced to take advantage of resource transfers to invest in productivity improvements in order to increase profits in the medium- to long-term.

At the same time, popular organizations support state-led development as long as they can obtain other state-supplied public goods that compensate their members for their losses as workers, consumers, and taxpayers. This is a way of curbing social resistance without opening the door for rent-seeking and the depletion of productive resources. In some cases, strong impersonal popular organizations may thus be able to influence the design of industrial policies, making compensatory public goods consistent with the developmental agenda. In other cases, where impersonal popular organizations are relatively weak vis-à-vis other societal actors and the state, they may be formally left aside from the design of industrial policies, but will still perform a monitoring function to prevent state capture by private interests. In both sets of cases – albeit to different degrees, positive-sum solutions to distributive conflicts lead to the accumulation of public goods, which over time becomes a source of new comparative advantages for domestic businesses in the global economy (Hall and Soskice 2001; Iversen and Soskice 2009).

## Legacy: political-economic structure

By the 1970s changes in international markets put pressures on post-incorporation developmental states, forcing them to roll back industrial policies. By then, however, the legacies of state-led development were already evident. Developmental states under spoils systems collapsed as the result of debt crises produced by their own institutional logics, having industrialized their economies but leaving behind a low-skilled labor force, with a large informal economy, and heavily concentrated economic sectors dominated by inefficient but politically connected firms. In these countries, corporatist arrangements had given business interests unchecked influence over the state, and a select number of

firms were able to tie political order and the functioning of the national economy to their operations. These policies produced Hierarchical Market Economies (HMEs), characterized by low-skill manufacturing, large levels of informality, and capital concentration in family-owned business groups with monopolistic or oligopolistic control over substantial parts of the economy (Schneider 2013). As a result, state-led development failed to encourage rapid productivity growth (see figure 4), while the political logic of private goods generated narrow and segmented welfare states, and inhibited the participation of publicly-oriented political organizations even after the adoption of competitive elections.

Conversely, developmental states built upon social contracts also relied on corporatist arrangements; however, the “taste” for public goods of popular organizations limited the ability of business interests to colonize the state. These corporatist institutions consolidated Coordinated Market Economies (CMEs), characterized by close cooperation between unions, industrialists and the state, or Mixed Market Economies characterized by close cooperation between industrialists and the state with unions acting as watchdogs at arms-length from policy-making (Hall and Soskice 2001). The political logic based on the accumulation of public goods paralleled the accumulation of private capital, creating synergies that further contributed to the comparative advantage of these economies around a high-skilled labor force and high-value added manufacturing, as well as the expansion of universal social security and highly responsive democratic institutions undergirded by strong traditions of societal accountability.<sup>14</sup>

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<sup>14</sup> This argument helps us explain the different origins and legacies of the “state” corporatism of Latin America and Southern Europe and the “societal” corporatism of Northern European countries (e.g., Schmitter 1974; Schmitter and Lehbruch 1979; Collier and Collier 1979; Katzenstein 1985).

## IV Comparative Historical Analysis

### Methods

The rest of this article presents the results of a comparative historical analysis of Argentina, Mexico, France, and Sweden. This empirical section is based on a process tracing methodology where I looked for causal process observations (CPOs) that confirm or falsify the theoretical expectations of three sets of competing explanations: (1) authority-based coordination strategies (developmental state literature), political competition between elites (neo-institutionalist theories of development), and the organizational structure of the popular classes.<sup>15</sup> Table 4 organizes these CPOs according to a sequence of tests that increase or decrease the plausibility of each alternative explanation depending on whether the case evidence is consistent with its theoretical expectations.<sup>16</sup>

Even though most of the causal leverage comes from the within-case analysis, the cross-country comparison provides additional evidence about the scope conditions of the argument. The four cases that have been selected represent late industrializers that launched ambitious programs of state-led development during roughly the same period (1940s to 1970s) and in response to pressures coming from popular incorporation (figure 1). With the exception of France that entered this period with an already industrialized economy but a highly dispersed and inefficient industrial structure, all of these cases were still mostly agrarian economies during the early years of the 20th century. At the same time, the initial conditions of these countries varied significantly and in ways that do not seem to be correlated with the outcomes of state-led development in terms of ethnic fragmentation, industrial concentration, size of their economies and populations, and GDP per capita (see table 2). Crucially, these cases also varied in terms of the strength (the relative bargaining power) of popular organizations during

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<sup>15</sup> As Collier, Brady and Seawright explain, “CPOs may be defined as diagnostic pieces of evidence that yield insight into causal connections and mechanisms, providing leverage for adjudicating among alternative hypotheses. CPOs are not part of a rectangular data set, and the decision to focus on particular CPOs is guided by the researcher’s theoretical framework, hypotheses, and substantive knowledge—and, correspondingly, by the judgment that they have strong probative value in evaluating specific explanatory claims” (2010:506f2).

<sup>16</sup> The online appendix presents all the empirical evidence from these process-tracing tests.

and after incorporation (Rueschemeyer, Stephens, and Stephens 1992, 51-63). This point mattered, as I discuss below, because the strength of popular organizations had opposite effects on the stability of the political system under different coordination logics (table 1).<sup>17</sup>

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<sup>17</sup> The argument presented here thus joins “Power Resource Theories” that seek to explain trajectories of institutional evolution, economic structure and level of public goods provision, based on the relative bargaining power of different class-based societal actors (Korpi 1989, 2006; Rueschemeyer, Stephens, and Stephens 1992; Huber and Stephens 2012). It goes beyond these arguments, however, by claiming that in addition to their relative strength we must also consider the organizational strategies that these actors adopt to coordinate collective action if we want to explain why they have developed different political preferences and have served different historical roles in different contexts.



**Table 1. Case Selection**

<b>Relative bargaining power of popular organizations</b>	<i>Low</i>	<i>High</i>
<b>Dominant coordination strategy</b>		
<i>Selective incentives and personal trust</i>	<p><i>Micro-level:</i> Weak personalistic organizations</p> <p><i>Macro-level:</i> Centralized spoils system</p> <p><i>Case:</i> Mexico</p>	<p><i>Micro-level:</i> Strong personalistic organizations</p> <p><i>Macro-level:</i> Disputed spoils system</p> <p><i>Case:</i> Argentina</p>
<i>Collective interests and mutual monitoring</i>	<p><i>Micro-level:</i> Weak impersonal organizations</p> <p><i>Macro-level:</i> Adversarial social contract</p> <p><i>Case:</i> France</p>	<p><i>Micro-level:</i> Strong impersonal organizations</p> <p><i>Macro-level:</i> Consensual social contract</p> <p><i>Case:</i> Sweden</p>

**Figure 1. Timing of popular incorporation and state-led development**

	1840s	1850s	1860s	1870s	1880s	1890s	1900s	1910s	1920s	1930s	1940s	1950s	1960s	1970s	1980s
France		Aborted incorporation	Incipient state-led industrialization						-----CJ: Incorporation-----		WWII	Aftermath: Developmental state			Legacy
Sweden						Incipient state-led industrialization		--CJ: Incorporation--			Aftermath: Developmental state			Legacy	
Mexico			Incipient state-led industrialization						--CJ: Incorporation--		Aftermath: Developmental state			Legacy	
Argentina						Incipient state-led industrialization		Aborted incorporation			CJ: Inc.	Aftermath: Developmental state			Legacy

**Table 2. Indicators of political and economic change<sup>18</sup>**

Sociopolitical indicators	Sweden		France		Mexico		Argentina	
	1890-1900	1970-1980	1890-1900	1970-1980	1890-1900	1970-1980	1890-1900	1970-1980
Level of democracy <sup>i</sup>	-4	10	7	8	-9	-3	1	-9
Ethno-racial fragmentation	Low	Low	Moderate <sup>ii</sup>	Low	High <sup>iii</sup>	High	Low <sup>iv</sup>	Low
Bureaucratic quality (Public Sector Corruption Index) <sup>v</sup>	Very High (.0211236)	Very High (.012554)	Very High (.0815789)	Very High (.087367)	Very Low (.9194996)	Low (.785349)	High (.280177)	High (.325408)
Population (in millions) <sup>xvii</sup>	4.945	8.175	38.64	52.325	12.932	60.175	3.933	25.993
Land distribution (% of land owned by family farms) <sup>vi</sup>	35%	75%	29%	67%	1%	54%	7%	24%
Industrial concentration	High <sup>vii</sup>	High <sup>viii</sup>	Low <sup>ix</sup>	High <sup>x</sup>	High <sup>xi</sup>	High <sup>xii</sup>	High <sup>xiii</sup>	High <sup>xiv</sup>
Macroeconomic indicators	1890-1900	1970-1980	1890-1900	1970-1980	1890-1900	1970-1980	1890-1900	1970-1980
Size of national economy (Real GDP in millions of 1990 Int. GK\$) <sup>xv</sup>	9,178.61	113,096.06	101,526.60	691,796.15	14,604.37	310,341.13	11,539.82	206,513.87
Real GDP per capita (1990 Int. GK\$) <sup>xvi</sup>	1,856.14	13,834.38	2,627.50	13,221.14	1,129.32	5,157.31	2,934.10	7,944.98
Tax Ratio (taxes as % of GDP) <sup>xvii</sup>	8.05%	38.90%	8%	34.90%	4%	8.23%	9.11% (1930)	12.11%
Size of state (public expenditures as % of GDP) <sup>xviii</sup>	8.05%	53.19%	12.60%	42.79%	6% (1930)	29.73% <sup>xviii</sup>	11.02% (1940)	44.7% <sup>xviii</sup>
Social spending as % of GDP	0.85% <sup>xix</sup>	27.15% <sup>xx</sup>	0.54% <sup>xix</sup>	26.73% <sup>xx</sup>	0% <sup>xix</sup>	7.95% <sup>xx</sup>	0% <sup>xix</sup>	7.68% <sup>xx</sup>
Level of industrialization <sup>xvii</sup> (industry as % of GDP)	24.5%	34.5%	38.5%	37%	17%	30%	16%	35.5%
	1950-1960	1970-1980	1950-1960	1970-1980	1950-1960	1970-1980	1950-1960	1970-1980
Labor Productivity (GDP per hour worked in constant 2005 US\$) <sup>xxi</sup>	11.42	24.61	7.90	22.23	7.15	14.07	7.63	12.37
Capital Stock Per Capita (in constant 2005 US\$) <sup>xxii</sup>	16,276	34,334	19 797	51 839	11 137	16 071	21 398	34 768

<sup>18</sup> All references for this table appear as endnotes.

**Table 3. Causal logic of the argument**

<b>Antecedent conditions: Political inequality</b>		<b>Critical juncture: Incorporation</b>		<b>Aftermath: State-led development</b>	<b>Legacy: Outcome of state-led development</b>		
<i>Distribution of organizational resources</i>		<i>Type of popular organizations</i>	→ ←	<i>Type of political system</i>	<i>Coordinating capacity of the state</i>	<i>Structure of political economy</i>	
Cross-class alliances of local solidarity and fragmented elites	→	Strong personalistic organizations	→	Conflictive spoils system	→	Failure to limit free-riding and to compensate losers: Economic capture and political instability	<u>Hierarchical Market Economy and political polarization:</u> Low-skill economic activities Monopolies and oligopolies Weak domestic market High inequality Segmented welfare state
Cross-class alliances of local solidarity and cohesive elites	→	Weak personalistic organizations	→	Centralized spoils system	→	Ability to compensate losers but failure to limit free-riding: Economic capture and political stability	<u>Hierarchical Market Economy and de-politicization:</u> Low-skill economic activities Monopolies and oligopolies Weak domestic market High inequality Segmented welfare state
Fragmented trans-local alliances of class solidarity	→	Weak impersonal organizations	→	Contested social contract	→	Ability to limit free-riding but difficulties to compensate losers: Economic growth and political instability	<u>Mixed Market Economy and political polarization:</u> High-skill economic activities Coordinated Market Economy Strong domestic market Low inequality Fragmented welfare state with broad coverage
Cohesive trans-local alliances of class solidarity	→	Strong impersonal organizations	→	Consensual social contract	→	Ability to limit free-riding and compensate losers: Economic growth and political stability	<u>Coordinated Market Economy and consensual politics:</u> High-skill economic activities Strong domestic market Low inequality Universal welfare state

**Table 4. Structure and results of process tracing tests**

Theory	Causal factor	Causal mechanisms	Observable implications	Test	SWE	FRA	MEX	ARG
NIPE	Competition-based coordination mechanisms at state level	Political competition prevents predatory rulers from capturing private property.	State actors (do not) refrain from violating property rights, both directly through expropriations and indirectly through monetary and financial policy (reneging on debt).	Hoop	Conf.	<b>Ref.</b>	Conf.	Conf.
		Political competition prevents rulers from restricting markets to generate rents.	Low (High) levels of state intervention in the economy (i.e., no trade barriers, deregulated labor markets, open financial markets, etc.)	Hoop	<b>Ref.</b>	<b>Ref.</b>	Conf.	Conf.
			When states generate rents, changes in political coalitions (do not) punish them in elections.	Hoop	<b>Ref.</b>	Conf.	Conf.	<b>Ref.</b>
		Market competition leads to innovation and productivity growth.	Economic growth (not) based on free market competition creates economic inequality and social mobility.	SW	<b>Ref.</b>	<b>Ref.</b>	Conf.	Conf.
DS	Authority-based coordination mechanisms at state level	Solidarity norms limit rent-seeking and resistance.	Losers (do not) accept industrial policy for the sake of the public interest.	SW	<b>Ref.</b>	<b>Ref.</b>	Conf.	Conf.
			Beneficiaries of industrial policy (do not) voluntarily refrain from capturing rents that undermine the goals of industrial policies.	Hoop	<b>Ref.</b>	<b>Ref.</b>	Conf.	Conf.
		State control over labor limits resistance.	The state (does not) repress(es) organized labor or coopt(s) unions to discipline workers.	Hoop	<b>Ref.</b>	<b>Ref.</b>	<b>Ref.</b>	<i>Ref.</i>
		State control over business limits rent-seeking.	The state (does not) steer(s) private investment through economic councils and oversee(s) firms by controlling business associations.	Hoop	<b>Ref.</b>	Conf.	Conf.	<b>Ref.</b>
		Professional bureaucracy insulated from private interests and short-term popular pressures is able to enact policies that are in the public interest.	Low (High) levels of bureaucratic corruption.	Hoop	Conf.	Conf.	Conf.	<i>Conf.</i>
			Policies against powerful interests are (not) successfully enacted.	Hoop	Conf.	Conf.	Conf.	Conf.
			Unpopular policies are (not) successfully implemented.	Hoop	Conf.	Conf.	Conf.	Conf.
		Policy-makers (do not) resist popular pressures.	Hoop	<b>Ref.</b>	<b>Ref.</b>	Conf.	Conf.	
Economic expansion driven by productivity growth through labor repression.	Material inequalities between winners and losers of industrial policy (do not) widen during the early years of the developmental program.	SW	<b>Ref.</b>	<b>Ref.</b>	<i>Conf.</i>	<i>Conf.</i>		
SOSC	Communication- & competition-based coordination mechanisms at organizational and state levels	Impersonal popular organizations cooperate with and demand from the state to limit rent-seeking by industrialists.	Popular organizations are (not) national in scope and based on class solidarities.	SW	Conf.	Conf.	Conf.	<i>Ref.</i>
			Members (do not) determine leadership selection and policy positions.	Hoop	Conf.	Conf.	Conf.	Conf.
			Popular organizations (do not) push for institutions that allow them to oversee and sanction non-cooperative behavior by other societal actors, especially industrialists.	Hoop	Conf.	Conf.	Conf.	Conf.
			Popular organizations (do not) denounce actors that capture rents, and withdraw political support if private interests are being pandered.	Hoop	Conf.	Conf.	Conf.	<i>Ref.</i>
		Impersonal popular organizations are involved in the ex ante coordination of investments, negotiating the imposition of private costs in exchange for additional public goods.	Popular organizations (do not) mobilize around demands for public goods.	Hoop	Conf.	Conf.	Conf.	Conf.
			Compensatory public goods (do not) expand: universal social security and active labor market policy.	Hoop	Conf.	Conf.	Conf.	Conf.
			Industrial growth is based on incentives for innovation (on wage repression)	Hoop	Conf.	Conf.	Conf.	Conf.
			Economic inequality decreases (increases) during state-led development.	SW	Conf.	Conf.	<i>Ref.</i>	<i>Ref.</i>

Note: Ref. = Refuting the theoretical expectations of the theory; Conf. = Refuting the theoretical expectations of the theory. Italics indicate caveats in the interpretation of the results.

Figure 2. Proportion of United States real GDP-per-capita, data from Maddison (2013)

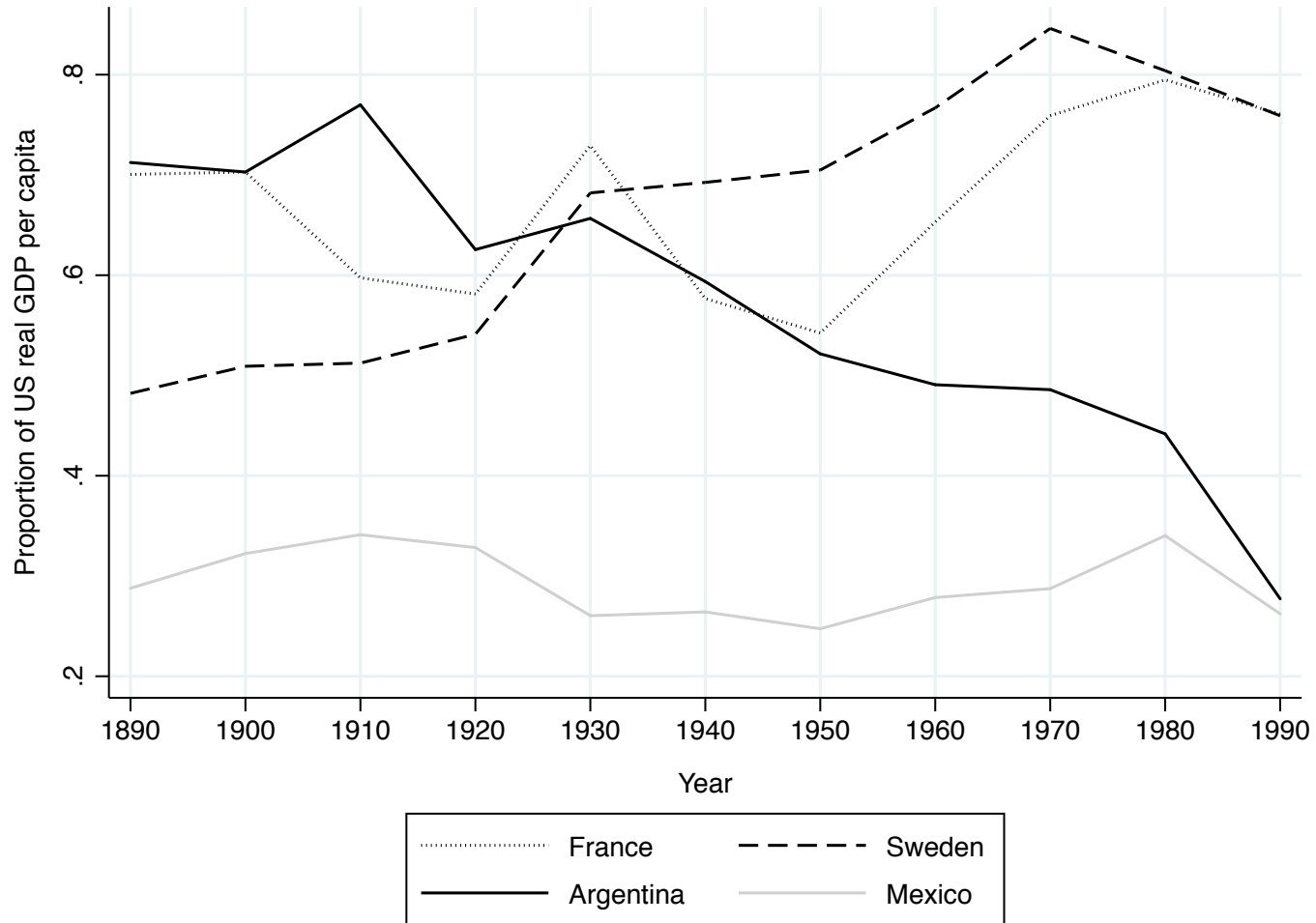


Figure 3. Public sector corruption index, data from V-Dem project (Lindberg et al. 2014)

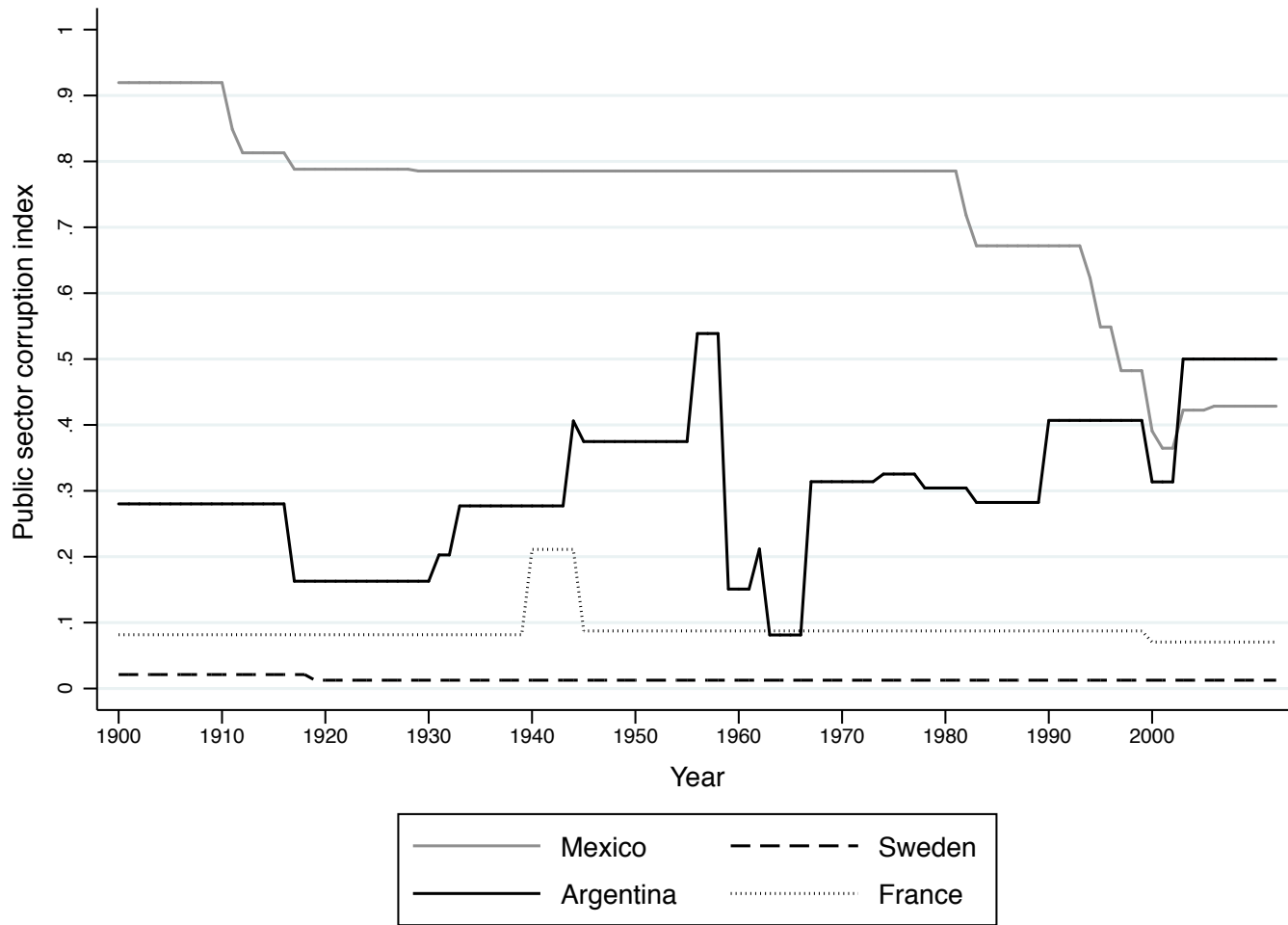
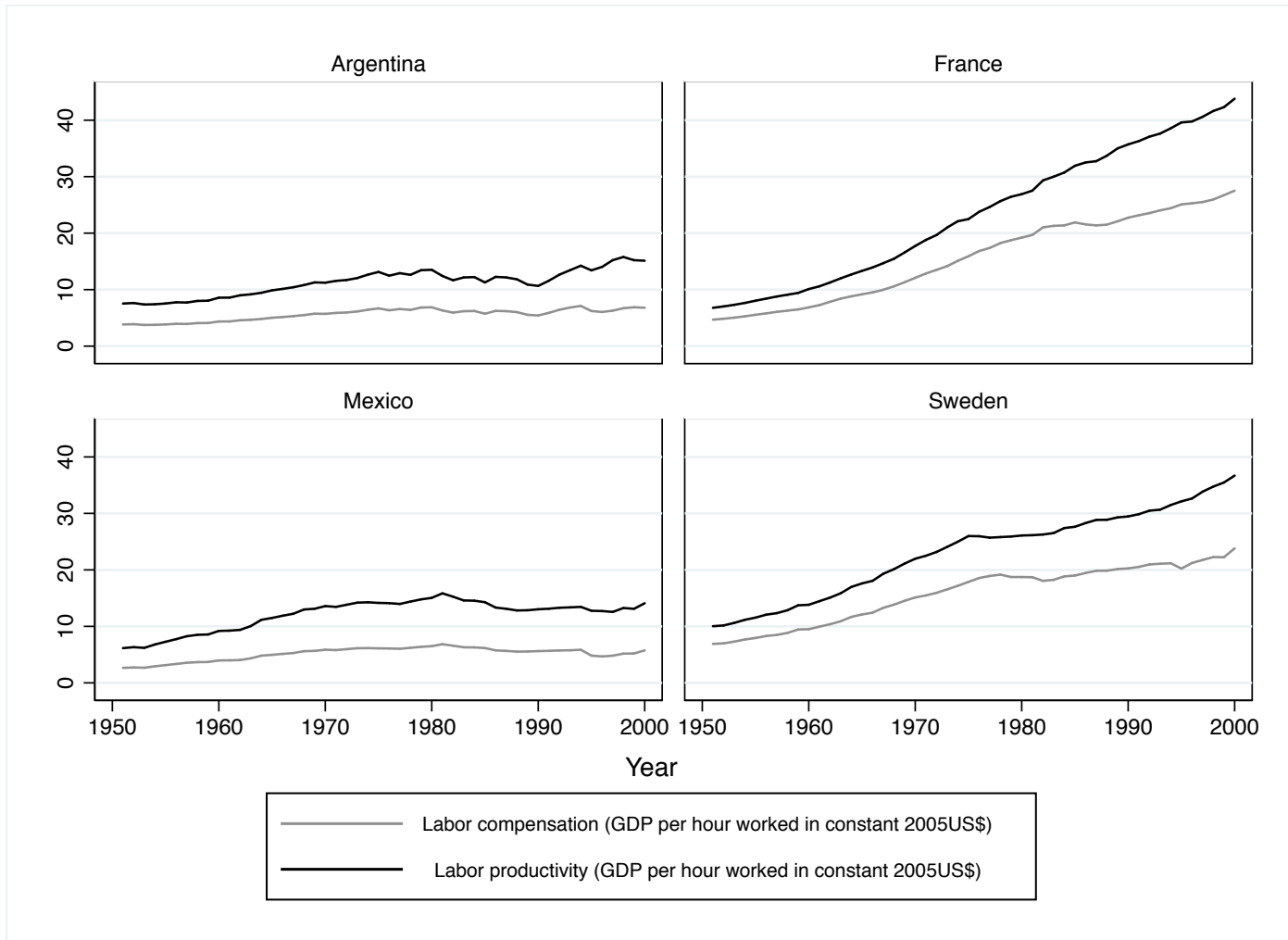


Figure 4. Labor compensation and labor productivity, data from Penn World Table (Feenstra, Inklaar & Timmer 2015)



## Argentina: A conflictive spoils system and economic decline

### Antecedent conditions:

*Organizational inequality prior to incorporation.* During the 19th century, Argentina was an ethnically homogenous country with relatively low levels of land inequality compared to the rest of Latin America (Vanhanen 2016). Even though it had one of the strongest and most unified oligarchies, local elites did not command significant popular support through personalistic relationships (O'Donnell 1978, 4; Collier and Collier 1991, 105). On the contrary, the popular classes in Argentina were able to organize autonomously, to the point of having the strongest socialist party in the region in the 1900s.

### Critical juncture:

*Coordination of popular mobilization.* A first attempt of incorporation began with the expansion of universal male suffrage in 1912 as the middle-class party Unión Cívica Radical (UCR) cajoled the support of impersonal, autonomous and internally democratic popular organizations, such as the Federación Obrera Regional Argentina (FORA) against the traditional agro-exporting elites. Conservative elites reacted with increasing repression, leading to the massacre of the Semana Trágica in 1919 and two decades of labor exclusion from the political arena (Collier and Collier 1991, 153-55).

In 1930, the two main labor confederations—the Unión Sindical Argentina (previously FORA) and the Confederación Obrera Argentina—merged to create the Confederación General del Trabajo (CGT), a powerful organization that became the main vehicle of popular mobilization for the rest of the century. By the 1940s, a decade of political exclusion had made the CGT vulnerable to cooptation by political elites. This allowed Juan Domingo Perón, Secretary of Labor of the new military government that took power in 1943, to gain control over the CGT and initiate a new attempt of popular incorporation through personalistic strategies of popular mobilization (Collier and Collier 1991, 332-33; Lewis 1992, 140-41).

Perón developed strong personal connections with CGT leaders, offering them access to government positions and support for their candidacies for public office (Collier and Collier 1991, 341). At the same time, through a combination of pork barrel and clientelist arrangements



with local bosses in the provinces, Perón built a following among rural workers (Collier and Collier 1991, 335). In 1945, he pushed forward the *Law on Professional Associations*, which gave organized workers the rights to strike and collective bargaining but also granted the state the authority to recognize unions (Collier and Collier 1991, 338; Lewis 1992, 141). By the time he became president in 1946, independent unions had lost influence over the labor movement, and Perón was able to use the CGT to reorganize and then subordinate the popular classes through a network of personal connections and the distribution of selective incentives.

*Coordination of political order.* Perón's power rested on the distribution of spoils to a powerful network of supporters. Members of the official unions gained generous labor legislation, political recognition, expansionary policies for the manufacturing sector, and extensive social security benefits; while a new group of industrialists became the beneficiaries of major resource transfers (Collier and Collier 1991, 314). Contrary to the Mexican case, however, the Argentinean spoils system was unable to tie together the interests of all the relevant actors that could threaten political stability. On the one hand, business interests remained divided, with some industrialists allying with Perón's populist project while other manufacturing and agricultural interests repeatedly conspired with the military to topple Peronista governments. On the other hand, the organizational strength of the CGT and Perón's Partido Justicialista (PJ) meant that none of the conservative governments that ruled Argentina from 1955 to 1973 were able to discipline popular organizations and consolidate political stability (O'Donnell 1988, 44-47).

### Aftermath:

*State-led development.* The military government that took power in 1943 set the foundations for a program of state-led development based on ISI that remained in place until 1976 despite the extreme levels of political instability. With the goal of building national industries that did not require foreign inputs (especially intermediate and capital goods), industrial policy relied on three general strategies: (1) incentives for industrial sectors in the form of tax exemptions, public procurement, subsidized industrial inputs, and state-backed loans (the allocation of which was vigorously contested and varied from one government to the next); (2) the expansion of state owned enterprises (SOE's), particularly those related to the defense sector (iron, steel, petrochemicals, energy, transportation, and telecommunications) and later those involved in the

production of strategic intermediate goods (e.g., oil, pulp and paper, and transportation); and (3) protectionist measures (high tariffs, import permits and quotas, and multiple exchange rates) to shelter domestic firms from foreign competitors (Haber in Bethell 1986, 5:576-77; Barbero and Rocchi in Paolera and Taylor 2003, 282-84; Pinto 2013, 197; Katz and Kosacoff in Cárdenas, Ocampo, and Thorp 2000, 297).

*Monitoring requirement.* Perón transformed the dominant coordination logic of Argentinean society, changing the strategies of popular mobilization and establishing a spoils system that aligned the private interests of industrialists, labor unions, and parts of the military (Berensztein and Spector in Paolera and Taylor 2003, 349-50; Brennan 2007, 55). In the process, this strategy of political order opened the state to be colonized by those private interests, limiting its ability to prevent the depletion of the industrialization efforts by extensive rent-seeking (Berensztein and Spector in Paolera and Taylor 2003, 325).

Regardless of their ideological orientation, governments used development banks to selectively reward individual firms (Brennan 2007, 57-62). Whether it was small- and medium-sized manufacturers of “easy” consumer goods connected to the Confederación General Económica (CGE) under Perón or large manufacturers of intermediate and capital goods represented by the Unión Industrial Argentina (UIA) after 1958, subsidized credit was mostly used for working capital rather than capital investments and technological improvements (Rougier 2007, 89; Haber in Bethell 1986, 5:581-82; Katz and Kosacoff in Cárdenas, Ocampo, and Thorp 2000, 289; Brennan and Rougier 2009, 141-42). These were predominantly renewable short-term loans, not conditional on productivity requirements, and with effectively negative interest rates in a highly inflationary economy (Rougier 2004, 518). A study from 1966 estimated that around 85% of industrial firms held debts from public banks for more than 20% of their financial needs to cover operating expenses such as wages and primary materials (Brennan and Rougier 2009, 146). The military coup of 1966 did not reverse this trend, granting loans to large industrial firms to strengthen their financial structure (Rougier 2004, 521; O’Donnell 1988, 125). The same practice continued under Perón’s last administration (1973-1976) when the leaders of the CGE occupied key offices in the government and captured again the benefits of industrial policy (Brennan 2007, 62). Moreover, the state increasingly absorbed the debts of struggling firms that were necessary to maintain levels of employment and to avoid interruptions in domestic supply chains. This practice became a way of socializing the costs of

insolvent industries, effectively transferring massive amounts of resources from taxpayers to industrialists. By 1976 the state was a shareholder in each of the top one hundred industrial firms in the country (Brennan 2007, 58–59).

Since its incorporation under Perón, organized labor did not oppose the colonization of industrial policy by private interests. Under Peronista administrations, the CGT supported CGE leaders in the design of industrial policy because they were both part of the same coalition of interests that buttressed the government. Conversely, when conservative interests were in power, organized labor did not mobilize to oppose an expansive industrial policy based on cronyism but to regain access to it.

*Motivation requirement (compensation).* Coordination strategies based on the allocation of state-supplied spoils also limited the capacity of the state to compensate the short-term losers of the developmental program without threatening its long-term objectives. The zero-sum distributional conflicts of spoils systems raised the incentives for private actors to gain control over the state, leading not only to extreme levels of political instability but also to constant policy reversals and economic volatility (O'Donnell 1988, 45). These frequent changes were not correctives to policies that were no longer contributing to the long-term goals of economic transformation—as was the case in France in the 1970s—but rather were responses to changes in the relative bargaining power of rent-seeking actors (O'Donnell 1978, 25; Collier and Collier 1991, 350).

The first of these shifts occurred already in the early 1950s, when agro-exporters opposed industrial promotion at the expense of agricultural exports. In response, in 1952 Perón devalued the currency to make agricultural exports more competitive and increased domestic prices for agricultural products (Katz and Kosacoff in Cárdenas, Ocampo, and Thorp 2000, 288; Brennan 2007, 52). Despite these concessions, agro-exporting elites supported the coup of 1955, and pushed the new military junta to create the Instituto Nacional de Tecnología Agropecuaria (INTA) to channel public investment and tax benefits towards agriculture (Katz and Kosacoff in Cárdenas, Ocampo, and Thorp 2000, 288).

From 1955 to 1967, public resources flowed towards large industries, MNC's and SOE's, without imposing productivity requirements for the beneficiaries (Lewis 1992, 276–89). The military coup of 1966 again shifted industrial policy, now to focus on export-oriented industrialization. This triggered the intensification of protests by unions and small businesses connected to Perón. As a result, those policies were

repealed in 1973 with Perón's return and a new period of economic nationalism targeting CGE industries was again put in place (Katz and Kosacoff in Cárdenas, Ocampo, and Thorp 2000, 299).

### Legacy:

The combination of economic volatility caused by a political system that was unable to compensate the losers of state-led development and the inefficient productive structure that resulted from the rent-based relationship between the state, industry, and popular organizations, explain the sustained decline of the Argentinean economy during the 20th century. By the 1980s, industry as a share of GDP was similar in Argentina to Sweden, France, and the United States (Haber in Bethell 1986, 5:577). However, Argentinean industrial products were not competitive abroad, and only 2% of its exports came from manufacturing (Barbero and Rocchi in Paolera and Taylor 2003, 285). Moreover, state-led development consolidated the main features of a Hierarchical Market Economy, characterized by economic concentration around powerful domestic business groups (at least until the crisis of the 2000s), a relatively low-skilled labor force, low levels of capital accumulation, and dependence on foreign technology and capital (Schneider 2013, 165-67).

The particularities of popular incorporation also marked the quality of democracy after the end of the last military dictatorship in 1983. The clientelistic structure of the Justicialista Party did not change after democratization (Auyero 2000; Calvo and Murillo 2004). On the contrary, the far-reaching consequences of the political strength and personalistic structure of Peronista popular organizations has been particularly evident in the peculiarities of Argentinean social policy, which is one of the most comprehensive in Latin America but also continues to be used as a form of political patronage (Huber and Stephens 2012, 76; Weitz-Shapiro 2014, 75).

## Mexico: A centralized spoils system and economic stagnation

### Antecedent conditions:

*Organizational inequality prior to incorporation.* The penetration of rural capitalism in 19th century Mexico did little to erode colonial social relationships at the local level, where large landowners and local

strongmen (indigenous and mestizo caciques) commanded the loyalty of peasant communities that depended on their patronage for their survival. On the contrary, increasing landholding inequality, ethno-racial fragmentation, and the prevalence of non-wage labor relations solidified those ties of solidarity around relationships of patronage (Perry 1978; Guerra 1988; Fowler 2010; 2012). This personalistic logic continued to shape popular collective action during the Mexican Revolution (1910-1917), since the revolutionary armies were little more than assemblages of clienteles that repeatedly changed sides depending on their leaders' ambitions (Knight 1986; Guerra 1988; Tobler 1994; Garciadiago 2010).

### Critical juncture:

*Coordination of popular mobilization.* As a result of this distribution of organizational resources, the popular classes were politically incorporated through a loose network of regional armies, agrarian leagues, trade unions, and personal clienteles that continued to mobilize around personal loyalties and selective incentives. Even national labor organizations that initially developed at arms-length from elites, such as the Confederación Regional Obrera Mexicana (CROM), forged during the 1920s alliances with individual revolutionary leaders that quickly transformed them into personalistic organizations (González Navarro 1985, 81).

*Coordination of political order.* The competition for power between the leaders of those organizations triggered a series of magnicides, coups, labor protests, and regional rebellions in the 1920s. Political order was only reestablished in 1929 with the creation of the Partido Nacional Revolucionario (PNR), a national coalition party that brought together local strongmen by offering them support in their efforts to control regional politics, an institutionalized path to pursue a career at the national level, and access to exclusive state-supplied benefits for their followers (Garrido 1982, 62). Political order was thus established by tying the personal ambitions of organizational leaders to the survival of the regime, in a way that was incentive compatible with the intra-organizational strategies of popular mobilization.

As those leaders occupied government and party offices in Mexico City and abroad, their control over clienteles began to erode. In 1938, the

PNR mutated into the Partido de la Revolución Mexicana (PRM)<sup>19</sup>, which was no longer a coalition party but a corporatist, mass-mobilizing organization that removed local strongmen from the middle. Nevertheless, this transformation did not challenge the coordination logic of popular mobilization. It merely replaced regional strongmen with sectoral intermediaries that regulated access to state-supplied privileges for organized peasants, workers, and public sector employees (Buvé 2003, 39-40). These benefits involved, first, a far-reaching agrarian reform, credit, subsidies, tax exemptions, and crop procurement for members of the official peasant federation (the Confederación Nacional Campesina, CNC); second, a generous social security system for public servants and members of the official labor confederation (the Confederación de Trabajadores de México, CTM); and, third, public sector jobs for middle class professionals and party cadres. In this way, political order was achieved through the cooptation and subordination of popular organizations to the regime through the distribution of selective incentives (see González Navarro 1985).

#### Aftermath:

*State-led development.* From 1946 to 1982, however, the pressures of popular incorporation pushed Mexican governments to adopt an ambitious ISI agenda that encompassed three general areas of intervention similar to those of Argentina at the time. First, the largest firms (which represented around 68% of the total manufacturing sector in the 1940s and 1950s) received exemptions from income and capital taxes, import fees, and other levies on production (Cypher 1990, 53). Second, trade barriers were used to protect domestic markets from foreign competition (Haber in Bethell 1986, 5:575; Cárdenas in Cárdenas, Ocampo, and Thorp 2000, 187). Third, the state established development banks to channel subsidized credit to strategic industries (Cypher 1990, 51-52; Del Angel-Mobarak 2003, 296; Calomiris and Haber 2014, 364).

*Monitoring requirement.* These policies generated a large amount of rents that industrialists sought to capture through political connections. Since the 1920s, family-owned business groups organized in powerful

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<sup>19</sup> Later to become the Partido Revolucionario Institucional (PRI) in 1946.

peak associations<sup>20</sup> were able to influence economic policy, partly because initially they represented the only source of finance for the post-revolutionary regime. Later, since these industrialists employed the unionized workers that represented the backbone of popular support for the regime, they gained significant leverage over the state, which translated not only into substantial fiscal exemptions, but also into protection against competitors in order to control entire economic sectors (Haber 1989, 44-62). Tariffs and import-quotas, initially implemented to control imports of “luxury” goods to revert the trade deficit, gradually expanded to cover any goods that could be produced by domestic firms (Cárdenas in Cárdenas, Ocampo, and Thorp 2000, 187).

Before the “mexicanization laws” of the 1960s, foreign multinational corporations established plants in the country to gain access to these captive markets, and even though this brought significant capital investments and accelerated the industrial transformation of the economy, it also meant that the inflated prices produced by the tariffs transferred rents from Mexican consumers to foreign companies with limited incentives to reinvest those profits in the country (Haber in Bethell 1986, 5:579). It was the Mexican business community not consumers organized as workers through labor unions or as citizens and taxpayers through popular parties who demanded restrictions against foreign firms (Cárdenas in Cárdenas, Ocampo, and Thorp 2000, 192). Consequently, the “mexicanization” of industry did not stop the transfer of resources from consumers to industrialists nor incentivized the reinvestment of those resources to increase productivity, but only reallocated them for the benefit of a different set of private actors.

As protectionist measures deepened, the leverage of domestic businessmen over the state also increased due to their strategic position in concentrated and oligopolistic markets. They could demand even more state-supplied privileges in the form of subsidized credit and socialized risk, and these large conglomerates quickly became the main beneficiaries of the industrial banks (Calomiris and Haber 2014, 364-65). Public loans were made against shares of the borrowing firms as collateral, sending the message that the state would ultimately bail out failing debtors in case of need. Consequently, by the end of the 1970s the

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<sup>20</sup> The Confederación de Cámaras Nacionales de Comercio (CONCANACO) in 1917, the Confederación de Cámaras de Industriales (CONCAMIN) in 1918, and the Confederación Patronal de la República Mexicana (COPARMEX) in 1929 (Schneider 2002).

Mexican state owned around 1,155 companies, most of which operated at a loss but needed to be kept alive to maintain employment and avoid the collapse of entire industries (Cárdenas in Cárdenas, Ocampo, and Thorp 2000, 190).

In other words, once the post-revolutionary state coordinated political order by subordinating popular organizations through the distribution of selective incentives, it became dependent on the collaboration of industrialists to run such an extremely costly spoils system. This allowed business interests to capture the industrialization program without major opposition from organized labor.

*Motivation requirement (compensation).* Furthermore, this coordination strategy also meant that economic efficiency repeatedly had to be sacrificed for the sake of political order. Pressures against the regime began to emerge among the popular classes in the late 1950s, when factions of the official unions of public teachers and oil, telegraph, and railroad workers began to demand higher wages and the internal democratization of their organizations (Pozas Horcasitas 1993, 51). After an initial repressive crackdown, the government responded through a two-pronged strategy. On the one hand, it deepened protectionist policies and fiscal incentives to encourage the domestic production of intermediate and capital goods, and created public enterprises in key economic sectors, such as electricity, fertilizers, and petrochemicals (Cárdenas in Cárdenas, Ocampo, and Thorp 2000, 195; Bértola and Ocampo 2012, 47). This did not lead to a reorientation of the structure of protection that penalized firms who failed to increase productivity and competitiveness, but rather generated a “geologic” pattern where new protectionist policies were created on top of pre-existing ones, even if in the aggregate they worked against one another, as long as they allowed the state to expand employment and keep the support of organized business and labor (Haber in Bethell 1986, 5:579; Bértola and Ocampo 2012, 41).

On the other hand, the government extended the scope and coverage of the social security regime, not by universalizing welfare services but by increasing their generosity for public sector workers and members of the corporatist popular organizations. Adolfo López Mateos’s administration doubled the coverage of the Instituto Mexicano del Seguro Social (IMSS), which offered healthcare and welfare services to members of the official unions, and created in 1959 the Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado (ISSSTE), a special social security regime for government workers (Pozas Horcasitas 1993, 52; Dion



2010, 94). Such an expansion of the spoils system required more public resources. Efforts to increase tax revenues in 1972 were halted by business elites, so the government resorted to natural resource extraction, money printing, and public debt to finance those benefits (Cárdenas in Cárdenas, Ocampo, and Thorp 2000, 197) (Cárdenas 197).

### Legacy:

Even though from 1945 to the late 1970s economic growth accelerated and manufacturing surpassed agriculture as a share of GDP, productivity growth was modest at best (see figure 4). Manufacturing exports therefore remained limited, and medium-term growth depended on the expansion of the domestic market, which by the end of the period was already reaching its limits due to low wages and an unequal income distribution (Cárdenas in Cárdenas, Ocampo, and Thorp 2000, 193–94). Despite the high profits of national industries, private savings were insufficient to meet the investment needs for future growth, while the Mexican state lacked the capacity to incentivize those investments (Cárdenas in Cárdenas, Ocampo, and Thorp 2000, 177). Efforts to substitute intermediate and capital imports failed and manufacturing continued to rely on foreign technology (Bethell 1986, 5:56; Bértola and Ocampo 2012, 56). Public debt skyrocketed during the 1970s as the state resorted to external borrowing to sustain the huge portfolio of inefficient SOEs that were necessary for political order, ultimately leading to the debt crisis of 1982.

Finally, despite the construction of a massive spoils system, a compensation strategy based on the layering of selective incentives such as exclusive social benefits and politically motivated economic regulations created strong divisions between political insiders and outsiders, fostering the emergence of a segmented labor market, the reproduction of informal economies, and the limited access to social security for the majority of the population (Pozas Horcasitas 1993, 50–51; Schneider 2013, 11).

## France: A contested social contract and economic growth

### Antecedent conditions:

*Organizational inequality prior to incorporation.* Even though local notables controlled political offices in France during the 19th century, low levels of landholding inequality, the abolition of non-wage labor, and extensive urbanization meant that many members of the popular classes did not depend on local elites to secure their livelihood, and were free to create their own political organizations (Vanhanen 2016). Moreover, the French Revolution had established a dense organizational infrastructure for popular collective action at a national scale (Soboul 1964; Williams 1989; Sewell 1990; Kaplan 2001). As a result, organizational inequalities were low prior to incorporation, to the point that working and middle class organizations were able to orchestrate important nation-wide movements, as was the case with republican and liberal clubs in 1830, mutual-aid societies in 1848, and trade unions in 1870. These semi-clandestine organizations coordinated popular mobilization through deliberative practices and democratic procedures of leadership selection and accountability (Shorter and Tilly 1974; Sewell 1980, 1985; Bermeo and Nord 2000; Ansell 2001; Pierre Rosanvallon 2007).

#### Critical juncture:

*Coordination of popular mobilization.* After a failed attempt in 1848, popular incorporation began in earnest in 1875 with the expansion of universal male suffrage, but it was only with the laws on trade unions (1884) and associations (1901) that popular organizations gained formal access to the political arena. Mass-based political parties the Parti Radical, the Section française de l'internationale ouvrière (SFIO), the Parti Communiste Français (PCF) and labor confederations the Confédération générale du travail (CGT) and the Confédération française des travailleurs chrétiens (CFTC) emerged to represent the interests of the popular classes (Hanley 2002, 25; Hanson 2010, 90). These organizations were characterized by their ability to mobilize large numbers through ideological appeals, fostering impersonal forms of solidarity, and developing strong institutions of internal democracy (Huard 1996, 230-45; Kreuzer 2001, 28-34).

*Coordination of political order.* Political order was precarious in France after the end of WWI. The newly incorporated popular classes threatened the stability of the Third Republic as they raised demands for a major tax on capital, wage increases, and social security (Delalande and Spire 2010, 41; Delalande 2011, 360-62). At the same time, industrial, commercial and agricultural interests forcefully resisted increases in taxation and public spending, to the point of bringing down

governments that attempted to address those issues in the 1920s. These confrontations took place as the French state faced a deep fiscal crisis, lacking resources not only to service public debt (which reached 160% of GDP by 1918) but also to rebuild the country (Delalande 2011, 217-220; Rosanvallon 1990, 59-60, 234-235).

Political order was maintained during those years through piecemeal negotiations between state and societal actors that established a new social contract based on broad regressive taxes, extensive but decentralized social security, and institutional spaces where popular organizations could monitor the administration of public resources. The immediate fiscal crisis was addressed through the introduction of a turnover tax (*taxe sur le chiffre d'affaires*) in 1920, which was then raised in 1926. Business organizations reluctantly supported this reform, since it ruled out increases in direct taxes and imposed severe austerity measures (Owen 1982, 297, 420). More importantly, the CGT and the SFIO also accepted it because they had been weakened by internal divisions in the labor movement caused by the proliferation of private schemes of social insurance (Dutton 2002, 97). On the one hand, employer-controlled family allowances multiplied the incomes of workers with children and attracted the support of Catholic unions (Dutton 2002, 22; Nord 2010, 52; Kaufmann 2013, 154). On the other hand, mutual-aid societies took charge of the resettlement and assistance of war refugees and veterans, addressing one of the main demands of the popular classes in the post-war years (Dutton 2002, 46).

Nevertheless, these selective benefits (for workers with children and for veterans) could only be temporary solutions, since they were incentive-incompatible with the coordination strategies of the largest popular organizations (e.g., the SFIO and the CGT). Unions and leftist parties mobilized during the late 1920s and 1930s to make access to social security mandatory for everyone (Rosanvallon in Descimon and Le Goff 1989, 544-46; Dutton 2002, 46-47, 185-189). As a result of these popular pressures, the *Loi d'assurances sociales* of 1928 (and its reforms in 1930 and 1932) established a general regime of social insurance for all workers in industry and commerce along with additional benefits for certain occupational groups (Rosanvallon in Descimon and Le Goff 1989, 546). Crucially, the new social security regime gave mutualist societies, professional and employer associations, agrarian syndicates, and labor unions representation in the boards (*caisses*) that managed those benefits, creating a new institutional network that granted them a monitoring role

in the administration of public resources (Dutton 2002, 52; Kaufmann 2013, 154).

### Aftermath:

*State-led development.* The relative bargaining power of the CGT, the SFIO and the PCF increased enormously shortly after WWII, due to their role as members of the Résistance and allies of the Gaullist Provisional Government. These organizations shaped the reconstruction of the French political system in two ways. On the one hand, they achieved the universalization of social security, putting unions in charge of its administration (Palier 2000, 116; Dutton 2002, 213; Kaufmann 2013, 159). On the other hand, they pushed the French state to play a central role in the direction of the economy (Nord 2010).

The post-War French model of “state-enhanced capitalism” was based on centralized planning, whereby the state established industrial goals and mobilized all the policy instruments at its disposal to steer the private sector in that direction (Schmidt 2009; Nord 2010). Even though France entered the post-war period with higher levels of industrialization than the rest of our cases, it was characterized by an unproductive structure of myriads of inefficient small-size firms (*“la poussière industrielle”*) and numerous bottlenecks that hindered economies of scale (Hall 1986, 146; Dormois in Foreman-Peck and Federico 1999, 76). Therefore, a priority of the developmental state was to modernize French industry through a strategy of economic triage and concentration. This entailed the direct production of goods through the nationalization of key industries, public investment, the allocation of credit, strict market regulations, and fiscal incentives (Shonfield 1965, 85–87; Hall 1986, 152–53; Dormois in Foreman-Peck and Federico 1999, 75–78). The French state was able to solve the collective action problems posed by these policies through the joint actions of a professional bureaucracy and popular organizations against particular businesses when they were no longer serving the collective interest.

*Monitoring requirement.* From 1946 to 1988, the design of French industrial policy was concentrated in the national planning commission (the Commissariat général du plan, CGP). The CGP was the national agency in charge of conducting deliberations with a wide variety of social actors in the design of industrial policy. However, divisions among popular organizations that emerged after 1948 weakened their ability to steer the CGP. By the Second Plan of 1953, large industry began to dominate the process, and the main unions refused to participate after

that date (Hall 1986, 158). Nevertheless, this “conspiracy between big business and big officialdom”<sup>21</sup> did not lead to the levels of rent-seeking that we observed in the Mexican and Argentinean cases because it was embedded in an institutional ecosystem where popular organizations could monitor state-business relations and sanction—in the ballots and in the streets—state officials that served private interests (Hall 1986, 150). For example, in the 1970s, the CGP reoriented its industrial strategy from general subsidies to targeted, selective benefits based on performance, in order to encourage the consolidation of individual firms that could be competitive in international markets (the so called “national champions strategy”) rather than focusing on growth of entire sectors (Hall 1986, 149, 170-171). Similarly, the gradual opening of the French market during the 1960s meant that tariff barriers no longer protected domestic firms, which were now forced to remain competitive in order to survive and grow. This ability to reallocate rents according to the priorities of industrial policy stands in stark contrast with the “geological” layering of privileges that we observed in the Mexican case.

*Motivation requirement (compensation).* Even though popular organizations were not strong enough to steer economic planning, they were able to influence industrial policy by mobilizing large numbers in the form of strikes and protests (as in 1963 and 1968), or electorally (as in 1981) (Shonfield 1965, 143–44; Hall 1986, 175–77, 193-194). While this gave them leverage to prevent business interests from preying on the industrialization efforts, it meant that the negotiation of compensation schemes was not part of the design of the Plan and provoked the frequent reorientation of industrial policy. For instance, the discontent of the 1960s pushed for a shift in the Fourth (1962-1965) and Fifth Plans (1965-1970) towards greater investments in education, public health, and social policy, only to return to an emphasis on industrial growth in the Sixth Plan (1970-1975), when large corporations regained the upper hand through the Confédération nationale du patronat française (CNPF) (Hall 1986, 148, 171). As a result of this adversarial relationship between popular organizations, industrialists and the state, social and industrial policy did not produce the institutional complementarities that we observe in Sweden.

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<sup>21</sup> See Shonfield (1965, 128).

## Legacy:

The autonomy and relative weakness of popular organizations marked the fate of state-led development during the *Trente Glorieuses* (1945-1975). Centralized planning succeeded in the reorganization of French industry in order to make it more efficient, breeding internationally competitive firms in innovation-based sectors (e.g., aircraft and car manufacturing, chemicals, telecommunications), fostering productivity growth and capital accumulation, and narrowing the income gap with the richest countries in the world (Hall 1986, 181; Foreman-Peck and Federico 1999, 87-92). The French state was able to achieve this because it remained able—at least until the late 1970s—to act against the interests of specific businesses, letting inefficient firms and sectors die and strengthening those with competitive potential. This form of economic triage was only possible because political order did not rest on the cooptation of particular actors through selective incentives, but rather on the promotion of a common interest (Hall 1986, 163). On the contrary, the moments when order was threatened occurred when popular organizations perceived that the state had been captured by private interests and its policies were not contributing to improve prosperity, as was the case with the strikes and protests of 1963 and 1968.

State-led development also drove the expansion of a generous welfare state, largely under the control of the unions, as a compensation mechanism that by 1980 covered 99.2% of the population (Rosanvallon in Descimon and Le Goff 1989, 553). However, on top of this *régime général*, certain groups—white-collar employees, railway workers, civil servants, miners, and the agricultural sector—obtained special benefits, reflecting the fragmentation of popular organizations (Rosanvallon in Descimon and Le Goff 1989, 553-54; Kaufmann 2013, 159).

## Sweden: A consensual social contract and economic transformation

### Antecedent conditions:

*Organizational inequality prior to incorporation.* In Sweden, low levels of landholding inequality, agricultural crises, enclosures, emigration, and industrialization enlarged the ranks of rural and urban wage-workers during the early 19th century (Schön 1997; Vanhanen 2016). As a result, the livelihoods of a large share of the popular classes did not depend on

the personalistic protection of local elites (Gidlund in Misgeld, Molin, and Åmark 1992, 100). Additionally, in the mid-19th century, administrative reforms removed aristocratic prerogatives to dispense public offices as patronage, established meritocratic recruitment for the bureaucracy, and increased wages for civil servants, limiting the ability of elites to feudalize the administration and position themselves as intermediaries between the popular classes and the state (Bergh 2014, 11; Rothstein 2011, 240–46). Instead, by the 1900s, workers were involved in corporatist institutions that governed labor relations at the local and national levels (Knudsen and Rothstein 1994, 212).

### Critical juncture:

*Coordination of popular mobilization.* Popular mobilization through independent trade unions began among craft workers in the 1870s, and quickly spread to other trades shortly after (Edgren and Olsson 1989, 72–74; Magnusson 2002, 184; Jansson 2013, 308). From the beginning, these unions were characterized by highly impersonal traits, such as unrestricted membership and the coordination of collective action through organizational solidarity, rather than selective incentives. These autonomous unions and socialist groups created the social democratic party, Sveriges Arbetarparti (SAP) in 1889 and a few years later the central labor confederation, Landsorganisation (LO). For the next three decades, the SAP and the LO focused on the demand of distinctly public goods: universal suffrage and labor rights such as the eight-hour workday (Katzenstein 1985, 162; Berman 1998, 96). This was the result of their highly impersonal mobilization strategies based on self-organization, mass-affiliation, collective educational activities, and internal democracy (Therborn in Misgeld, Molin, and Åmark 1992, 13; Gidlund in Misgeld, Molin, and Åmark 1992, 101; Jansson 2013, 308).

As this coordination logic became dominant it made it extremely difficult for popular organizations based on personalistic coordination strategies to survive, as was the case, for example, in the shipyard industries where employers tried to prevent unionization by developing paternalistic relationships with their workers (Edgren and Olsson 1989, 75–76). By 1907 around half of all workers in industry and crafts were unionized (Edgren and Olsson 1989, 72). Union membership reached 80% among blue-collar workers in the 1950s and among white-collar workers in the 1970s (Bergh 2014, 17). Consequently, popular organizations developed high levels of bargaining power due to their ability to act cohesively under the leadership of the LO and the SAP.

*Coordination of political order.* In 1919 the SAP finally triumphed in its demand for universal suffrage (Katzenstein 1985, 162; Berman 1998, 99). However, popular incorporation still posed a threat to political order. Industrial conflict intensified during this period. By the 1920s, Sweden was one of the most strike-prone countries in Western Europe (Shorter and Tilly 1974, 333; Magnusson 2002, 233). Between 1919 and 1932, Sweden had ten different governments, as a result of Social Democrats distancing themselves from bourgeois parties: Liberals, Farmers and Conservatives (Berman 1998, 153-54). The tensions between them primarily revolved around the question of strikebreakers, since bourgeois parties advocated for the right of the unemployed to work for lower wages than those set by the unions, in order to weaken the SAP and the LO (Therborn in Misgeld, Molin, and Åmark 1992, 19; Rothstein 1992, 182).

Economic conditions worsened the situation. Price instability during WWI multiplied the cost of living, and unemployment reached almost 30% in the early 1920s (Berman 1998, 154). The international depression was particularly damaging to Swedish agriculture, which still employed the majority of the population. As protectionist measures were adopted abroad, competition for the domestic market put downward pressure on agricultural products, in particular dairy (Rothstein 1992, 177). In the early 1930s, the Swedish General Agricultural Association (Sveriges Allmänna Lantbrukssällskap, or SAL) mobilized to obtain the support of the state to form a cooperative organization with the authority to set the prices of dairy products and to collect fees from all dairy producers, even those who were not its members (Rothstein 1992, 177-79). Social Democrats opposed these demands arguing that such a measure trampled the free-market ideals that the Conservative Party and the Farmers' League used to justify the right of strike-breakers to work for lower wages (Rothstein 1992, 182-84).

In 1932 the Social Democrats returned to power, after four years of Liberal government weakened by economic turmoil and the Ådalen incident, where confrontations between workers, strikebreakers, and the government, ended violently. Rather than acting against the protectionist policies in favor of dairy farmers, Social Democrats allied with the Farmers' League in 1933, supporting the cooperative movement and offering regulations on agricultural products and subsidies for domestic producers in exchange for their support for a new unemployment policy (Bohlin in Foreman-Peck and Federico 1999, 159). This agreement was not merely an instance of pork barrel or "Cow Trade", but meant the



restructuring of relations between the state and interest groups, as it gave the popular organizations behind the Social Democrats and the Farmers' League the means to unify their respective popular movements under their leadership (Rothstein 1992, 188; Berman 1998, 173).

In 1936 this Red-Green alliance consolidated in a new coalition government. With the collapse of the Weimar Republic in the background, the government began to draft legislation to regulate labor relations. In response, both the centralized employers' association, Svenska Arbetsgivarföreningen (SAF), and the LO negotiated a voluntary agreement that bypassed control by the state. The result was the Saltsjöbaden Agreement of 1938 that established a new social contract based on a dense institutional network that allowed the SAF and the LO to cooperate in the coordination of the economy, to push the state to supply a wide array of public goods, and crucially to monitor each other in order to inhibit rent-seeking behavior (Magnusson 2002, 232-35).

### Aftermath:

*State-led development.* The industrialization of the Swedish economy began in the 1870s with varying degrees of state involvement (Schön 1997, 222; Foreman-Peck and Federico 1999, 152; Erixon 2008, 369-70, 2010, 678). However, the Swedish state only adopted a comprehensive developmental orientation in the 1950s under the Rehn-Meidner model of economic management. The model prioritized four macroeconomic objectives that sought to rationalize the Swedish economy and accelerate productivity growth: full employment, price stability, high economic growth, and equity. In order to achieve this, the model relied on a set of mutually-reinforcing policy tools: tight fiscal discipline (low and countercyclical spending and reliance on proportional indirect taxes), public savings, a solidarity wage policy, and an active labor policy.

These policies put economic planning in the hands of the LO and the SAF, who negotiated wage increases on a yearly basis based on shared economic forecasts. A principle of "solidarism" guided these central wage bargains, so that workers performing the same jobs earned the same wages irrespective of the productivity levels of the firms and sectors in which they were employed. Such a solidarity wage policy limited pay rises in expansive industries, thus checking inflation, while also foreclosing the possibility for inefficient firms to remain competitive

by lowering wages. Under these conditions, full employment required extensive state intervention in the labor market through an active manpower policy that involved vocational training and programs for the relocation of workers (Shonfield 1965, 201). In addition, the Swedish state intervened through ambitious public works (e.g., the Million Dwellings Program from 1965 to 1974), state ownership of key utilities such as railroads, fiscal incentives to promote private investment, support for R&D, and selective tariffs, subsidies and price-setting for agricultural products (Magnusson 2002, 246; Bergh 2014, 26–27). The extent of state intervention and non-market coordination during these years was such that in 1975 the Fraser Institute gave Sweden a score of 3.5 in the Economic Freedom Index, below Mexico (5) and France (4.3), and only slightly above Argentina (3.1) (Gwartney, Lawson, and Block 1996, 64–65).

*Monitoring requirement.* Industrial concentration in Sweden has historically been extremely high, with dense interconnections between finance and industry (Magnusson 2002, 214–16; Berman 1998, 43). This raises the puzzle about why, if these business groups occupied such a crucial position in the Swedish economy, they were unable to capture the state in the way that their Argentinean and Mexican counterparts did. The answer is in the strength and autonomy of popular organizations. By the 1930s, the LO and the SAP had the incentives and power to oppose attempts by other societal actors to capture the state and to sanction political actors suspected of serving private interests (for example in the aftermath of the Kreuger scandal in 1932).

The institutional network established after Saltsjöbaden served as a space for workers and employers to negotiate the terms of economic planning, but also empowered both sets of actors to monitor one another in order to prevent the capture of rents by private interests. For instance, in 1938 was established a system of corporate tax deductions designed to serve both fiscal and industrial objectives. Firms were offered up to 40% tax deductions on their profits, as long as those resources were kept in a special investment fund under the tutelage of the state. The state could then “free” those resources during a slowdown in the economy, so that the firm could reinvest them in their productive capacity. However, the firm would have to pay full corporate taxes (which went up to 50% after 1955) if it chose to distribute profits to shareholders or if it used the investment funds without state approval (Shonfield 1965, 201–2; Blomström and Meller 1991, 10–11; Foreman-Peck and Federico 1999, 162–63). Since central wage negotiations required forecasts of profits and costs developed jointly by unions and employers, union leaders had

access to companies' finances and could denounce employers that tried to capture those tax deductions for private gain.

Finally, since the combination of an active labor market policy, wage solidarism and openness to foreign competitors was designed to promote efficiency and economic diversification through creative destruction, uncompetitive firms could not become too big to fail. This meant that even if a handful of companies dominated entire sectors, they could only translate their position into political power if they remained internationally competitive (Blomström and Meller 1991, 10 ff). This lowered incentives for them to waste resources on political connections rather than investing on productivity improvements. Therefore, Swedish companies had strong incentives to cooperate with labor and with the state in the pursuit of the collective interest.

*Motivation requirement (compensation).* The consensual definition of economic management made it possible to design positive synergies between the compensation of losing actors and the goals of economic transformation. Workers were, at a first glance, losers of the Rehn-Meidner model, insofar the solidarity wage policy and centralized wage negotiation lowered wages relative to productivity gains and promoted flexible labor markets. However, workers received in exchange higher average wages and very low risks of unemployment. This strategy succeeded because popular organizations were internally cohesive and could not be captured by narrow self-interests, which prevented defections among workers in highly profitable industries (at least until the 1970s) (Shonfield 1965, 204).

The other losers of these policies were capital holders in inefficient import-competing sectors that could not rely on lowering wages to survive, this was particularly the case for farmers (Shonfield 1965, 208). In compensation, agriculture received extensive support from the state in the form of tariffs, subsidies and price-setting, while industrialists enjoyed a very stable economic environment with low levels of industrial conflict and inflation to reinvest their capital in more productive activities, along with significant state assistance through low corporate and income taxes and public investment in infrastructure and human capital (Katzenstein 1985, 141).

### Legacy:

By the 1970s, the Rehn-Meidner model began to lose steam as cohesiveness among unionized workers faltered (Katzenstein 1985, 51). However, decades of sustained productivity growth had placed Sweden

among the richest countries. Exposure to intense international competition combined with the consensual planning of unions and employers indeed produced structural change in the economy, with frequent mergers and closures in less-competitive sectors and high levels of reinvestment and growth in the more productive ones, such as metal, motors, electronics, shipbuilding, paper, and chemicals (Erixon 2008, 382; Magnusson 2002, 108). By 1970, labor productivity had grown at a fast pace and the Swedish export portfolio was among the most diversified in the world (Bergh 2014, 4; Magnusson 2002, 207; Hausmann, Hidalgo, and Bustos 2014, 64). The Swedish model of worker-employer cooperation not only built an internationally competitive Coordinated Market Economy, but also contributed to the development of democratic institutions with very high levels of legitimacy in the eyes of the citizenry.

## Overall Discussion of the Cases

The process-tracing tests suggest that arguments that either emphasize the weaknesses of authority-based coordination mechanisms or the constraints to political competition explain relatively well cases of failed state-led development. This is not surprising since both theories correctly argue that these failures are the result of the inability of those states to prevent rent-seeking and solve large-scale collective action problems. However, they emphasize different factors as the main causes behind these failures. For neo-institutionalist theories, the absence of political competition allows state actors to create rents for their private benefit and to reward supporters. For authority-based arguments, it is insufficiently insulated and professional bureaucracies that are captured by private interests and whose efforts are derailed by popular pressures.

The analysis presented here suggests that these two factors – popular accountability and bureaucracies insulated from private interests – are not mutually exclusive but rather become mutually reinforcing where the popular classes are mobilized by internally democratic societal organizations. On the contrary, where the popular classes are organized through personalistic coordination strategies, competitive elections do not foster public accountability but rather become zero-sum conflicts that lead to political instability. Under these conditions, even professional bureaucracies are likely to be colonized by private interests (see figure 3). We see both of these processes behind the failures of the

Argentinean case. In Mexico, personalistic strategies of popular mobilization during and after the revolution led to the subordination of the popular classes to the party-state. This meant that no societal actor could be mobilized to counteract the pressures of industrialists and large business groups as they sought to gain control of developmental policies.

As mentioned before, these approaches face greater challenges to explain the successful cases of post-incorporation state-led development. Against the expectations of neo-institutionalist arguments, we find evidence in all four countries of high levels of state intervention in the economy for almost half a century. In the Swedish case, major price distortions caused by state intervention in the economy and corporatist economic planning did not lead to an electoral backlash against the political elites behind those policies, but actually led to several decades of socialdemocratic dominance. In France, state intervention in the economy did lead to significant resistance, however this resistance was not targeted against rent-creation per se but against the capture of rents by industrialists at the expense of the long-term goals of the developmental program. In order to understand why popular actors did not oppose rent-creation as long as it contributed to the long-term construction of public goods, we must look into the internal structure of the organizations they created to interact with the state.

Contrary to the expectations of the literature on developmental states, the subordination of popular organizations to the state was far more encompassing in the Latin American cases than in the European ones. Rather than an advantage, the subordination of organized labor was the main reason why the developmental projects in Mexico and Argentina failed. Conversely, in Sweden and France, internally democratic popular organizations prevented their cooptation by the state. As a result, they were better able to serve as monitoring actors that prevented the colonization of industrial policy by powerful private interests, and empowered professional bureaucracies to change policies and enforce sanctions according to the long-term objectives of economic transformation. Moreover, the same democratic dynamics that prevented their cooptation by the state also allowed impersonal popular organizations to discipline the working classes through the successful negotiation of compensatory public goods. As shown in figure 4, state-led development in these cases did not rely on labor-repressive strategies of industrial transformation, but rather improvements in productivity grew in tandem with wages and compensatory public goods that decreased economic inequality.

## V Conclusion

Through a comparative historical analysis of Sweden, France, Mexico and Argentina, this article has argued that state-led development represents a large scale social dilemma. States that launched developmental programs prior to the incorporation of the popular classes could rely on authority-based coordination mechanisms to solve these coordination challenges, such as insulated bureaucracies and the repression of organized labor, as has been argued by the existing literature on state-led development. However, in those cases where state-led development was launched after popular incorporation, labor-repressive industrialization was foreclosed. Among these cases, democratic institutions played a key role in the success of state-led development, as neo-institutionalist arguments have claimed, limiting the capture of industrial policies by private interests. However, democratic institutions at the state level performed these coordinating functions only where they were buttressed by similar democratic practices in the organizational strategies of the popular classes. When these multi-level complementarities in coordination strategies were present, popular organizations monitored state-business relations to limit rent-seeking and curbed popular resistance to the developmental agenda by demanding the expansion of compensatory public goods. This argument brings Power Resource Theories closer to neo-institutionalist political economy, proposing that the greater coordination capabilities that consolidated democracies enjoy comes from the egalitarian distribution of organizational resources in society and not only from the ways in which formal democratic institutions structure political competition.

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- <sup>i</sup> Source: Marshall and Jagers (2009)
- <sup>ii</sup> Source: Weber (1976)
- <sup>iii</sup> Source: Mahoney (2010, 149)
- <sup>iv</sup> Source: Mahoney (2010, 226)
- <sup>v</sup> Source: Lindberg et al. (2014)
- <sup>vi</sup> Source: Vanhanen (2016)
- <sup>vii</sup> Source: Magnusson (2002, 214–16); Wohler in Pohl (1988)
- <sup>viii</sup> Source: Ingham (1974, 46)
- <sup>ix</sup> Source: Daviet in Pohl (1988)
- <sup>x</sup> Source: Cassis, Crouzet, and Gourvish (1995, 24–26)
- <sup>xi</sup> Source: Haber (1989, 4, 192)
- <sup>xii</sup> Source: Minns (2006, 58)
- <sup>xiii</sup> Source: Rocchi (2005, 104–14); Pineda (2009, 33)
- <sup>xiv</sup> Source: Rowat, Lubrano, and Porrata (1997, 20–21)
- <sup>xv</sup> Source: Estimated using Angus Maddison's (2013) estimates of GDP per capita and data on population from Mitchell (2013).
- <sup>xvi</sup> Source: Maddison (2013)
- <sup>xvii</sup> Source: Unless otherwise noted, data from Mitchell (2013)
- <sup>xviii</sup> Source: Larrain (1991)
- <sup>xix</sup> Source: Lindert (2004, 12)
- <sup>xx</sup> Source: Huber and Stephens (2012, 122-123)
- <sup>xxi</sup> Source: Feenstra, Inklaar, and Timmer (2015). Labor productivity is calculated by dividing real GDP at constant 2005 national prices (in US\$) by the product of number of persons engaged and the average annual hours worked by persons engaged.
- <sup>xxii</sup> Source: Feenstra, Inklaar, and Timmer (2015). Capital Stock Per Capita is calculated by dividing Capital stock at constant 2005 national prices by Population.