Corporatism, Trade Liberalization and Sectoral Responses: The Case of Venezuela, 1989–99

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Summary. — The Venezuelan manufacturing sector, unlike agriculture, cooperated with state’s efforts to liberalize trade in the 1990s, despite the economic costs it absorbed and the political opportunities to sabotage the reforms. This paper offers two explanations for this, which modify and conciliate traditional interest-based and corporatist theories of state-society relations. High levels of sectoral autonomy from the bureaucracy and political parties (and hence Congress), together with low levels of involvement in profit-making on the part of the associations representing the sector, encourage sectoral cooperation with costly and risky state policies. In addition, traditional corporatist instruments used by states—inducements and constraints—hurt rather than enhance state-sector cooperation.

Key words — Latin America, Venezuela, politics of trade reform, corporatism, industry, agriculture

1. INTRODUCTION

In the last two decades, Venezuela has become a textbook case of economic ungovernability. Buffeted by a series of economic crises, it has proven unable to implement necessary economic correctives. During 1983–99, five consecutive presidents have attempted to implement economic reforms—some more seriously than others—but none successfully. The president who attempted the most far-reaching reforms, Carlos Andrés Pérez (1989–93), ended up paying the highest political cost. By the end of his administration, state-society relations had deteriorated so sharply (two coup attempts, massive protests, rising crime, collapse of bipartisanship) that he was forced to abandon most reform initiatives and even leave office six months prematurely. The very country that was once a paragon of political moderation, good governance, macroeconomic stability, and elite learning became emblematic of the exact opposite in the 1990s.

Nevertheless, in the rush to identify all that has gone wrong with Venezuela’s attempts to remake its economy, scholars have failed to notice a remarkable political achievement of 1989: the full implementation of trade liberalization in the manufacturing sector. In part, the reason behind this policy success was that the manufacturing sector responded cooperatively. When trade liberalization was announced, government officials expected conflicts with the manufacturing sector, which was one of the most protected and uncompetitive in the region. Yet, less than six months later, manufacturing representatives accepted the new trade regime. This cooperative response contrasts sharply with that of many other economic actors, especially the agricultural

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Two sets of theories in political economy provide two different answers. The first set consists of economic and interest-based theories. These theories emphasize the role of economic variables in shaping the "real, productive. The stronger the level of traditional corporatism, the lower the probability of state-sector cooperation in processes of economic change.

sector, which repudiated the reforms almost from the start.

This article examines the different political responses to trade liberalization by the Venezuelan industrial and agricultural sectors. Studies on the determinants of trade liberalization often emphasize the role of economic variables in shaping sectoral responses, and hence, reform outcomes. This argument asserts that the sectors with net winners from trade are more likely to cooperate. We argue that these interest-based theories cannot adequately explain sectoral responses in Venezuela. Industry had many losers from trade just as agriculture had winners, and yet the industrial sector cooperated.

Instead, we offer an institutional explanation that modifies traditional theories of corporatism. Like most of Latin America, Venezuela had a highly corporatist institutional setting, in which highly organized, monopolistic federations represented producers in their dealings with the state (Crisp, 1996; López Maya, Gómez Calcaño and Maingón, 1989). Historically, these federations brokered rents between their rent-seeking affiliates and the rent-granting state, and the state attempted to structure, subsidize and maximize control of these federations. The corporatist institutions in the manufacturing sector however had three distinctive features relative to other corporatist groups—a higher degree of autonomy from the state, a higher degree of autonomy from political parties, and a lesser degree of involvement in profit-making at the expense of their brokerage services. These institutional features, we argue, explain the variation in sectoral responses. Contrary to traditional notions of corporatism, weak links with the state and political parties facilitated sectoral cooperation with the state. In agriculture, which exhibited opposite institutional features, resistance was more likely. Strong corporatist links provided opportunities for establishing political alliances against the reforms. As a result, the sector came to expect success in its efforts to challenge the state, and this galvanized them into action. This article concludes, therefore, that traditional corporatist instruments used by states to control the behavior of political groups—structuring and penetration, inducements and constraints—are counterproductive. The stronger the level of traditional corporatism, the lower the probability of state-sector cooperation in processes of economic change.

2. THE POLITICS OF TRADE LIBERALIZATION AS A TEST OF STATENESS

When countries decide to liberalize trade, they confront a major test of "stateness." For many theorists of state-building, a crucial measurement of state strength is whether states manage to obtain the cooperation—even "obedience"—from societal groups, especially on behalf of policies that contradict societal preferences (e.g., Migdal, 1997; Tilly, 1985; Nordlinger, 1981). Trade liberalization threatens state-society cooperation in different ways. Although trade liberalization creates many winners, it also creates losers in the short term, especially within previously protected tradable sectors (Krueger, 1978, pp. 222–223). In addition, trade liberalization entails a redistribution of income away from producers and workers in protected tradable sectors to consumers and exporters (Rogowski, 1995). Because the amount of redistributed income can be almost as large as the amount of net gain generated by trade liberalization (i.e., the ratio of net gain to redistribution tends to be small), trade liberalization becomes "politically inefficient": it causes too much political trouble for not enough political gain (Rodrik, 1994). Moreover, the losses experienced by losers tend to be direct and intense, whereas the gains experienced by winners such as consumers tend to be diffuse and perceptible only in the long term, giving the losers an incentive to take collective action against the reform. Even though not all protected tradable sectors will perish after trade opening—some import-competing sectors will transform themselves into successful competitors and exporters (Dornbusch, 1992, p. 75)—it is hard to predict which sectors will succeed at transforming themselves (Fernández and Rodrik, 1991). This uncertainty discourages actors from embracing trade reforms.

Trade liberalization thus creates absolute losers, relative losers, or actors who are uncertain whether they will end up as losers. For these reasons, trade liberalization tests the capacity of states to sustain sectoral loyalty.

What allows states to pass this test of stateness? Under what conditions will affected sectors cooperate with a trade-liberalizing state? Two sets of theories in political economy provide two different answers. The first set consists of economic and interest-based theories. These theories emphasize the role of economic variables in shaping the "real,
material interests of the principal actors,” and hence, their political responses (Hall, 1997, p. 176). Scholars emphasize different economic variables: whether firms are owners of factors of production that are internationally competitive (Stolper and Samuelson, 1941), whether firms have economic ties to the international economy (Milner, 1988), whether sectors can convert their assets and operations into more competitive ones (Frieden, 1991), whether there are coalitions between scarce and abundant economic factors (Rogowski, 1989), whether economic compensation is provided to losers (Rogowski, 1995, p. xiii), whether states provide export incentives (Agosin and Ffrench-Davis, 1995), whether there is a preceding economic crisis (Weyland, 1996; Tornell, 1995; Rodrik, 1994; Drazen and Grilli, 1993), or whether the macroeconomic environment turns favorable (Agosin and Ffrench-Davis, 1995; Edwards, 1995; Pastor and Wise, 1994). In short, economic circumstances—mostly the net balance of economic gains and losses from trade liberalization—determine sectoral response. Interest-based theories thus generate the following hypothesis:

H1: Highly protected tradeable sectors exhibiting high degrees of rent-seeking behavior and operating in economically unfavorable circumstances are less likely to embrace trade liberalization.

The second set of arguments—corporatism—looks beyond the material interests of affected actors. This tradition is based on the neoinstitutional precept that domestic institutions shape political behavior (Thelen and Steinmo, 1992; Garrett and Lange, 1996, p. 52). Specifically, the type of organizations that represent interest groups and the nature of their relationship to the state, more so than the interest of affected actors, determine sectoral responses. A corporatist institutional setting is one in which economic actors interact with the state by forming noncompeting, vertically organized, hierarchical interest groups, in contrast to pluralist settings in which economic actors form more diversified, decentralized, spontaneous interest associations (Schmitter, 1974). In Latin America, the state traditionally sanctioned corporatist associations, often taking the lead in structuring, subsidizing and controlling them (see, for instance, Malloy, 1977; Collier and Collier, 1979). Although corporatism is most often applied to state-labor relations, it is equally applicable to interest groups representing producers (see Collier, 1995). Corporatist theories alert analysts to two clusters of variables that shape sectoral responses:

(a) Features of the organizations representing interest groups

Corporatist theorists argue that the more centralized, monopolized, all-encompassing the association, the greater its capacity to influence policy. Once a federation adopts a particular policy position, which may or may not mirror the preferences of its own members, it will succeed in pressuring the system on behalf of its position, the more organized, centralized, and resourceful it is (Maxfield and Schneider, 1997; Bartell and Payne, 1995). Strong corporatist institutions thus have a capacity to defy the state. Corporatist organizations are not however mere “representatives” of their affiliates; they actively and coercively govern the behavior of their members (Schmitter, 1982, p. 260). Thus, they can also influence policy by persuading their own members to accept positions that they would not otherwise accept. This argument does not predict what policy preferences the association will hold. It simply states that the more organized and centralized an association, the greater the chance that it will prevail in its policy preference, pressuring either the state or its members.

(b) “Statist” variables

Corporatist theories also alert analysts to statist variables (Chalmers, 1985, pp. 66–69; Schneider and Maxfield, 1997). States are not at a loss vis-à-vis strong corporatist groups. Instead, the state is quite capable of imposing, designing and structuring group responses, i.e., acting as the “architect of political order” (Wiarda, 1981, p. 354). In exchange for group rights, officially sanctioned interest associations accept obligations toward the state. Corporatism provides the best promise of national unity and policy flexibility, although at the cost of greater democratic participation (Magagna, 1988). States in general can deploy a number of strategies to “neutralize” the “constraining effects” of societal pressures (Nordlinger, 1981, pp. 130–132). Corporatist states in particular can resort to inducements (e.g., granting material compensation or political privileges) and constraints (e.g., denying economic benefits or political privileges). The former allows states to reward interest associations for their cooperation; the latter allows the state to deter
interest associations from rebelling (Collier and Collier, 1979; Collier, 1995). Although "statist" variables are increasingly posited to be "in retreat" in the study of contemporary international political economy (see Strange, 1996), they feature prominently in the literature of the politics of market reform in Latin America. ²

We can now generate two hypotheses from traditional corporatist arguments:

H2a: The more centralized and organized the association representing economic actors, the more likely it is to prevail in its policy preference, by influencing either the state or its own members.

H2b: States that deploy inducements and constraints in their dealings with sectors are more likely to prevail in their policy preference, even against the preferences of highly centralized interest groups.

The following sections assess these hypotheses. We argue that, unmodified, neither set of theories provides an adequate explanation for sectoral responses in Venezuela.

3. TRADE LIBERALIZATION AND SECTORAL RESPONSES IN VENEZUELA, 1989–93

As part of a broad package of economic stabilization and market-oriented reforms ("the Great Turnaround"), President Carlos Andrés Pérez (1989–93) launched a far-reaching and intense trade liberalization program in April 1989 (Decree 239, May 30, 1989). Exchange rate controls were abolished, and the exchange rate was unified. All quantitative and discretionary restrictions were replaced by a new tariff system based on degree of product processing (Cisneros, 1997). The maximum tariff was reduced from 135%, one of the highest in the region, to 20% by 1992. Average tariffs were dropped from 37% overall and 61% for finished goods in 1988, to 16% and 26%, respectively (Enright, Francés and Saavedra, 1996; World Bank, 1993). The number of import licenses granted by the state declined from 2,204 in 1989 (affecting almost 48% of manufacturing production) to less than 140 in 1991 (affecting only 2% of manufacturing production). Venezuela joined the General Agreement on Tariffs and Trade (GATT) and negotiated an integration agreement with Colombia (through the Andean Pact). In addition, the government reduced the amount of sectoral cushioning—subsidized credits and prices were discontinued. For the first time ever, Venezuela’s manufacturing firms had to compete.

Venezuela prior to the reforms, like many Latin American countries at the time, had a sizeable protected tradeable sector. There were 41 tariff rates. Approximately 57% of domestic production enjoyed some form of nontariff protection. Except for the oil sector, the bulk of the economy was internationally uncompetitive, inefficient, and highly reliant on protection. One reason for these inefficiencies was oil. Since the 1950s, the Venezuelan state has used revenues from oil, which generates 90% of export earnings, to reward interest groups for their cooperation with the state (Karls, 1987). Oil allowed Venezuela to afford high levels of inefficiency, especially during periods of high prices such as in the 1970s (see Thorp and Durand, 1997, pp. 229–232; Enright, Francés and Saavedra, 1996). Entire industries lacking any possibility of self-sustained, long-term contribution to the country’s economy were encouraged to grow through oil-subsidized rents (Naim, 1993).

When the government announced trade liberalization in 1989, in essence, the end of oil-subsidized import-substitution, most observers expected the manufacturing sector to rebel. Instead, the manufacturing sector agreed to the reforms. This reaction shocked everyone, even the government. As the minister in charge of implementing trade liberalization in 1989 stated:

The highly protected and influential private sector was expected to be a formidable enemy of change ... In practice, however, once these private groups realized that the core changes were largely irreversible, they stopped seeking a return to the old policies ... Thus, the dismantling of the highly protectionist regime under which private business had prospered for decades was largely unimpeded” (Naim, 1993, p. 14).

This is not to say that state-business relations were free of conflicts during 1989–92. ³ But the industrial sector avoided openly challenging the newly established trade regime (see Ball, 1998).

In fact, the cooperative stand of the manufacturing sector continued even when general state-society relations deteriorated after 1992. Most analysts argue that trade openings are more likely to survive if they occur under politically and economically stable contexts (see Rodrik, 1994, p. 83; Edwards, 1995; Pastor and Wise, 1994, pp. 482–483). 1992–94 was one of
the most politically and economically unstable periods in Venezuela since the 1960s. After a failed coup attempt in February 1992, the first in 30 years, every economic policy came under attack from almost every political actor, including the ruling party (Corrales, 1997–98, 1997). The government was forced to reshuffle the cabinet and suspend most reforms (e.g., fiscal and financial reforms, privatizations, deregulations, price increases of products and service of state-owned companies). In many ways, the interruption of the reforms constituted a violation of the liberalization agreement with Conindustria (Decree 239), agreed to streamline the bureaucracy, lower inflation, reform the custom houses, and curtail the deficit. After a second coup attempt in November 1992, Venezuela entered into a severe economic recession, and protests continued to rise. Overwhelmed by these pressures, the president stepped down from office prematurely in May 1993. By year-end, Venezuela experienced one of the world’s greatest banking crises (García, Rodríguez and Salvato, 1998).

Yet, during 1992–94 industry continued to accept trade liberalization, which explains why the government was able to deepen trade reform during these politically turbulent years. Over 1991–93, average tariffs declined further from 20% to 10%, one of the lowest among Latin America’s major liberalizers. Six new free trade agreements were established or expanded: the Andean Pact, the Central American Common Market, Argentina and Chile in 1992, the Group of Three (Colombia, Mexico and Venezuela), and the Caribbean Common Market (Caricom) in 1993 (see Cisneros, 1997). As a result, one quarter of Venezuela’s imports—the share of imports originating from those countries—is now exempt from tariffs.

There had never existed more political opportunities for reversing trade liberalization in Venezuela than was the case after 1992. The government was making one reform concession after another. Yet, the political representatives of the industrial sector did not join these protectionist crusades. After the November 1992 coup attempt, for instance, Pérez suggested ending trade relations with Peru in retaliation for Peru’s decision to welcome the coup plotters. The manufacturing sector objected on the grounds that this would undermine trade liberalization. The sector also refrained from using border tensions between Colombia and Venezuela as a pretext for slowing down trade opening, as some politicians desired (Cisneros, 1997, p. 65).

The agricultural sector reacted differently. In June 1990, the Pérez administration launched the liberalization of agriculture, which, like manufacturing, was highly protected, inefficient, and reliant on government favors. The goal was not to eliminate protection altogether, but rather, to replace import licensing with tariffs. Almost 120 agricultural commodities—with the important exception of feed grains, soyabean, and poultry—were removed from the prohibited list of imports, and almost 70 commodities were removed from the list of imports requiring licensing. Most input subsidies were ended, and a band mechanism was introduced for wheat, rice, and white corn to stabilize domestic prices. But unlike industry, the agricultural sector rebelled. In less than six months, the federations of agricultural producers had united in open opposition to the reforms, continuously staging protests during 1991–93. At times, the protests were huge. In May 1991, for instance, hundreds of sorghum producers drove to Caracas in expensive Jeep Cherokees to protest the liberalization (the Cherokee March), forcing the government to raise the minimum price for sorghum (see Coles, 1993a).

In essence, the agricultural sector exploited the 1992–93 political crisis to press for liberalization slowdown. They succeeded. The minister of agriculture, Jonathan Coles, was unable to deepen the reforms, and by early 1993, was forced to resign (Coles, 1993b). Thereafter, the state made a succession of concessions. In August 1993, Congress granted Pérez’s successor, Ramón Velásquez (1993–94), a Special Powers Law, which, in the area of agriculture, authorized the government to resume domestic credits, refinance farmers’ debts, and amend the anti-dumping and procompetition laws to facilitate restrictions. The Velásquez government increased fertilizer subsidies, raised the domestic price of sorghum and prohibited imports of poultry from the United States. In October 1993, the government raised the “price band” (which set minimum and maximum prices for agricultural goods based on average international prices for the past five years for each crop) and introduced plant-health permits (permisos fitosanitarios) (Veneconomia, August 1993, p. 7; and October 1993, p. 27). Although the tariff structure for most agricultural products did not change, the number of “temporary”
exemptions increased. The government also announced that agricultural price setting would be exempt from anti-trust legislation.

What explains the cooperative reaction of the manufacturing sector in contrast to the agricultural sector? Why did agriculture, an economically insignificant sector accounting for less than 5% of GDP (see Table 1) prove to be such a powerful anti-reform lobby?

4. TESTING INTEREST-BASED EXPLANATIONS

Interest-based theories cannot easily account for this difference in sectoral responses. It is hard to make the case that industry was more cooperative simply because it was an unambiguous net winner from trade. Both sectors absorbed heavy costs as a result of the reform. Figures 1 and 2 reveal the significant decline in average tariffs and in the percentage of items requiring licenses or with import prohibitions in industry and agriculture, showing that both sectors experienced significant policy shocks. In addition, Table 2 highlights changes in sectoral trade balances. Although these changes are not a perfect indicator of gains and losses, they reveal nonetheless an avalanche of imports, especially in motor vehicles, machines, textiles and electrical equipment. Automobile production alone declined precipitously in one year (from 123,000 units in 1988 to 26,000 units in 1989). In addition, while winners continued to emerge over time, so did the number of losers, including the very powerful motor vehicles sector (see Table 2). In terms of number of industrial firms, the manufacturing sector shrank by almost 20% during 1988–94 (see Table 3).

Agriculture had losers but also important winners. According to some estimates, more than 500,000 small and medium farmers benefited from the new policies (Veneconomia, November 1996, p. 3). While the share of cultivated land declined during 1988–91, there was an increase in the added value per hectare (Carbonell, 1995, pp. 29–30). In the early 1990s, new investments were flowing into crops such as cocoa, coffee, yucca, African palm, bananas, cattle, aquaculture, etc. (Enright, Francés and Saavedra, 1996, p. 323). Numerous crops registered substantial production expansion (Table 4). Despite the continued existence of an overall agricultural trade deficit, the level of agricultural exports expanded considerably from US$89 million in 1988 to US$371 million in 1992 (Maxim Ross and Associates, 1997, pp. 12–15). Thus, “as is the case in the manufacturing sector, one cannot speak of a crisis in agriculture, but in certain components” (p. 20).

Another version of the interest-based explanation for the manufacturing sector’s pro-trade position during 1989–91 would stress economic factors. Dornbusch (1992) argues that a favorable exchange rate is critical. In Venezuela, one could argue that the switch toward a free exchange rate in early 1989, which led to a 174% depreciation in one year, boosted the country’s export capacity (and hurt the import capacity), providing a cushion that facilitated sectoral acceptance. A favorable exchange rate in 1989 however is not the full answer. The number of exporting firms was small in 1989; thus, in the short term, changes in the exchange rates affected, however favorably, only a small portion of the private sector. Moreover, while the 1989 devaluation raised import prices, most of the private sector had already purchased most of its imports in 1988, when the Bolivar was heavily overvalued. In anticipation of a future devaluation, possibly after the December 1988 presidential elections, private firms boosted their demand for imports in 1988 (private sector inventories doubled during 1987–88).

Another interest-based argument would stress macroeconomic factors: the healthier the macroeconomy, the higher the chances of reform acceptance (see Edwards, 1995; Rodrik, 1994). Indeed during 1991–92, macroeconomic variables improved. But this explanation cannot account for the timing of the Ministry-sector agreement, in mid 1989, perhaps the worst economic year of the decade— inflation

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Table 1. Venezuela’s key economic sectors, 1992: share of GDP at 1984 prices (in percentage)\(^a\)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Total</th>
<th>Public</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>4.8</td>
<td>–</td>
<td>4.8</td>
</tr>
<tr>
<td>Industry</td>
<td>20.8</td>
<td>6.8</td>
<td>14.0</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>16.4</td>
<td>2.4</td>
<td>14.0</td>
</tr>
<tr>
<td>Oil Refining</td>
<td>4.4</td>
<td>4.4</td>
<td>–</td>
</tr>
<tr>
<td>Oil and Gas</td>
<td>16.5</td>
<td>16.5</td>
<td>–</td>
</tr>
<tr>
<td>Commerce</td>
<td>11.4</td>
<td>0.6</td>
<td>11.4</td>
</tr>
<tr>
<td>Government</td>
<td>13.4</td>
<td>13.4</td>
<td>–</td>
</tr>
<tr>
<td>Real Estate</td>
<td>7.8</td>
<td>–</td>
<td>7.8</td>
</tr>
<tr>
<td>Construction</td>
<td>7.3</td>
<td>0.1</td>
<td>7.3</td>
</tr>
<tr>
<td>Other</td>
<td>18.0</td>
<td>4.2</td>
<td>13.8</td>
</tr>
</tbody>
</table>

\(^a\)Source: McBeth (1994).
Figure 1. Import restrictions and average tariffs, 1989 vs. 1991 (percentage).
surged to 81%, the economy shrank by more than 8%, and uncertainty about the future success of the reforms was high (Table 5). This explanation also cannot account for sectoral response after 1992, when the economic situation deteriorated. Finally, it cannot easily explain the variation in response between the manufacturing and agricultural sectors, since the macroeconomic conditions apply equally to both sectors.

Table 2. *Winners and losers in Venezuela’s trade liberalization, 1988–94 (US$ Millions)*

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Winners</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Iron and steel castings</td>
<td>24</td>
<td>181</td>
<td>265</td>
<td>157</td>
<td>241</td>
<td>84</td>
</tr>
<tr>
<td>Aluminum and derivatives</td>
<td>76</td>
<td>133</td>
<td>198</td>
<td>57</td>
<td>122</td>
<td>65</td>
</tr>
<tr>
<td>Cereals (rice)</td>
<td>0</td>
<td>14</td>
<td>32</td>
<td>14</td>
<td>32</td>
<td>11</td>
</tr>
<tr>
<td>Cement</td>
<td>1</td>
<td>13</td>
<td>11</td>
<td>12</td>
<td>10</td>
<td>-2</td>
</tr>
<tr>
<td>Rubber products</td>
<td>0</td>
<td>7</td>
<td>24</td>
<td>7</td>
<td>24</td>
<td>17</td>
</tr>
<tr>
<td>Oilseeds (sesame, soyabean)</td>
<td>0</td>
<td>7</td>
<td>13</td>
<td>7</td>
<td>13</td>
<td>6</td>
</tr>
<tr>
<td>Glass products</td>
<td>1</td>
<td>6</td>
<td>34</td>
<td>5</td>
<td>33</td>
<td>28</td>
</tr>
<tr>
<td>Motor vehicle</td>
<td>See</td>
<td>See</td>
<td>302</td>
<td>See</td>
<td>241</td>
<td>315</td>
</tr>
<tr>
<td><strong>Losers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>99</td>
<td>-13</td>
<td>See</td>
<td>-112</td>
<td>See</td>
<td>-42</td>
</tr>
<tr>
<td>Sugar and byproducts</td>
<td>-17</td>
<td>-75</td>
<td>-59</td>
<td>-58</td>
<td>-42</td>
<td>-42</td>
</tr>
<tr>
<td>Knitted garments</td>
<td>-3</td>
<td>-28</td>
<td>-21</td>
<td>-25</td>
<td>-18</td>
<td>-18</td>
</tr>
<tr>
<td>Machines and electric equip.</td>
<td>-5</td>
<td>-24</td>
<td>-10</td>
<td>-19</td>
<td>-10</td>
<td>-10</td>
</tr>
<tr>
<td>Publications</td>
<td>-7</td>
<td>-19</td>
<td>-16</td>
<td>-12</td>
<td>-9</td>
<td>-9</td>
</tr>
<tr>
<td>Legumes (potatoes and beans)</td>
<td>-10</td>
<td>-20</td>
<td>-17</td>
<td>-10</td>
<td>-7</td>
<td>-7</td>
</tr>
</tbody>
</table>

*a Source: OCEI (various years).*

Table 3. *Industrial firms and employment levels*

<table>
<thead>
<tr>
<th></th>
<th>Firms</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>11,043</td>
<td>509,908</td>
</tr>
<tr>
<td>1989</td>
<td>10,881</td>
<td>482,876</td>
</tr>
<tr>
<td>1990</td>
<td>10,945</td>
<td>480,266</td>
</tr>
<tr>
<td>1991</td>
<td>10,539</td>
<td>498,712</td>
</tr>
<tr>
<td>1992</td>
<td>10,374</td>
<td>495,179</td>
</tr>
<tr>
<td>1993</td>
<td>8,974</td>
<td>461,653</td>
</tr>
<tr>
<td>1994</td>
<td>8,891</td>
<td>441,016</td>
</tr>
</tbody>
</table>

*a Source: OCEI (various years).*
5. TESTING TRADITIONAL CORPORATIST THEORIES

A traditional corporatist perspective also cannot account for the variation. In terms of levels of organization (hypothesis H2a), corporatism in industry and agriculture exhibited little variation—both sectors had highly organized, vertically structured associations of political representation. In industry, the leading federation was Conindustria. Although historically the most important federation in the private sector was Fedecámaras, a peak umbrella association that claimed to represent all business interests, the representative capacity of Fedecámaras declined significantly in the 1980s; the composition of its membership was too heterogeneous and its leaders became too weak to allow Fedecámaras to play a strong role in representing sectoral interests (Thorp and Durand, 1997; Crisp, Levine and Rey, 1994, pp. 154–157; López Maya and Gómez Calcaño, 1989, p. 102). Thus, Conindustria emerged as the leading political representative of industry, comprising almost 50 manufacturing chambers and 3,250 manufacturing firms by the 1980s. In the agricultural sector, there were three well-organized leading associations: Federación Campesina (representing small farmers unions), Fedearagro (representing agro-industrial firms and wealthier farmers) and Fedenegro (representing cattle interests).

During the import-substitution years, these associations fulfilled similar political roles—brokers of economic rents between the state and their affiliates. They also negotiated with ministers the parameters of state-provided rents: setting prices, issuing and distributing licenses, collaborating in the drafting of laws, etc. The state’s consultation with these interest organizations increased over the years, while at the same time closing the opportunities for broader participation of noncorporatist groups in cabinet deliberations (Crisp, 1996).

Thus, knowledge about the organizational features and structures of state-interest group interaction in Venezuela is a weak predictor of sector response to trade liberalization. Both had the capacity to influence the state, its members or both. If anything, it would suggest a more state-defying role for the manufacturing sector. Compared to labor and agricultural interest groups, capital enjoyed greater “presence” at the cabinet level. In the 314 consultative commissions created by the state to design policy during 1958–89, approximately 23% of participants came from capital or professional groups, vs. 8.06 from labor (Crisp, 1996, p. 41). Given its greater organizational strength, strong protectionist affiliates, and disproportionate access to the cabinet, Conindustria seemed well equipped to challenge the reforms.

6. MODIFYING TRADITIONAL CORPORATIST AND INTEREST-BASED THEORIES

To understand sectoral responses, we must go beyond traditional tenets of corporatist theories. Several institutional differences existed between industry and agriculture that were crucial in explaining sectoral response. Some of these differences are either overlooked by the literature of corporatism, or affected sectoral responses in ways that contradict the predictions of the traditional literature.
Table 5. *Venezuela's macroeconomic indicators, 1987–97*

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</thead>
<tbody>
<tr>
<td>GNP (percentage)</td>
<td>3.6</td>
<td>5.8</td>
<td>8.6</td>
<td>6.5</td>
<td>9.7</td>
<td>6.1</td>
<td>0.3</td>
<td>-2.3</td>
<td>3.7</td>
<td>-0.4</td>
<td>5.1</td>
</tr>
<tr>
<td>Annual Inflation Rate</td>
<td>40.3</td>
<td>35.5</td>
<td>81.0</td>
<td>36.5</td>
<td>31.0</td>
<td>31.9</td>
<td>45.9</td>
<td>70.8</td>
<td>56.6</td>
<td>103.2</td>
<td>37.6</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>8.5</td>
<td>6.9</td>
<td>9.6</td>
<td>9.9</td>
<td>8.7</td>
<td>7.1</td>
<td>6.3</td>
<td>8.5</td>
<td>10.2</td>
<td>12.4</td>
<td>11.1</td>
</tr>
<tr>
<td>Real Exchange Rates</td>
<td>172.7</td>
<td>167.5</td>
<td>110.2</td>
<td>100.0</td>
<td>93.7</td>
<td>88.3</td>
<td>88.3</td>
<td>91.4</td>
<td>69.8</td>
<td>84.8</td>
<td>67.7</td>
</tr>
<tr>
<td>Fiscal Balance (percentage GNP)</td>
<td>-4.5</td>
<td>-6.6</td>
<td>-1.1</td>
<td>0.2</td>
<td>0.6</td>
<td>-5.5</td>
<td>-2.7</td>
<td>-14.1</td>
<td>-5.7</td>
<td>7.1</td>
<td>2.6</td>
</tr>
<tr>
<td>Trade Balance in non-oil manufactures (US$M)</td>
<td>-6,824</td>
<td>-8,997</td>
<td>-3,875</td>
<td>-2,954</td>
<td>-7,000</td>
<td>-9,678</td>
<td>-7,739</td>
<td>-4,186</td>
<td>-8,400</td>
<td>-4,122</td>
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*a Source: Banco Central de Venezuela.*
(a) Autonomy from the state

One crucial difference between industry and agriculture in Venezuela was the level of autonomy vis-à-vis the state—high for industry, low for agriculture. According to traditional theories of corporatism, interest associations that are less autonomous from the state are more susceptible to state suasion. When states are more involved in structuring, subsidizing, and interfering with interest groups, states are posited to have a greater capacity to shape the behavior of such groups (Hypothesis H2b). Strong links between bureaucrats and interest groups—what Evans (1995) terms “embedded autonomy” and Migdal, Kohli and Shue (1994) call the “state-in-society approach”—are also posited to enhance state capacity to govern. In Venezuela, however, the most autonomous sector vis-à-vis the state—manufacturing—turned out to be the most cooperative.

Agriculture was by far the least autonomous sector. Although the state granted rents to both the industrial and agricultural sectors, it had a weightier presence in the agricultural sector. The state, often determined or approved the composition of the board of directors of agricultural associations. In addition, there were numerous state agencies directly involved in the sector. One such agency was the National Agrarian Institute (IAN), created in the 1960s to manage a sweeping land reform. Since then, IAN distributed close to 200,000 land property titles. Under Venezuela’s agrarian reforms, farmers become leasees (usufructuarios) of the state, obtaining from the state, through the IAN, titles to work the land. These were conditional titles: farmers could not buy or sell their titles without obtaining permits from the IAN. Thus, IAN remained the largest landholder in the country, owning three-quarters of productive lands and magnifying the state’s presence in the agricultural sector. This, in turn, created the conditions for greater dependence on state credits (Veneconomía, April 1997, p. 4). Because farmers had “no land property” to offer as collateral, private banks were less eager to extend credit to farmers. Farmers thus had no option than to rely heavily on state-owned banks for credits.

The agricultural sector was thus connected to the state through multiple institutional channels. By 1989, there were 16 different “agricultural-related bureaucracies,” with 33,000 employees (Coles, 1993b, p. 10). Farmers needed to lobby the state for any type of transaction: to obtain or change lands as well as credits, to transport merchandise, to purchase tractors, etc. Agrarian federations had to devote most of their political time to cultivating ties with all levels of the bureaucracy.

That the least autonomous sector proved to be the least cooperative was not fortuitous. Although theoretically counterintuitive, state connections encouraged sectoral rebellion. Agrarian federations realized that they could count on state institutions and officials as political allies. The federations joined efforts with bureaucrats to violate or ignore directives coming from above, coordinating similar bargaining positions, and lobbying jointly against specific measures. The availability of these links led agrarian federations to realize that they could count on bureaucratic allies to challenge directives coming from above. This encouraged the sector to take collective action against the reforms. This is why the minister of agriculture decided to streamline the bureaucracy in 1992. His intention was to weaken the sectoral attack by weakening one of its crucial allies—the bureaucracy (Coles, 1993b, p. 30).

Conindustria, on the other hand, lacked these multiple institutional links with the state bureaucracy. The state seldom played a role in deciding the composition of Conindustria’s board. Conindustria’s dealings with the state occurred mostly through high-level lobbying at the cabinet level (directly with the Minister or with the President). Reliance on state credits was significantly lower as well. Forming coalitions with state bureaucrats was thus harder for industry. The lesser availability of links with the bureaucracy diminished Conindustria’s incentives to take collective action against the reforms. 8

(b) Variations in links with parties (and access to Congress)

The second significant difference in corporatism between industry and agriculture were variations in what Coppedge (1994) labels “partyarchy,” i.e., levels of political party penetration in representative federations. Partyarchy was very high in the agricultural sector and very low in industry. Although traditional theories of corporatism say little about variations in party influence across sectors, 9 these differences played a major role in shaping state-sector relations.
Federación Campesina maintained extensive ties with the largest and then-ruling party in Venezuela, Acción Democrática (AD). These links dated to the 1930s. AD’s political rise to power in the 1940s was in part a product of the strategic alliance forged in the 1930s between peasant leaders seeking land reform and young urban political intellectuals seeking political change (Powell, 1971). Since then, the ties between AD and Federación Campesina (and the agricultural sector in general) remained strong and institutionalized. AD’s official doctrine vis-à-vis the agricultural sector (the Tesis Agraria, re-approved in 1975) explicitly discusses its links with Federación Campesina, arguing that the party must “guide the organized struggles of peasants” (Acción Democrática, 1990, pp. 90–93). Since then, the agricultural sector has always been replete with “agricultural politicians”—deputies and senators that obtained various land parcels through the agrarian reform of the 1960s (Veneconomía, July 1993, p. 2). AD also exercised an enormous degree of penetration in the sector as a result of its strong presence in the agriculture-related bureaucracies. Furthermore, most leaders of Federación Campesina were leading members of AD, often holding important positions within the party’s agricultural bureau. AD’s leadership, in turn, exercised enormous influence over the policy preferences of Federación Campesina.

Strong links between Federación Campesina and AD became especially problematic for state-sector negotiation given that AD itself had turned critical of Pérez’s economic policies. This was an unprecedented act of party defiance of Executive authority. Historically, ruling parties in Venezuela cooperated closely with Executives, interfering little with public policy. But this tradition broke down by 1990. Populist parties in general are apprehensive about market-oriented reforms, in part, because they fear that their electoral, organizational, and programmatic interests will be hurt. But AD also resented what it perceived as Pérez’s neglect of its political interests. Consequently, Pérez’s relations with AD turned acrimonious (see Corrales, 1997–98, 1997, forthcoming). AD thus gave the green light to all its affiliates (legislators, labor groups, local politicians) to defy the state. 10 Thus, when Fedecárdia decided to stage the 1991 Cherokee protest, Federación Campesina readily joined, encouraged by AD’s blessing.

Greater partyarchy also meant that agrarian federations had more direct access to Congress, which in turn influenced the sector’s response to reforms. Congresses have emerged as one of the most important arenas through which societal actors can block economic reforms. Actors with access to Congress thus have a higher chance of blocking reforms. Agriculture had such access by way of its links with AD, then the majority party in Congress. AD actually reserved several Congress seats to “agrarian legislators.” Influence between the party and the sectors traveled both ways: in some instance, the sector was subordinate to the party, but in other instances, the sector had the capacity to influence the party. 11 This direct access to Congress was a huge galvanizing factor. It signaled to the sector that it made sense to protest the reforms because the protest would resonate in Congress.

Conindustria, on the other hand, was exempt from this type of party penetration. A key feature of Venezuela’s corporatism since 1958 was the greater autonomy of business federations (relative to labor and agricultural federations) from partisan influence. During its first administration (the Trienio, 1945–48), AD attempted to penetrate business federations. Business groups resented this, leading them to support the 1948 civil-military coup against AD. When AD negotiated the terms of the democratization in the late 1950s, business groups (unlike other corporatist groups) adamantly demanded autonomy from party influence as a precondition for agreeing to the political comeback of AD (see López Maya, Gómez Calcano and Maingón, 1989, pp. 66–67). AD complied, and to this day, has respected business autonomy.

Thus, when Conindustria came to the negotiating table in 1989, it enjoyed greater autonomy from political parties than did agriculture, and hence, less leverage over AD, and thus Congress. This explains why, historically, Conindustria preferred to interact with the state directly through cabinet contacts rather than through Congressional lobbying. 12 It also explains why Conindustria felt disinclined to challenge the state: it did not see AD as a viable or desirable political ally.

(c) Variations in federation’s profit-making activities

Although trade liberalization had similar impact on the economic interest of both manufacturing and agricultural producers (generating both losers and winners in each
sector), it affected the economic interest of the associations differently. In Venezuela, the agrarian federations themselves, not just their members, were heavily involved in profit-making activities, acting as business “middlemen” between the state and the sector, or among affiliates. For instance, agricultural federations purchased sorghum from their own affiliates, reselling it for a profit to agro-industrial firms and charging for shipping and storage in the process. They also negotiated with the state for the importation of tractors, over which they had a monopoly, and then sold the imported tractors to their affiliates. Prior to the reforms, therefore, agrarian federations were not only active in deciding which rents would be created, but also making good profits from such decisions.

In contrast, Conindustria, as an organization, was not involved in running businesses on the basis of the rents that it brokered between the state and its members. Conindustria was mostly a lobbying, not a profit-seeking, federation. In addition, in the 1980s, Conindustria began to redefine its mission away from simply providing lobbying services. It transformed itself into a type of training center for its affiliates, offering symposia on topics such as improving quality and enhancing competitiveness (Enright, Francés and Saavedra, 1996). In terms of its own organizational economic preferences, Conindustria had less vested interests in the existing rent-market. Thus, rather than the interest of firms, it was the interest of associations themselves that mattered.

(d) State-related factors

None of the above meant that Conindustria came to the negotiating table in 1989 ready to embrace trade liberalization. Quite the contrary, Conindustria’s initial position was decidedly adverse to the reforms. After all, Conindustria was still an interest group representing protectionist firms. The task for government officials was to convince Conindustria to disregard the preferences of its affiliates. This was accomplished in less than six months.

How did state officials persuade Conindustria? Surprisingly, the state’s negotiating strategy did not exactly conform to common prescriptions. For example, the reforms were not gradual (as Bhagwatti, 1994 and Przeworski, 1993, among others, recommend). The liberalization announcement was issued a few months after Pérez took office and called for the complete dismantling of the protectionist scheme in less than two years (see Presidencia de la República, 1989). The government did not “overshoot” either (as Rodrik, 1989 recommends). For instance, the government did not impose a flat tariff across the board, which would have clearly been going overboard, preferring instead a more flexible scale of tariff structures, ranging from 0 to 20%, depending on the degree of industrial elaboration. Trade officials did not seek to maximize their insulation from interest groups either. Quite the contrary, they held frequent meetings and consultations with Conindustria throughout this process. Finally, the state avoided traditional corporatist mechanisms of inducements and constraints (hypothesis H2b). With the exception of motor vehicles and several agricultural items, few sectors received special treatment. Export subsidy rates, for instance, were lowered from 30% to 1% for manufacturing exports and 10% for agricultural exports during 1989–92 (World Bank, 1993, p. 13).

Instead, the government pursued a policy of maximizing policy transparency, the centerpiece of which was tariffs based on the degree of elaboration of products determined by a pre-agreed formula (see Decree 239). Negotiating a formula rather than a list of exemptions on a product-by-product basis served to de-politicize industrial policy. The formula allowed industrialists to predict which tariff would eventually apply to which of their products. Moreover, trade officials painstakingly discussed every step of the process with Conindustria, explicitly identifying (rather than hiding) which sectors were likely to win or lose. In addition, the new policy of supporting actual exports constituted a departure from traditional industrial policies because it rewarded firms for economic outcomes (export levels), rather than promises made.

Maxfield and Schneider are explicit about the advantages of policy transparency for state-business relations:

... information flows ... shape expectations about government intentions and enhance the credibility of government policies by giving investors signals about political commitments to particular courses of action... [t]ransparency in government decision-making, through dissemination of decision rules and criteria, can reduce political uncertainty for investors’ (1997, pp. 8–9; see also Pastor and Wise, 1994).
Interviews conducted in 1994 with Conindustria’s president confirmed this argument fully. Negotiating with Conindustria (as opposed to imposing) a swift and flexible reform package impressed Conindustria favorably because it signaled commitment and seriousness of purpose on the part of the government. In addition, rather than feeling slighted, Conindustria felt that it was taken seriously by government officials. This explains the 1989 Ministry-Conindustria accords.

In sum, corporatism influenced state-sector relations during trade opening, but often in ways that contradict some theoretical predictions. At the start of the reforms, both Conindustria and the agricultural federations faced two options: either (i) defend sectoral protectionist interests and thus challenge the reforms, or (ii) cooperate with the state’s new trade policy and contend with the discontent of affiliates. Both sectors exhibited comparable degrees of rent-seeking preferences and political organization. If anything, industry seemed organizationally better equipped to veto state policy. Conindustria however took option (ii) and agrarian sectors took option (i). This is explained by variations in corporatism: the more autonomous and least rent-seeking association was more likely to negotiate with the state because, as an organization, it had fewer political allies and fewer vested interest in the status quo (see Figure 3). And by negotiating on the basis of transparency rather than inducements and constraints, the state transformed Conindustria’s willingness to negotiate into a full agreement to liberalize.

It is now easier to understand why Conindustria continued to support trade opening even during the anti-reformist wave of 1992–94. The lack of institutional means for sabotaging the reforms, together with the 1989 Ministry-Conindustria accords, kept the protectionist preferences of industrial firms at bay. In 1992, for example, some industrial firms bombarded Conindustria’s leaders with requests to lobby for protection, and yet, Conindustria managed these demands. Conindustria was the only producer federation that publicly decried that most of the accusations of corruption against the government were a cover up for anti-reform preferences of economic actors. The corporatist features of agriculture, on the other hand, encouraged this sector to take advantage of the 1992–94 turmoil. After the February 1992 coup attempt, Pérez created an advisory council to recommend policy correctives. Packed with representatives from political parties, the council became a sponge of agrarian anti-reform preferences, adopting the sector’s demands almost verbatim. This confirmation of political leverage persuaded the agricultural lobby that the struggle against the state was winnable, and hence, worth escalating. In March, agrarian federations organized a National Day of Protest, and thereafter, never ceased lobbying for the removal of the Minister. Strong partisan ties also explain why the 1993 Special Power’s law, essentially an AD-drafted document, had such strong anti-trade bias in the area of agriculture.

Thus, of the original hypotheses drawn from traditional interest-based and corporatist

![Figure 3. Institutional links and sectors, Venezuela, 1989.](image-url)
arguments, the only one that is fully confirmed is hypothesis H2a: the association’s policy stand locked in the behavior of the sector. The determinants of this stand, however, cannot be explained by traditional interest-based or corporatist arguments. The crucial factors were instead the association’s level of political autonomy from the state and parties, the association’s level of involvement in profit-making, and the ministry’s pursuit of policy transparency rather than traditional inducements and constraints.

Our argument modifies and conciliates the seemingly incompatible tenets of interest-based and corporatist theories. The focus on sectoral autonomy, the association’s rather than firms’ interest, and state bargaining strategy conforms with the insight that economic concerns matter but also with the corporatist insight that associations and the nature of state-group relations are critical as well. By giving a novel causal twist to these variables, our approach conciliates seemingly incompatible theoretical perspectives into a unified explanation that better explains sectoral response to trade liberalization.


Conindustria continued to support trade opening after 1993, when policy conditions turned adverse. Running on a platform of opposition to Pérez’s “actions”—privatizations, liberalization, deregulation, decentralization and integration—Rafael Caldera took office in early 1994 and proceeded to deliver on his promise. During 1994–96, Caldera reestablished exchange rate and capital account controls, suspended economic guarantees again, slowed down privatizations, undermined the autonomy of the Central Bank, more than doubled the monetary supply, and intervened in 17 of the largest banks in response to the 1994 banking crisis. Caldera openly criticized the previous government for its “naive opening”: “any responsible country would have adopted a series of precautionary measures, including longer time-horizons, in its negotiations for access to GATT” (El Universal, December 12 1993). These anti-market policies not only brought further economic ruin (almost every important macroeconomic variable deteriorated over 1994–96 (see Table 5)) but also placed Venezuela at odds with the rest of the region. None of Latin America’s major trade liberalizers (Chile, Argentina, Mexico, Peru, Costa Rica) has experienced such a reversal of governmental attitude toward market opening (see Inter-American Development Bank, 1996, pp. 91–122; Edwards, 1995, pp. 115–169).

This adverse policy environment, together with the volatile and generally negative performance of manufacturing’s GDP during 1993–98 (see Table 6), represented yet another opportunity for protectionist industrialists to take center stage. And in fact, industrial firms split into three camps: a minority of free-traders (successful exporters or beneficiaries from cheaper inputs); a majority of blatant protectionists (textile, metal, auto parts); and ambivalent firms (which were not entirely committed to free trade but preferred not to return to the pre-1989 system of lobbying for import permits). Yet, Conindustria sided with the firms favoring free-traders. It spent most of the Caldera administration decrying every single anti-market measure. In 1995, for instance, Conindustria published a document criticizing Caldera’s anti-opening policies (Conindustria, 1995). In March 1996, Conindustria’s president, Pedro Carmona (1995–96), sent a letter to Caldera chastising the government for allowing a steep decline in nontraditional exports in 1995, which “foretells a real danger of reversing the trend of the previous years.” Meanwhile, in the agricultural sector, Fedeco replaced Federación Campesina as the leading federation, but little else changed in the sector’s corporatist structure. The new leader of Fedeco, Hiram Gaviria, had close ties with the new ruling

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<th>Table 6. Venezuela’s GDP during the Caldera Administration, 1993–98 (percentage change)</th>
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<tr>
<td>Total</td>
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<tr>
<td>Agriculture</td>
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<td>Manufacturing</td>
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*Source: Veneconomía Mensual.*
party, Convergencia, which he used predictably to lobby for more protection.

(a) Explaining trade politics under adverse policy conditions

What explains Conindustria’s commitment to trade liberalization even in the absence of government commitment? The literature suggests two answers. First, signed trade agreements act as policy locks, signaling to would-be challengers that there is less chance that the policy would be reversed. Second, a new trade regime can survive insofar as new winners emerge with a stake in their continuation. These two factors were indeed crucial. As Caldera himself stated, he was simply unable to dismantle the international commitments he inherited from the Pérez administration. Moreover, by 1994, newer winners from trade were emerging, including the first signs of recovery in the motor vehicle sector.

Two caveats are necessary, however. First, the signed trade agreements did not act as a perfect “lock.” Like many trade agreements, Venezuela’s trade agreements provided ample loopholes for protectionism to creep in, which the agricultural federations exploited. By establishing informal transnational ties with their counterparts in Colombia, agricultural federations pressured the government to introduce plant-health permits and raise the agricultural “price band” for agricultural goods. In addition, agricultural federations learned to exploit WTO-approved loopholes (e.g., quotas and health-related license restrictions, antidumping provisions) in order to lobby for greater protection. The manufacturing sector could have done the same. Some industrial firms actually attempted to establish protectionist transnational coalitions with Colombian counterparts. But in the end, they failed because Conindustria never endorsed these actions. Thus, it was the peak federation’s position, more so than international agreements, that acted as locks.

The second caveat is that Conindustria’s support during this period was not the result of sectoral “economic gains.” Despite the emergence of many winners, there were still many losers from trade (see Table 1). The number of industrial firms continued to decline, from 8,974 in 1994 to 7,563 in 1998. Rather than economic gains, Conindustria continued to support free trade to defend its “political gains.” When Pérez launched trade liberalization, he also inaugurated a policy of including industry executives in Venezuela’s international trade missions, especially with Colombia (the Binational Business Council). This elevated the political status of the sector—industry executives went from being rent-seekers affiliated with intermediate federations to government partners in international dealings. Conindustria’s opposition to Caldera was an effort to recover this lost political status.

(b) The failure of inducements and constraints

In March 1996, Caldera abandoned his anti-market positions and announced an International Monetary Fund (IMF)-supported program of economic opening (Agenda Venezuela). Although actual reforms were considerably less far-reaching than the government’s new rhetoric, this marked a relaxation of some state controls. But, what remained constant throughout the entire administration, in contrast to the previous administration, was the use of inducements and constraints in dealing with sectors. The anti-market, anti-private sector policies of 1994–96 were quintessential “constraints” intended to intimidate the firms that criticized the government the most. The return of foreign exchange controls, for instance, imposed a restraint on domestic traders, since it forced them to lobby the state in order to acquire trading currency. During Agenda Venezuela, the state continued to blame industrialists for many national ailments. For instance, in August 1997, workers called a general strike explicitly against the government, the first since 1989, to protest, among other things, the rising cost of living. In a strange twist of fate, the government took the side of the workers against the private sector. The government’s economic czar and Minister of Planning, Teodoro Petkoff, declared: “This strike is a warning bell for the private sector that has not met its obligations,” prompting business leaders to complain that the government was using them as “scapegoats” (El Universal, August 7, 1997).

Meanwhile, the government continued to shower its favored sectors, including agriculture, with inducements. Caldera recruited his ministers of agriculture from agrarian federations. He also announced a sweeping agricultural protectionist policy shortly after launching Agenda Venezuela: raising the minimum price for sorghum and corn 242% and 227% higher than the annual inflation rate.
in Venezuela—industry’s embrace of trade opening.

8. EXTENDING THE ARGUMENT: BRAZIL IN THE EARLY 1990s

To what extent are variables such as “sectoral autonomy” or “avoidance of inducements and constraints” useful for explaining sectoral responses elsewhere? A brief look at Brazil suggests that the argument is generalizable. Trade liberalization efforts in Brazil since the late 1980s have produced serious conflicts in state-business relations. As in Venezuela, trade liberalization accelerated dramatically in the early 1990s under President Fernando Collor de Mello (1990–92). Although Brazilian industries are far more competitive and export-oriented than many of its counterparts in the region, they have held strong anti-liberalization preferences for quite some time (see Bartell, 1995; Payne, 1995). Thus, in terms of preferences, Brazilian industrialists were similar to Venezuelan industrialists prior to 1989. But in terms of collective action, the Brazilian industrial sector took a different approach, deciding to challenge the reforms openly (see Schneider, 1997).

The argument of this paper might help explain this. First, the autonomy of Brazil’s industrial sector vis-à-vis the state was low. Ties between the state and industrialists went beyond privileged business access to the cabinet and to state rents. Evans (1995) shows how the Brazilian state, in an attempt to play the role of “midwife/custodian” of industrialists, fomented a “strong web of institutional ties between industry and the bureaucracy (state-owned defense producers and regulatory agencies). Another recent study (Hagopian, 1994) shows how state-business interaction in the postwar period went beyond ties between firms and state-owned enterprises and federal-level agencies. Even under the military, the state allowed and encouraged “traditional elites” (agrarian elites, exporters, industrialists, and bankers) to hold government offices at the provincial and local levels. These multilayered state-business connections contrast sharply with Venezuela, where control of the bureaucracy and SOEs, especially at the provincial and local levels, was always reserved for career politicians of the ruling parties.

Second, Brazil’s industrial sector, like Venezuela’s agricultural sector, also enjoyed
significant access to Congress, although not by way of political parties. Brazil and Venezuela (until the early 1990s) are polar opposites in terms of the strength of political parties—parties are strong in Venezuela, weak in Brazil (Mainwaring and Scully, 1995). Strong parties in Venezuela meant that any group seeking regularized access to Congress had to have institutionalized access to parties—precisely what agrarian federations had. In Brazil, on the other hand, the lack of strong parties left politicians in Congress free and eager to engage in patronage practices directly with interest groups. This granted industrialists—the most resource-endowed actor—privileged access and leverage over Congress.

Strong ties with the state and access to Congress were conducive for sectoral noncooperation with liberalization. Given this institutional setting, it is not surprising that a persistent political problem in Brazil’s haphazard transition to the market has been attacks from four fronts: governors, Congress, state-owned enterprises and industrialists (see Brandão Lopes, 1996).

The Collor case confirms yet another point: traditional corporatist strategies of inducements and constraints are counterproductive for enhancing state-sector relations. Like Caldera in Venezuela, Collor attempted to overcome state-business tensions through inducements and constraints. He tried to win support through inducements to governors (e.g., rolling over state debts) and to industrialists (e.g., granting numerous exceptions through secret negotiations for each of his anti-inflationary packages), and he used punitive acts against the noncooperative business community (by early 1991, Collor had launched a virulent public relations campaign against noncooperative firms, blaming them for the failure of his anti-inflationary programs) (see Kingstone, 1997). As in Venezuela under Caldera, these tactics backfired. Constraints aggravated the business sector’s resentment of the government, and inducements led to accusations of favoritism and hence sectoral mistrust of the government.

9. CONCLUSION

This article examined sectoral responses to trade liberalization in Venezuela during 1989–99 to test theories of state-sector cooperation. At first glance, sectoral responses appear irrationally daring: manufacturing federations dared to oppose the preferences of most of its affiliates by cooperating with the state, whereas the weak agrarian federations dared to oppose the formidable Leviathan. Interest-based theories cannot fully explain this variation. Both sectors were highly protected, rent-seeking, and anti-liberalization. Traditional theories of corporatism do not fare well either. Prior to the reforms, Conindustria was a strong corporatist association with significant leverage at the cabinet level, yet it refrained from using its leverage to veto policies. In contrast, the weaker agricultural federations effectively challenged the state.

This paper identified, nevertheless, distinctive institutional features about Venezuela’s corporatism that help explain these responses:

(a) Sectoral autonomy from state structures. Traditional theories of state-corporatism suggest that the more a state structures and subsidizes interest groups, the likelier it is to control the response of the sector. The Venezuelan case suggests, however, that autonomy from the state actually enhances state-sector cooperation.

(b) Sectoral autonomy from statist political parties. In Latin America, states historically allowed ruling parties to penetrate economic sectors, especially labor, with the intention of maximizing politician’s control over such sectors. Party penetration varies across countries and across sectors. The existing literature on corporatism says little about the effects of this variation. This paper found that this variation matters, but in the opposite direction: low autonomy from anti-reform political parties actually encouraged state-sector conflicts.

Levels of autonomy from the state and parties affect sectoral behavior because they affect the expectations of success and the availability of political allies. Ties with state bureaucracies provide sectors with the opportunity to challenge the cabinet from within. Ties with parties provide associations with a formidable political ally as well as access to Congress, perhaps the most important arena from which to challenge reforms. The more autonomous the association, the less available these institutional allies and avenues become. As a result, expectations of success in challenging the state become minimal, prompting the political leaders to choose negotiation over confrontation. Once peak federations take a particular policy stand, they lock in the
response of the sector, even during adverse times. Seen from this institutional perspective, sectoral responses to trade liberalization in Venezuela emerge as politically rational.

Finally, the Venezuelan case shows that traditional corporatist policies of inducement and constraints fail to enhance state capacity to elicit sectoral cooperation. In 1998, a new president came to office, Hugo Chávez Frias, with a seeming penchant for inducements and constraints. Chávez has promised protection to agro-industry, has openly attacked the efficiently run state-oil company, and has appointed a military officer to run the tax collection agency, promising stiff jail sentences for tax violators (rather than offering incentives to encourage payment). If intensified, these policies of inducements and constraints could backfire. The Pérez case shows that policy transparency, rather than selective punishments and rewards, is more conducive to cooperative state-sector relations. When the state reverted to policies of inducements and constraints under Caldera, the disadvantaged Conindustria did not turn more cooperative, nor did the favored agricultural federations turn less predatory. If anything, inducements and constraints increased political conflict: industry became more resentful of the state in light of what it perceived as discriminatory treatment, and agriculture saw the inducements as encouragement to ask for more.

In short, corporatism continues to be an important framework for understanding state-sector relations in Latin America, although its impact does not always conform to traditional theoretical perspectives. In Venezuela, high levels of traditional corporatism (state and party presence in a sector, the use of inducements and constraints) hurt rather than enhanced state-sector cooperation. These conclusions are germane to current debates about the proper role of states in this new economic era. Many scholars, including proponents of open economics, still believe that there is a case for some state intervention in specific sectors to foster comparative advantages. This paper suggests that there is a political (not just an economic) risk in over-emphasizing this approach. Undoubtedly, states and sectors must maintain fluid and interactive relationships, but never at the expense of the political autonomy of sectors. Curtailing the autonomy of interest associations might end up paradoxically curtailing the state's flexibility to steer economic policies. In a globalized economy in which new economic challenges are eroding the state's leverage over policy-making, states cannot afford to loose any more flexibility. Enhancing the political autonomy of economic sectors could very well be, paradoxically, a way to preserve and enhance the state's capacity to govern the economy.

NOTES


2. Following Geddes (1995), for instance, Rajapatirana, de la Mora and Yatawara (1997) argue that there is little evidence that interest groups played a major role in market reforms—winning interest groups have not actually lobbied for reforms, and conversely, losing groups seldom derailed the changes. Instead, reform is mostly contingent on “statist” variables such as, for example, whether “the executive and its technocracy” are politically strong. There is disagreement however, as to what features and aspects of the state are more crucial, e.g., whether the state is insulated from populist pressures (Geddes, 1994, p. 79), capable of concentrating power (O’Donnell, 1994) or re-building itself (Domínguez, 1997, pp. 29–35), influenced by the appropriate set of ideas and policy orientations (e.g., Goldstein, 1993), credible in its commitments (Rodrik, 1989), simultaneously autonomous and connected to sectoral interests (Evans, 1995), attentive to social problems (Bresser Pereira, Maravall and Przeworski; 1993, p. 205), or successful in designing new political institutions (e.g., central bank autonomy), building new pro-reform state-business alliances (Pastor and Wise, 1996; Bartell and Payne, 1995; Williamson, 1994), or eliciting legislative and political party cooperation (Haggard and Kaufman, 1995, pp. 151–182; Corrales, forthcoming; 1997–98).

3. Business grievances included complaints about the inconsistency of maintaining a restrictive monetary policy and lax fiscal policy simultaneously, and the government’s inability to get Congress to approve the liberalization of the financial sector. Regarding trade, conflicts were more likely to arise whenever the state tried to speed up liberalization, in seeming violation of
the agreed-upon pace of liberalization, e.g., when the
government tried to expedite integration with Colombia

4. Perhaps the most important exception was the 1993
auto pact among Venezuela, Colombia, and Ecuador,
setting common external tariffs and a regional content
requirement (Enright, Francés and Saavedra, 1997,
p. 140).

5. With strong pressure from the agricultural lobby,
Congress issued a vote of no-confidence against the
Minister of Agriculture.

6. Trade balances are not perfect indicators of loser
and winners given that balances can result from factors
other than trade liberalization (e.g., variations in
domestic demand).

7. During 1988–91, six of the 13 largest agricultural
sectors experienced increases in average annual gross
domestic product: beans (5.1%), fruits (4%), green
vegetables (3.7%), potatoes (2.1%). Some “cereal”
sectors (e.g., sorghum, sunflower, sesame) experienced
heavy losses.

that the growing autonomy of the private sector was a
factor in shaping Mexico’s trade opening in the 1980s.
Nevertheless, our arguments are not entirely similar.
Conindustria’s cooperation with the state stemmed less
from an initial sectoral economic preference for free
trade (as Pastor and Wise assume in the case of the
Mexican big business) than from Conindustria’s estima-
tion that challenging the state was futile due to its
autonomy.

9. For the most part, this literature focuses on other
types of variations, e.g., state vs. societal, privatizing vs.
statist, inclusionary vs. exclusionary, and inducements
vs. constraints (see Collier, 1995).

10. The president of Federación Campesina, the Adeco
Alberto Herrera, an old-time Pérez supporter, was
sympathetic to the reforms. He was, however, isolated
within Federación Campesina because most board
members were orthodox AD members who, in response
to the green light from AD, were trying to sabotage the
negotiations between Herrera and the Minister of
Agriculture (interview with Alberto Herrera, March
1994). In late 1991, when the orthodox factions obtained
total control of AD’s leadership position, Herrera
virtually became a lame duck leader. In mid-1992, AD
finally replaced Herrera with the more orthodox Adelso
Parra.

11. We are grateful to one of the anonymous reviewers
for highlighting this point.

12. Another feature that enhanced the level of auton-
omy of Conindustria was the background of its presi-
dents: since the late 1980s, all except one (Pedro
Carmona, 1995–96) were owners of their own firms.
This increased the propensity of Conindustria’s leader-
ship to take greater risks. Had they been employees of
firms, beholden to the firms’ owners (as was the case with
Fedecámaras’ presidents), they probably would not have
been so eager to embrace policies such as trade opening
that could have potentially hurt the interests of their
own bosses.

13. Interviews with Presidents of Conindustria, Ernesto

14. The reform conforms to the IDB’s definition of a
“shock” trade reform: “one that cuts average tariff levels
by at least 50% in a two-year period, provided that the
level declines to below 20% and that during the same
period the bulk of nontariff restrictions on imports has
been removed (IDB, 1996, p. 83).

15. For a summary of the debate in the literature
concerning the levels of state autonomy and social
participation necessary for economic reform, see Rodrik
(1996).

16. For the benefits of “concertación,” see Schneider
(1977); Pastor and Wise (1996).

17. In a series of high-profile meetings with the
Ministry, the motor vehicle sector ferociously lobbied
for exemption from liberalization, including an across-
the-board ban on any vehicle import. In the end, the
Ministry yielded, but not to the extent demanded—only
certain categories of vehicles, mostly used vehicles—
were granted import restrictions.

18. Interview with Luis Henrique Ball, President of
Conindustria.

19. Consistent with the argument here, obtaining
sectoral consensus on behalf of this document was
“difficult and draining” (Interview with Jorge Redmond,

20. The letter also called the government to “accelerate
the privatizations of programs,” “reduce state subsidies
and services,” “re-open international financing,” “com-
bat inflation,” “re-structure expenditures,” and “dis-
mantle exchange rate controls.”

22. The centerpiece of Agenda Venezuela was a program of massive investments in the oil sector, including the opening of the sector to private sector. It is a mistake to construe this as true market-oriented reform. Instead, this oil program constituted a reversal of the trend of the last 10 years of seeking to stimulate nontraditional exports. It meant a return to the old model of privileging oil over the nontraditional sectors.

23. For instance, Caldera blamed the 1994 crack in the banking sector on “business conglomerates.” He lambasted business federations, firms, and the country’s preeminent graduate business school (IESA), which graduated most business executives and also staffed many bureaucracies during the Pérez years. Caldera accused Pérez’s technocrats as “traitors of the fatherland.” Caldera also increased fines and jail terms for “currency criminals,” and his Institute for the Defense and Education of the Consumer carried out well-publicized raids on merchants and manufacturers found in violation of price controls (Fontaine, 1996).

24. The law called for the government to provide no less than 5% of its total budget to the agricultural sector and 15% of total amount of credits to agriculture, including the creation of a state-owned bank to furnish credits. The ministry of agriculture was given special rights to set minimum prices (Veneconomia, July 1998, pp. 23–26). In addition to political troubles, Caldera’s inducements created economic problems. The higher prices led to an artificial boost in production and a simultaneous decline in demand: both agro-industry as well as consumers became less interested in buying sorghum and corn-based products. At a time when the government was running a deficit, the government was forced to repurchase the surplus at very higher prices (Veneconomia, March 1998, p. 21).

25. The Sao Paulo federation of manufacturing firms (FIESP) together with other associations produced deep “pockets of resistance.”

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