

RECONSIDERING TRANSITIONS TO MARKET CAPITALISM: INSTITUTIONAL
TRANSFERS AND THE CAPITALIST CLASS

Carlos H. Waisman

Department of Sociology

University of California, San Diego

La Jolla, CA. 92093

The purpose of this paper is to examine the varieties of capitalist class that have emerged in the transitional economies of Latin America and Central-Eastern Europe as a consequence of the demise of relatively closed and etatized capitalist economies (what I call autarkic capitalism) in the first of these regions and state socialism in the second one.

In the two cases, the goal of the state elites that initiated the transitions was the establishment of open market capitalism, along the lines of the United States and Western Europe. This program of social transformation entailed three “tasks”, to use a classic Marxist formulation: the large-scale privatization of government-owned firms, substantial de-regulation, and the opening-up of the economy.¹ This process was more radical, of course, in the case of state socialism, where all the firms had been part of the state, central planning determined the relations among firms and between firms and consumers,

¹ Arend Lijphart and Carlos H. Waisman, eds, Institutional Design in New Democracies: Eastern Europe and Latin America (Boulder: Westview Press, 1996)

and trade and capital flows with the world capitalist economy were of secondary significance. However, autarkic capitalist economies were based on large public sectors, which included transportation and manufacturing firms, their private firms operated behind very high tariff barriers and were, to a large extent, dependent on the state for financing and international trade; and their economies were highly regulated.

In most cases, these processes of institutional adoption have been endogenous: They were initiated by central segments of the domestic economic and state elites. However, transitions were influenced by external demonstration effects, both positive and negative; and they were facilitated by external economic and political factors: the globalization of markets for goods and capital and the support offered by major Western powers, both directly and via international financial agencies.

After two or three decades of the inception of this process of social transformation, it is quite clear that the outcome has been the institutionalization of different types of capitalism, and hence of capitalist classes, a result that is puzzling from the perspective of institutionalist theory. I will propose a typology of these outcomes, and make two claims. First, the successful transfer of complex institutions such as market capitalism requires a substantial congruence with attributes of at least two critical components of the broader institutional framework in the recipient society, the state and civil society. Second, capitalism, as well as democracy, is a complex institutional package, rather than an elementary institution, and some of its components “travel” more easily than others, hence the hybrid forms. These, rather than being instances of imperfect transplantation, or intermediate stages in a process of successful transfer, represent new frameworks, with potential for institutionalization.

The Divergent Outcomes of Economic Liberalization

After about three decades of transitions, the outcomes are diverse, and for the sake of expediency they can be classified into three pure types, which are presented in Table 1. The first category corresponds to the cases that basically resemble the American or West European models, in that they have combined their central traits: private property and control of the means of production, and relatively open markets (at least for non-agricultural goods) and capital. These regimes have two traits. First, they have limited government, in the sense that government regulates central economic processes, but it leaves the basic economic decisions to the firms. Secondly, their capitalist classes are relatively strong: They are autonomous from the government and, to a considerable extent, they are internationally competitive. The Czech Republic or Poland in Central Europe or Chile and Brazil in Latin America would be examples of this regime type.

Table 1. TRANSITIONAL CAPITALIST CLASSES

TYPE OF CAPITAL- ISM	INTERNATIONAL COMPETITIVENESS	SUBORDINATION TO THE STATE
OPEN MARKET	higher	lower
NEO-MERCANTILISM	selective (as agent of the state, low other- wise)	very high
ANEMIC	low	low

The second group consists of countries whose capitalism is characterized by a higher control of the productive sectors of the economy by the state, even though private property still prevails, and substantial restrictions to market mechanisms, especially in relation to international trade and investment. These governments are trying to establish neo-mercantilist regimes, for they view views economic development, industrialization in particular, primarily as a means for increasing the power of the state. Regimes of this sort are akin to the autarkic capitalist ones that emerged in the middle of the XXth Century in Latin America and Spain. This pattern leads to a state that owns a large sector of the economy and very strongly regulates manufacturing, natural resources, and other

strategically important sectors; and a capitalist class that is subordinate to the state (in the extreme case, a “crony capitalist” class), and non-competitive internationally, except in areas of strategic significance for the government, and in which the bourgeoisie functions as the government’s agent. Russia and Venezuela are examples of this pattern.

Finally, many countries are characterized by weak states, incapable of regulating the economy effectively and of providing a strong level of rule of law, and weak capitalist classes, whose capacity for interest articulation vis-à-vis the government and for international competitiveness are very limited. This outcome is an anemic form of capitalism. Southern Central European nations, Ukraine or Argentina are cases in point.

These three types of capitalist class tend to be oriented toward different types of economic behavior. In the countries whose institutional framework is more similar to that of the Western model, capitalists will be more likely to invest with long-term horizons, and to integrate themselves more in the international economy as autonomous participants. In the second case, capitalists will accommodate to the neo-mercantilist environment by seeking from the state guaranteed markets, i.e. they will become rentiers. When they venture abroad, they will do so with strong government support and guidance. Finally, capitalists in countries with weak states are likely to focus almost exclusively on production for domestic markets, develop short-term horizons for their investments, which often will be mostly speculative, and avoid embarking on foreign investment.

The outcomes of the political transitions have also been heterogeneous. The building of Western-style democracies in societies whose previous regimes had been authoritarian (in almost all of Latin America) and post-totalitarian (in Central and Eastern Europe) was the other main objective of the transitions. A few societies, such as Chile

and Uruguay in Latin America, and the Czech Republic, Hungary or Poland in Central Europe, have polities whose governments are democratically elected, rule democratically (by tolerating opposition and upholding civil and political rights) , and have low levels of concentration of political power. At the other extreme, Belarus is a pseudo-democracy, and Russia and Venezuela are plebiscitarian regimes with strong authoritarian traits. A large proportion of the remaining countries have low-quality democracies, in which there may be elections and oppositions, but in which other aspects of democratic governance may be weakly established or lacking altogether.

Thus, only a few of the countries in Latin America and Central and Eastern Europe have successfully established the economic and political institutions characteristic of the West. We may now return to transitional capitalism and the causes of its variants.

Economic Legacies and Transitional Capitalism

The standard sociological approach to the explanation of the diversity of transitional economic institutions would focus on the presence or absence in these countries of the building blocks of the market economy, and on the countries' location in the world economy in the beginning of the transition.

The building blocks in question are at least two: The stock of economic and human capital accumulated in the society, and the existence of a substantial capitalist class (even if this class does not operate within the framework of an open market economy), a well-developed managerial stratum, and functioning banks. In turn, these building blocks are a function of the degree of development, and of whether the pre-

existing institutions were autarkic capitalist or state socialist. The degree of development would explain the degree of industrialization, the concentration of capital, the quality of schools and universities and therefore the stock of human capital, etc. The nature of the pre-existing economic institutions accounts for whether, in the beginning of economic liberalization, there was a capitalist class and the legal framework of capitalism was in place. From this point of view, autarkic capitalism was a favorable condition for the transition to an open market regime, even if in this regime market mechanisms were severely limited. On the other hand, some other conditions for the consolidation of new economic institutions were usually more favorable in state socialist societies: These countries were likely to have built, in the beginning of the transition, a substantial managerial stratum and a larger stock of human capital than their autarkic capitalist counterparts at similar levels of industrialization.

Another factor would be the country's position in the world economy. All transitional economies are peripheral, but there is a special case, that of large-scale exporters of oil or other natural resources that generate large rents. There is by now a large body of literature showing that this location in the international system has negative consequences not only for the construction of an effective market economy but for development in general (the "curse of natural resources").²

² See Jeffrey D. Sachs and Andrew M. Warner, "The Big Rush, Natural Resource Booms, and Growth," Journal of Development Economics 59,1 (1999), 43-76; and Terry Karl, The Paradox of Plenty: Oil Booms and Petro-States (University of California Press, 1997)

Most analyses of transitions to market capitalism have focused on different aspects of the countries' economic legacy. However, this factor is not strongly correlated with the outcomes we have seen above. The Central and Eastern European countries and the most important ones in Latin America are in the middle stages of development, as measured by per capita GDP, most have large and non-competitive industrial sectors and several are large exporters of natural resources. The first group of countries had state-socialist regimes and the second autarkic capitalist ones, and yet there is a variety of outcomes within each region. A case for the correlation between location in the world economy as an oil exporter and type of capitalism could still be made, based on the fact that both Russia and Venezuela have neo-mercantilist regimes; but Mexico does not. Therefore, economic legacies matter, but they do not appear to be the main cause of regime variation.

Varieties of Transitional Capitalism and Institutional Theory

The obvious question is whether this diversity of outcomes represents a stage in a process of convergence, a proposition consistent with sociological institutionalism, or the crystallization of new frameworks for the organization of the economy (and polity, given the variation in political outcomes), as the multiple modernities approach would expect.

Institutionalism presupposes a mechanism of institutionalization: Modifications in the normative environment alter the incentives and constraints that shape individual

preferences (in some versions) or their routines, scripts, and schemas (in others)³. As a consequence, individuals change their behavior, and their new practices reinforce the rules and contribute to their stability.

With respect to major institutional frameworks, such as forms of economic or state organization in the modern world, the sociological variant of new institutionalism would predict isomorphic tendencies, either as a consequence of imitation (e.g. the transitions in most of Central and Eastern Europe and Latin America), or coercion (e.g. Afghanistan or Iraq today). Dependence, uncertainty, perception of relative efficacy, and the shortage of visible organizational alternatives would be the determinants of mimetic processes.⁴ In Walter Powell and John DiMaggio's formulation, "organizations tend to model themselves after similar organizations that they perceive to be more legitimate or successful"⁵. Of course, for states and major societal actors in the semi-periphery or periphery of the world system in the second half of the XX Century, the market economy

³ On the different forms of new institutionalism, see Avner Greif, "Historical and Comparative Institutional Analysis", American Economic Review 88 (1998), 80-84; Martha Finnemore, "Norms, Culture and World Politics: Insights from Sociology's Institutionalism", International Organization 50 (1996), 325-347; Robert O. Keohane and Lisa L. Martin, "The Promise of Institutional Theory", International Security 20 (1995), 39-51; Thomas A. Koelble, "The New Institutionalism in Political Science and Sociology", Comparative Politics 27 (1995), 231-243; Walter W. Powell and Paul J. DiMaggio, eds. The New Institutionalism in Organizational Analysis (Chicago: University of Chicago Press, 1991); Philip Ethington and Eileen McDonagh, "The Eclectic Center of the New Institutionalism: Axes of Analysis in Comparative Perspective", Social Science History 19 (1995), 467-477; Philip Selznick, "Institutionalism 'Old' and 'New'", Administrative Science Quarterly 41 (1996), 270-277; Sven Steinmo, Kathleen Thielen, and Frank Longstreth, eds., Structuring Politics. Historical Institutionalism in Comparative Analysis (New York: Cambridge University Press, 1992); Arthur L. Stinchcombe, "On the Virtues of the Old Institutionalism", Annual Reviews of Sociology 23 (1997), 1-18

⁴ Walter W. Powell and Paul J. DiMaggio, Op. cit. pp. 74-75

⁵ Ibid., p. 70

(as well as liberal democracy in the polity) appeared to enjoy these qualities. The central agents of the double transitions we are discussing have been state elites, and states, in the words of John Meyer et al., "...are more isomorphic than most theories would predict, and change more uniformly than is commonly recognized"⁶. Therefore, the transfer of institutional frameworks across societies should, in the end, produce strong pressures toward convergence.

If the variety of the outcomes of economic liberalization is puzzling from the point of view of institutionalism, it is rather consistent with a contending approach, multiple modernities.⁷ According to S.N. Eisenstadt, "The appropriation of different themes and institutional patterns of the original Western modern civilization in non-Western European societies ... entailed the continuous selection, reinterpretation and reformulation of such themes,...[producing]... new cultural and political programmes of modernity, and ...new institutional patterns"⁸. As Bjorn Wittrock puts it, diffusion is limited by the fact that non-Western societies "remain characterized by the form they acquired during much earlier periods of cultural crystallization"⁹ (and institutional crystallization as well, I would add).

⁶ John W. Meyer, John Boli, George M. Thomas, Francisco Ramirez, "World Society and the Nation State", American Journal of Sociology 103 (1997), 144-181, p. 173

⁷ See the papers in S. N. Eisenstadt, ed., Multiple Modernities (New Brunswick: Transaction, 2002); Ronald L. Jepperson, "Political Modernities: Disentangling Two Underlying Dimensions of Institutional Differentiation", Sociological Theory 20 (2002), 61-85; Dominic Sachsenmaier, Jens Riedel and S. N. Eisenstadt, Reflections on Multiple Modernities (Leiden: Brill, 2002)

⁸ S. N. Eisenstadt, "The Civilizational Dimension of Modernity", International Sociology 16 (2001), 320-340, p. 330

⁹ Bjorn Wittrock, "Modernity: One, None, or Many? European Origins and Modernity as a Global Condition", in Eisenstadt, ed., p. 11

Some sociological institutionalists are aware of this fact. Meyer et al., in particular, point out the prevalence of partial decoupling: “Some external elements are easier to copy than others, and many external elements are inconsistent with local practices, requirements, and cost structures”¹⁰. In any case, the multiple modernities approach introduces a heuristically important corrective to the convergence thesis. The problem with multiple modernities, though, is that it is little more than a perspective, which still lacks more specific propositions, let alone testable ones.

In any case, the dynamics of institutional transplantation is a function of the interaction between imported elements and the frameworks onto which these elements are grafted. The next step would be the specification of the conditions under which isomorphism is more likely to succeed, and the consequences of failed mimesis. The degree of successful isomorphism would depend on the extent of congruence between critical areas of the institutional framework of the recipient society and the requirements of the new rules and practices. Therefore, similar institutional frameworks, when transferred to societies with different institutional trajectories and the cultures attached to them, would almost necessarily result in diverse outcomes.

Nodes of Institutional Congruence

The contemporary theory of capitalism suggests that two critical nodes for the articulation between an open market economy and the broader institutional framework of the recipient society are a property of the state, its capacity, and a characteristic of the

¹⁰ Meyer et al., p. 154

social structure, the strength of civil society¹¹. More specifically, a high-performance open market economy presupposes a state with certain capacities, especially the ability to establish a strong protection for property rights (not only for the owners of capital, but also for workers, savers, and consumers) and, more generally, a robust rule of law, without which market capitalism, an economic system based on contracts, both explicit and implicit, cannot operate effectively.

Contractual interactions among firms and individuals run smoothly when the agreements they are based on, and the rules under which they operate, are validated by a tacit third-party enforcer, a function that only the state can perform. Carrying out this task requires a strong state, but such a state, when not limited by institutional barriers or the counterweight of powerful social forces, may be subject to the logic of organizational expansion: The state, after all, is an organization, and organizations strive, whenever possible, to extend control over their environments. A vigorous state facing a weak society might become Mancur Olson's "stationary bandit"¹², i.e. a predatory state, or

¹¹ See Robert H. Bates, Beyond the Miracle of the Market: The Political Economy of Agrarian Development (Cambridge: Cambridge University Press, 1989); Bruce Bueno de Mesquita and Hilton L. Root, eds, Governing for Prosperity (New Haven: Yale University Press, 2000); Ernest Gellner, Conditions of Liberty (London: Hamish Hamilton, 1994); John A. Hall, ed., Civil Society: Theory, History, Comparison (Cambridge: Polity Press, 1995; Douglass C. North, Institutions, Institutional Change, and Economic Performance (Cambridge: Cambridge University Press, 1990); Ibid., Understanding the Process of Economic Change (Princeton: Princeton University Press, 2005); Mancur Olson, Power and Prosperity: Outgrowing Communist and Capitalist Dictatorships (New York: Basic Books, 2000); Robert D. Putnam, Making Democracy Work (Princeton: Princeton University Press, 1993); Hernando de Soto, The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else (New York: Basic Books, 2000).

¹² Olson, Power and Prosperity.

even Tocqueville’s despotic one.¹³ Even if government leaders exercise self-restraint, the major social and economic actors would fear it as a possibility, a consideration that would affect their economic behavior. This is why an effective market economy requires not only a strong state but also a strong civil society, whose function is to balance the state and prevent predatory behavior or despotism.

Thus, the successful transfer of market capitalism depends on the presence, within the broader institutional framework of the society, of a relatively strong state and civil society. When both are weak, the result is what I have called above anemic capitalism. A combination of a strong state and a weak civil society produces an environment prone to neo-mercantilism (See table 2).

Table 2. THE INSTITUTIONAL MATRIX OF TRANSITIONAL CAPITALISM

TYPE OF TRANSITIONAL CAPITALISM	STATE CAPACITY	CIVIL SOCIETY STRENGTH
OPEN MARKET	HIGH (regulatory)	HIGHER (coercive)
NEO-MERCANTILISM	HIGH	LOW
ANEMIC	LOW	LOW

¹³ Alexis de Tocqueville, The Old Regime and the Revolution (Chicago: University of Chicago Press, 2001)

State capacity and civil society strength are murky concepts. Only certain types of capacity are of strategic significance for the establishment of a market economy, and civil society is defined in so many different ways that the concept requires clarification.

Institutional Congruence at the Top: State Regulatory Capacity

The question of state capacity, understood as the efficacy with which the state executes the tasks it sets for itself, or that social forces expect from the state, has been under-analyzed in the social sciences. From Max Weber on, most analyses have focused on whether a state exists in a territory, i.e. what Juan Linz and Alfred Stepan have called “stateness”.¹⁴ As a consequence, scholarly attention has been concentrated on the estimation of an attribute, the monopoly of the legitimate use of force, i.e. the determination of whether existence a minimal state does exist.

However, state capacity is implicit in Weber’s discussion of the bureaucracy as an ideal type, and the issue has been addressed by several scholars. Douglass North and Mancur Olson have shown that the strength of institutions backed by the state, especially the rule of law, is a basic determinant of economic and political regimes.¹⁵ Peter Evans and James Rauch have estimated the “weberianess” of agencies involved in economic policy-making in middle-developed nations and found that countries whose bureaucracies are more meritocratic and whose civil service allows for more established careers have

¹⁴ Juan Linz and Alfred Stepan, Problems of Democratic Transition and Consolidation (Baltimore: Johns Hopkins University Press, 1996), Ch. 2

¹⁵ North, Institutions; Olson, Power and Prosperity

higher rates of growth.¹⁶ Francis Fukuyama has made a very important distinction between state scope and strength, and has discussed systematically the domestic and international implications of state weakness in underdeveloped countries.¹⁷ Finally, state failure has become a central concern in the contemporary international system, due to its implications in relation with terrorism, drug trafficking, and money laundering. These analyses have placed the question of state capacity at the center of the agenda in state research.

Since state capacities may vary across areas of governmental activity, their analysis can only be multi-dimensional. Of course, coercive capacity, or the effectiveness with which the state uses its military and security apparatuses, is essential and conditions the exercise of all others. When this capacity is absent, there is no state (even though there could still be a government, as in contemporary Somalia). If we assume the existence of a basic level of stateness and focus on other areas of state capacity, two are central in relation to the economic outcomes we are interested in: the regulative and extractive capacities (others, such as distributive and innovative, are essential for the

¹⁶ Peter B. Evans and James Rauch, "Bureaucracy and Growth: A Cross-National Analysis of the Effects of 'Weberian' State Structures on Economic Growth," American Sociological Review, Vol. 64, No. 5 (1999), pp. 748-765

¹⁷ Francis Fukuyama, State-Building. Governance and World Order in the 21st Century (Ithaca: Cornell University Press 2004)

analysis of more specific characteristics of economic institutions, and for understanding political regimes).¹⁸

Regulative capacity refers to the extent to which the state is able to guarantee to non-state actors the effective exercise of their economic, civil, political, and cultural rights, and maintain and improve the quality of economic and political institutions. The core of this capacity is the rule of law, and it also includes the regulation of markets and the functioning of the state itself and of political institutions. Indicators would be measures of regulatory quality, official corruption, and the effectiveness of the judiciary. In the second place, extractive capacity denotes the state's ability to appropriate revenue from the society. Its indicators would be the amount of direct taxation and the rate of tax evasion.

An effective market economy presupposes a substantial level of regulatory state capacity: Absent a strong protection of individual and collective property rights (for all economic agents, not just for the owners of capital), there will be low levels of trust, and the norm will be the prevalence of short-term contracts, both explicit and implicit; limited use of banks; speculation as the predominant form of capital deployment; etc. Moreover, a state with insufficient regulatory ability would not be able to generate and maintain competitive markets, and many areas of economic activity, especially those that are technologically stagnant, would be captured by rent-seeking agents (often, capitalists, and sometimes, unions). In addition, a well-functioning market economy requires a level of extractive capacity that would support relatively autonomous, technically competent, and

¹⁸ Carlos H. Waisman, "State Capacity and Democracy: The South American Case," in United Nations Development Program, Informe de desarrollo humano (Buenos Aires: United Nations, forthcoming)

hopefully transparent state bureaucracies and judiciaries (of course, a much higher level of extractive capacity would be required for social-democratic capitalism, which is based on a dense social safety net and extensive public programs in health, education, pensions, and poverty alleviation).

If the state is weak, the outcome is likely to be an anemic economy. When the state is strong, what I have called neo-mercantilism becomes possible. In this regime, state strength appears as mainly as the direct use of coercion, rather than through the mediation of institutionalized capacities such as the regulatory or extractive ones.

As I pointed out above, a neo-mercantilist state, rather than being a relatively passive regulator of economic relations and a last-resort guarantor of contracts, as the standard model of the market economy would require, becomes the driving force of economic activity. Since the central purpose of economic development is the strengthening of the state, both vis-à-vis the society and in relation to other states, the government places a large segment of the economy under its direct control and hyper-regulates the rest. The state becomes the principal and the capitalists its agents. In typical instances, capitalists depend on the government for financing of their operations, protection from foreign competition, and the demand for their output. Thus, a rent-seeking capitalist class becomes the counterpart of a rentier state (the norm among large exporters of oil and gas and, hypothetically, other natural resources for which cartelized markets are possible). Crony capitalism, i.e. a situation in which only capitalists with direct ties to the government can thrive and in some cases operate, constitutes the ideal type of the capitalist class in this regime.

In neo-mercantilism, the state's regulatory capacity is either weak or selectively applied. The typical configuration is one in which the government's approach to the law is contingent and instrumental. Bureaucracies and judiciaries are run based on political criteria, their technical capacity is low or uneven, and corruption is relatively high. As for extractive capacity, it is generally limited as well, for the government is largely independent of the society for the procurement of revenue: It finances itself with proceeds from exports, and the export industries are either publicly owned or heavily controlled by the state.

Institutional Congruence at the Bottom: Civil Society Strength

Civil society is a diffuse concept in the social sciences, and the fact that it has entered political discourse has limited further its applicability in academic research.¹⁹ Definitions vary widely, from some that encompass everything outside the state to others that restrict the term to very specific segments of society, such as the non-profit sector, or what writers define as the "good guys" in social cleavages, e.g. the NGOs that represent the poor and the under-privileged. Further, scholarly arguments focus on civil society strength, a property that is vaguely specified and often misunderstood (e.g. when a highly

¹⁹ See the discussion of this concept and its use in the contemporary social science and polemical literature in Carlos H. Waisman, "Autonomy, Self-Regulation, and Democracy: Tocquevillean and Gellnerian Perspectives on Civil Society and the Bifurcated State in Latin America," in Richard Feinberg, Carlos H. Waisman, and Leon Zamosc, eds, Civil Society in Latin America (New York: Palgrave-Macmillan, 2006)

polarized society in which major social forces are well organized is characterized as a “strong civil society”²⁰).

Following Tocqueville’s (who did not use the term) and Gellner’s analysis of the relationship between civil society and capitalism,²¹ I will refer to civil society as a slice of society, whose core is the web of voluntary associations that articulate the interests and values of all sectors of society, the powerful as well as the powerless, as long as these units are not under the control of the state. Civil society may contain communities and eventually civil society as a whole may generate a strong community, but it consists of associative units. In Weberian terms, civil society may subsume affectual collectivities, or Gemeinschaften; but it is constituted by Gesellschaften, driven by instrumental or value-oriented interests. Of course, this definition excludes economic society, and the family and other institutions in the private sphere.

In order to conceptualize civil society strength, it is useful to consider three analytically distinguishable dimensions of civil society: its density, autonomy and degree of self-regulation. First, density refers to the extent to which all the major interest and value communities existing in the society are organized and mobilized. Elites usually are, so the issue is the extent to which non-elite social forces are also organized and mobilized. Secondly, autonomy means self-rule, rather than absolute independence from the state. Of course, there is no reason to assume that civil society organizations will always have an anti-governmental orientation or will refuse to participate in

²⁰ See, for instance, ²⁰ Sheri Berman, “Civil Society and the Collapse of the Weimar Republic,” World Politics 49, 3 (1997), pp. 401-429

²¹ Alexis de Tocqueville, Democracy in America (New York: Knopf, 1994), especially Vol. 1, Parts I and II, and Gellner, Condition of Liberty.

governmental activities. Finally, self-regulation means that the units of the associational web, in representing the interests and values of their constituencies, function within the institutional channels of the democratic state. They may form coalitions and engage in conflict, but they act within the boundaries of the constitution and the laws. Scholarly arguments on strong civil society and its effects, from Tocqueville onwards, make sense only when they characterize civil society on the basis of these three dimensions, and the variables have high values.

A strong civil society contributes to an effective market economy in at least two ways. First, because of the standard Tocquevillean argument: a society of this sort balances the power of the state (in a democratic regime, not only via direct interest articulation but also through its mobilization within the party system and, in general, what he called the political society), holds it accountable, and constitutes a barrier to its expansion into predatory or despotic directions. Secondly, this web or organized interest and values communities will be a source of pressure for the enhancement of the state capacities that a strong market economy requires, i.e. at least the regulatory and extractive ones.

Civil society may be weak in the following three situations: When density is low (typically, this implies that the lower classes, or important segments thereof, are not organized; as I pointed out above, elites usually are); when organizations representing social interests and values, or at least those representing important groups in the society, are controlled by the state (state corporatism and clientelism being typical examples); and when both density and autonomy are high, but self-regulation is low (the high-

polarization case described before, e.g. the Second Spanish Republic or Weimar Germany). In none of these cases civil society will balance the state, in the first two because of the sheer weakness of its constituent organizations, and in the third because high levels of polarization are likely to trigger either the establishment of highly coercive regimes or state breakdown. In addition, situations of high polarization, because of the high level of uncertainty they entail, lead to deep economic contractions: paralysis of investment, massive capital flight, etc. Typically, what I have called anomic capitalism is characterized by a low-density weak civil society (first case above), and neo-mercantilism regimes are prone to the second type, state control of society through corporatist and clientelistic mechanisms.

Uneven Institutionalization: Complex Institutions and the Emergence of Hybrids

Capitalism is a complex institution, in fact a bundle of institutions whose degree of correlation is empirically variable (the same happens with democracy, as I pointed out above), and some of the components of this package are more easily transferable than the others. This is why the outcomes of institutional transfer vary in terms of their resemblance with the ideal models, or with the prototypes that served as demonstration effects, as a function of the configuration of state capacities and civil society in the countries into which institutions are transplanted.

Capitalism involves three central dimensions: the existence of private property of the means of production, a free labor market (i.e. the abolition of institutional barriers, within a society, to the mobility of labor) and a market for goods and capital (i.e. the

abolition of substantial restrictions to the flows of goods and capital). The most efficient contemporary capitalist economies have reduced these barriers to a minimum, for capital and most goods.

The experience of the recent transitions, and in fact the historical record since the development of capitalism among late industrializers in the XIXth Century, indicates that it is easier to establish effectively the private property of the means of production and a free labor market than the absence of restrictions to the movements of goods and capital.

In what I have called the anomic variety of capitalism, all the dimensions of capitalism are in place, but they are weakly institutionalized. Private property of the means of production, and more generally property rights, do exist, but they are necessarily feeble in societies in which the rule of law is not firmly established. Even a market for labor may not be strongly institutionalized, if labor contracts and legislation in general cannot be effectively enforced. Markets for goods and capital are fragile and unstable, not only due to the weakness of the rule of law and the consequent low level of generalized trust, but also because capitalists, labor, and the state view high protective barriers and a relative or partial closure vis-à-vis the world economy as the only means for the preservation of these frail creatures.

As far as neo-mercantilism is concerned, property rights (at least for capitalists and other sectors of the society nurtured and managed by the state) may be more secure, but the relative closure of the economy, manifested by high protective barriers and selective integration into the world economy, is inherent to this model. Neo-mercantilist states view the world economy as a potential threat or an arena for possible expansion, rather than as a source of opportunities for economic growth.

Likewise, some of the components of the institutional package we call democracy migrate more smoothly than others, and this fact accounts for the diverse outcomes of the transfer of political institutions. If we use the classic terminology of Dahlian analysis,²² the dynamics of political transfer indicates that it is easier to institutionalize inclusiveness than contestation, and contestation than civil and political rights. The hardest element to establish is an executive whose powers are limited, either by the existence of an effective separation of powers (the case of presidential regimes), or of a fusion in which the parliament appoints and can fire the executive (as in parliamentary models). All the transitional democracies have elections and most allow oppositions, but the extent to which they enforce to a relatively satisfactory degree the civil and political rights of their citizens and limit the power of the executive is highly variable. Hence, the contemporary range of variation in Latin America and Central and Eastern Europe, which spans from solid democracies to elective authoritarianisms.

The Research Agenda

The foregoing discussion raises two issues, one conceptual and the other empirical.

First, we need a better understanding of the varieties of capitalism (and, of course, of democracy as well). The study of the dynamics and long-term viability of the hybrid institutional frameworks discussed above has been quite neglected by sociological reasoning, which has tended to use binary categories (capitalist / non capitalist, or

²² Robert Dahl, Polyarchy: Participation and Opposition (New Haven: Yale University Press, 1971)

capitalism that is early / late, or autonomous / dependent, etc.). Yet, the hybrid formulae now flourishing in transitional societies have attained varying degrees of legitimacy and efficacy, and some could be successfully institutionalized. The understanding of these frameworks is essential not only because of their importance, both theoretical and empirical, but also for the conceptualization of capitalism (and democracy) as complex variables.

Second, we still have to explain the path-dependent processes that lead to the outcomes discussed above. A first issue in this connection is the understanding of the causal mechanisms involved in the process. Even though the state has been one of the first objects of study of social science, and civil society is one of the oldest concepts in social theory, we still have a very limited understanding of why some states have higher capacities, of why some societies have civil societies and others do not, and of why some civil societies are stronger. Finally, we have to understand why is that some countries follow certain trajectories up to some point in time and then change developmental tracks. I have attempted an analysis of this sort for the case of Argentina in the XX Century.²³ In relation to the current transitions, a particularly promising research strategy is the study of the deviant cases, i.e. of the countries that, while sharing the institutional and cultural legacies of selective adapters, have developed outcomes of relatively high quality: Chile and Uruguay in Latin America, some Central European states in post-communist nations. These are cases in which agency, internal or external, has made a major difference: Neither institutional legacies nor culture are destiny. Explaining these reorientations represents a major challenge for social science.

²³ Waisman, Reversal of Development in Argentina (Princeton: Princeton University Press, 1987)

