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Micro Mechanisms and Macro Politics in Latin America

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Abstract

What makes for effective cooperation between government and business in industrial policy? Core research questions on the institutional design of arrangements for business-government interactions focus on three main functions: i) maximizing the benefits of dialogue and information exchange; ii) motivating participation through authoritative allocation; and iii) minimizing unproductive rent seeking. Countries with more experiences of public-private collaboration (PPC) tend to have more pragmatic governments and better organized and informally networked private sectors. Effective cooperation also depends on the macro context, in particular the nature of the political system and the alternative avenues it provides for business politicking, especially through parties, networks and appointments, the media, and campaign finance. Lastly, the structure and strategies of big domestic businesses—mostly diversified, family-owned business groups—affects their preferences and interest in collaborating in industrial policy.

JEL classifications: D72, L52

Keywords: Industrial policy, Public-private collaboration, Rent-seeking

1. Introduction[1]

In Latin America, ongoing development, globalization, and integration into the international economy have rendered the challenges of state intervention into the private economy through industrial policy more complex, delicate, and information intensive.[2] The solution proposed by many to managing these informational and other complexities is more intricate, intensive, and continuous contact between government officials and businesspeople.[3] The theoretical and practical implications are that policy analysis should pay more attention to business and that research needs to look beyond the quality of policy and the quality of the agencies of government making policy to examine in greater depth the nature of relations between public and private actors (Rodrik, 2007). Hausmann, Rodrik, and Sabel go so far as to define effective industrial policy as process rather than outcome: "we take 'good' industrial policy to consist of those institutional arrangements and practices that organize this collaboration [between public and private sectors] effectively" (2008: 4). Yet, while many scholars agree that business-government collaboration is imperative, few delve deeply into the specific institutions best suited to promote it.

The institutional challenges are formidable. First, governments need to establish appropriate forums or councils for dialogue between representatives of business and government. Moreover, effective dialogue depends on well-organized business interlocutors. For most policy areas, not all businesses can participate in the discussions, so the organization of business, both formal and informal, is crucial for effective representation. And, even if appropriate micro institutions for business representation and business-government dialogue exist, their functioning depends heavily on the overall political environment. If some businesses can bypass associations and business-government forums to change policies, then the associations and councils lose credibility and other businesses are likely to defect (Eslava, Meléndez, and Perry, 2012). On this

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[1] I am grateful for comments and feedback on earlier versions from Eduardo Fernández-Arias, Marcela Eslava, Andrés López, Marcela Meléndez, Guillermo Perry, Andrew Schrank, and Ernesto Stein.

[2] Pack and Saggi (2006: 267–8) define industrial policy as, "any type of selective government intervention or policy that attempts to alter the structure of production in favor of sectors that are expected to offer better prospects for economic growth in a way that would not occur in the absence of such intervention in the market equilibrium."

[3] Among other recent studies, see Sabel (2009: 5); Kuznetsov and Dahlman (2008: 112); Devlin and Moguillansky (2011); Coutinho et al. (2012); Machinea (2008). In his analysis of new export activity and self-discovery in Latin America, Sabel (2012) argues that the key to success is coordination both among private producers and between public and private actors. Outside Latin America, Ornston (2012) argues that dynamic forms of corporatism (tripartite arrangements among business, labor and government) explain the recent high tech successes of Ireland, Finland, Denmark, Sweden, and Korea.

macro level, many institutions and practices matter for business politics, but a minimum list would include parties, legislatures, networks, and lobbying.

On the challenge of designing appropriate forums or councils for effective business-government dialogue, a number of authors have put forward lists of institutional desiderata. In a practitioners' guide, Herzberg and Wright focus on "six key factors in setting up and running a competitiveness partnership: ignition, organizing participation, structure, setting and reaching goals, the role of donors, and communications strategy" (2005: 10). Machinea lists a dozen "principles" that should guide "public-private alliances" (2008, Chapter 6). Devlin and Moguillansky provide a full list of more than a dozen factors that facilitate public-private alliances (2011: 88–90). This paper also provides a fairly long list of optimal institutional features. However, effective business-government collaboration is both simpler to establish (and more complex to sustain) than these lists imply.

To simplify the challenge of facilitating first steps in public-private collaboration (PPC), it is useful to think of general functions, three in particular—real information exchange between business and government, allocative authority, and barriers to rent seeking. The actual institutions and organizations used to achieve these three functions are many and can vary from case to case. The important analytic point is to keep in mind—when assessing any particular case—which institutional components are really essential to these three general functions. When analyzing dynamics over time, effective collaboration is also more complex than the institutional desiderata imply. That is, collaboration may start with one institutional arrangement but evolve over time into new configurations by adding staff, restricting participation, devolving responsibilities to new forums or working groups, etc. In this, apt metaphors are better drawn from evolving biological systems than from one-shot chemical reactions.

Many studies and advocates of public-private collaboration also argue that it requires strong political will and backing from the highest levels (Rodrik, 2007: 113). This is certainly true if the country is going through major, contentious transitions in the overall development strategy. However, many successful examples of effective business-government collaboration occurred out of the limelight at lower levels, even subnational or in specific sectors, without much top-level support. Any transfer of significant resources, one of the essential prerequisites, requires some measure of political support, but once established, the flow of resources may itself create a sufficient support coalition to keep the dialogue going without recurring infusions of political will from the top.

For purposes of understanding the institutional challenges of public-private collaboration, it is crucial to distinguish between passive and active industrial policy. Passive policies seek to change the public sector (such as red tape, infrastructural bottlenecks, and other items on the World Bank's Doing Business survey) to reduce costs for business on the assumption that these changes will improve business performance. Active policies, in contrast, target deeper changes in the private sector, in firm behavior (e.g., exports, upgrading, or technological development) and rely on direct subsidies from the state.[4] In targeting substantive changes in business behavior, active policies establish performance standards and thus require monitoring and sanctioning capacity (a coercive side to industrial policy that is often neglected). These distinctions are developed further later. The point for now is to emphasize that the institutional challenges for passive policy are much less daunting than for active policy. The distinction is also crucial because many recent instances of PPC in Latin America have revolved around competitiveness councils that focus on passive policies.

This report is structured in two main sections following this introduction. Section 2 analyzes the main micro, institutional mechanisms of councils and associations. The main focus is on three key functions: meaningful information exchange, authoritative allocation, and minimized rent seeking. The list of contributing elements of institutional design is longer, including small numbers of participants, off-the-record discussions, frequent meetings, adequate technical staff, transparent decisions, peer monitoring, and so forth. However, these design elements can be combined in different and often evolving ways to fulfill the three core functions. Section 2.3 covers a range of successful empirical examples.

Section 3 turns to the macro context. Among the many macro factors that affect business participation in politics, Section 3 delves into the formal institutions, especially electoral and party systems, and informal practices that favor policy influence by big business. From a comparative, historical perspective, contemporary developmental states in Latin America are weaker vis-à-vis

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[4] The distinction between active and passive policy resembles, at first glance, the difference between horizontal policies affecting all firms and vertical politics targeted at particular sectors or groups of firms. However, horizontal policies can be active, as for example export subsidies available to all firms, but that come with strings attached—performance standards and sanctions for under performance. Vertical policies may also be passive, as in less onerous paperwork for particular sectors.

business than earlier incarnations in authoritarian regimes with less developed private sectors (Schrank, 2013). Policymakers in Latin America are more constrained, and in this context then the baseline preferences of big business matter more for establishing limits on, and opportunities for, effective collaboration in policymaking. Attempting to cover so much ground necessarily requires sacrificing depth for breadth. The main goal is to assess the current state of research and debate, and draw in instructive empirical examples for illustration.

2. Micro Mechanisms for Promoting Effective Collaboration: Councils and Associations

2.1. Institutions for Bringing Business and Government Together[5]

Outside Latin America, business-government councils are widespread and often associated with positive economic performance. High-growth Asian economies such as Korea, Taiwan, and Singapore were rife with business-government councils (Campos and Root, 1996).[6] Appendix B reports on the continuing centrality of business-government councils in contemporary technology policy in Korea. In northern Europe, councils are integral elements of "coordinated market economies" (CMEs); see Hall and Soskice (2001) and Katzenstein (1985). Public-private "alliances" were also central to policymaking in a recent diverse set of rapidly developing countries from New Zealand and the Czech Republic to Ireland, Finland, and Malaysia (Devlin and Moguillansky, 2011; Ornston, 2012). In other countries such as France, some attribute policy failures to the absence of institutions to promote effective collaboration between business and government (Levy, 1999).

Social science theory is divided on the effects of close business-government relations. Some see great potential for more effective policy making and implementation (Amsden, 1989; Amsden, 2001; Campos and Root, 1996; Sabel, 1994; Evans, 1995). Opposing theories claim that close relations between business and government are more likely to end in rent seeking or worse (see Olson, 1982; Frieden, 1991; Schamis, 2002). Cheap talk is another possibility where meetings mean little to participants and have no impact, positive or negative, on policy and performance. In

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[5] This section draws on Schneider (2010a).

[6] In Japan, over two hundred consultative councils (*shingikai*) "deliberate and report on every conceivable area of public policy" (Schwartz, 1993: 218). Some councils dated from the early 20th century, but most, ironically, were imposed by the U.S. occupation that created the framework legislation for councils in order to constrain the bureaucracy and make it more accountable. These councils performed important functions in reconciling divergent interests, coordinating expectations, and facilitating policy implementation (Schwartz, 1993: 231–2).

fact, there are plenty of empirical examples of both negative and positive relations, and hundreds of councils that are irrelevant for policies, learning, or rents.

The analytic challenge is to determine the conditions under which one or the other outcome is more likely. For Peter Evans (1995), a professional, meritocratic, career civil service—what he termed a Weberian bureaucracy—was a first necessary condition so that officials could resist political and lobbying pressures. Other theories emphasized aspects of state motivation (Woo-Cumings, 1999; Kohli, 2004) or state capacity, especially the ability to impose performance standards on private firms (Amsden, 1989; Chibber, 2004). These aspects of the state side of the relationship are important, but it is crucial to expand the analysis on the business side, specifically the institutional arrangements, or councils, for public-private intermediation and the quality of business representation on those councils.

What is a council? In practice governments use a variety of different labels including councils, boards, forums, and public-private dialogue (PPD), but to simplify the presentation all these are grouped under the general label of council. In principle, business-government councils can be differentiated by formal responsibilities: deliberation, consultation, implementation, and oversight. Deliberative councils discuss policy options and either set policy directly or make recommendations to executive agencies. In consultative forums, government representatives bring policy proposals or decisions to the council for feedback and suggestions. Executive and implementation councils take broad policy guidelines and decide the specifics of how to implement them. Lastly, oversight councils or boards monitor results and the performance of private firms and government agencies in fulfilling policy goals (that the boards may not have set). In practice, however, many councils are charged with multiple responsibilities, and even in cases of councils with narrow formal mandates, council members may expand their activities informally. In any case, impact assessments need to be attuned to the varying responsibilities and goals of councils in order to compare results with actually intended outcomes.[7]

Councils can also be distinguished by the intensity of interaction between business and government. Many types of council may simply serve as forums to exchange information, where

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[7] These conceptual distinctions are important in principle, and should guide initial expectations on what councils may be able to achieve. However, these distinctions are less useful for elaborating a fixed typology to classify councils, because the empirical variation is too complex. Many councils are charged with multiple goals and in others the mix of responsibilities changes over time. Some of the most interesting, problem-solving councils combine all responsibilities.

public and private participants share information about their plans, preferences, capabilities, and deficiencies. So, for example, in implementation, government participants might just inform businesspeople, or vice versa in oversight councils business representatives might just report on progress. Such councils serve in a first sense to decrease dramatically the costs of information. Beyond simple exchange, a more intense and potentially consequential interaction comes in the form of joint problem solving. In this instance, either business or government can raise a problem—e.g., congested ports, high energy costs, lack of skilled workers, or absence of pivotal technologies—and then the council seeks to find a remedy through an ongoing process of policy design, implementation, assessment, correction, and so on. This process is similar to what Sabel (1994) emphasized as learning but perhaps shallower, as participants may engage in pragmatic problem solving without any deeper individual transformation. In any case, the institutional requirements for effective joint problem solving are greater than for other simpler forms of information exchange.

Institutional design factors can contribute to effective business-government collaboration to the extent they contribute to three mutually reinforcing functions: meaningful information exchange; authoritative allocation; and minimal rent seeking.[8] Factors contributing to information exchange include adequate frequency and duration of interaction, effective representation of business, competent technical staff, and small numbers of participants. These design components matter little though if the councils have no real power to allocate resources, subsidies, regulations, etc. Then, of course, once significant resources are on the table, effective councils require mechanisms to minimize temptations and opportunities for rent seeking. The next section analyzes a series of institutional design components and their impacts on these three core functions.

2.2. What Happens in Councils: Disaggregating Interactions

What are the major alleged benefits of dialogue between representatives of government and business (see also Herzberg and Wright, 2005)? For Campos and Root, the benefits are many:

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[8] Ultimately, the metric of success would be whether the council promoted the desired outcome such as more exports, innovation, or productivity. This net impact is of course difficult to measure, because the comparative baseline is a counterfactual, namely what would have happened in the absence of a council (Pack and Saggi, 2006). Methodologically, process tracing within councils can probably best show how participants came to recognize and solve particular problems (Schneider, 2010a).

> A council serves as a convenient channel for collecting relevant information from, and distributing it to, its participants. It thus improves economic efficiency: it supplements the allocative function of markets by facilitating coordinated responses to changes in economic conditions. A council also helps reduce the opportunities for and welfare losses from rent seeking. Furthermore a council performs a commitment function, binding sovereign authority to a set of rules governing economic policy making. Hence it helps minimize economic distortions attributable to the nonsimultaneity of the costs and benefits of a policy (1996: 99).

Some of the main hypothesized benefits—information, coordination, and credibility or trust—can be separated out by time frame. In the short run, there is an immediate information benefit for policymakers from talking to businesspeople who know their operations better, as well as a benefit for businesspeople, especially from smaller firms, who may know less than policymakers about the international environment or the domestic macroeconomic context. In the medium term, representatives of business and government can work out coordination issues, especially codependent investments by government and business or by businesses at various points in the productive chain. Over the longer term, with frequent reiterated interactions, business-government dialogue can promote consensus building, reciprocity, trust, and collective learning (Maxfield and Schneider, 1997; Sabel, 1994; Amsden, 1989).

A first question in institutional design is who will be at the table.[9] For example, *smaller numbers* of participants facilitates information exchange and favors, over the longer term, interpersonal trust. However, keeping numbers small has to be balanced against the need to have all relevant parties at the table. Business associations, considered below, can help resolve the tension between inclusion and small numbers if one or several representatives can effectively represent larger numbers of businesspeople.[10] Business associations offer a standard institutional channel for identifying leaders already legitimated by some formal representative selection procedure. However, that selection procedure may favor certain firms, regions, or sectors over others and distort some leaders' legitimacy or ability to speak for the broader interests of business.

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[9] For extensive discussions of institutional design, see Herzberg and Wright (2005: 10), Machinea (2008), and Devlin and Moguillansky (2011: 88–90).

[10] For Herzberg and Wright (2005: 13), "the plenary group should contain no more than 20 participants and should include intermediaries such as business associations whenever possible, the aim being to reach out to thousands of businesses without making meetings unwieldy."

In addition, in some rare instances, business leaders viewed as broadly legitimate spokespersons may arise informally as in the case of Jorge Gerdau Johanpeter in Brazil (Bacoccina and Queiroz, 2012) or a series of business leaders in Colombia (Eslava, Meléndez, and Perry, 2012). These leaders have established reputations that allow them to represent business informally in collaboration with government.[11]

Similarly, greater *homogeneity* among business participants makes it easier to come to agreement (Olson, 1965). This suggests that in principle adding in non-business stakeholders like labor unions or citizen groups will complicate deliberations over industrial policy. The institutional design should also regulate what parts of the dialogue are off the record and what parts on. Meaningful sharing of information among participants will in most cases require a *guarantee of confidentiality*. In practice, this guarantee is only in small measure a matter of design and rules. It will only become credible over time as participants build reputations by sharing information in the council that is not subsequently leaked or abused.

Although *time horizons* are generally short in Latin America, and institutional instability not uncommon, institutional design can be important at the outset in signaling likely horizons. Meetings can be called on an ad hoc basis, established by executive order, or legislated into law, in ascending order of the length of expected horizons of the participants. At the outer extreme, participants may be appointed with fixed mandates, and protected from dismissal, as with regulatory agencies. Statutes or other measures that establish a fixed frequency of meetings also establish the more important expectation of reiterated commitments with the same people. Weekly or monthly meetings raise expectations of reiterated interactions with the same set of business and government representatives. Quarterly or yearly meetings, in contrast, raise the probability of turnover among members and reduce the incentive to invest in personal relationships. Significant in this regard, especially in comparison with other regions, is the high number of political appointees in the top ranks of government in Latin America. Virtually all ministry officials in the top 3-4 levels of the executive branch, throughout the Americas (United States as well), are appointed by presidents. Political appointees are more likely to lose their jobs or get appointed to new jobs than are career civil servants.

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[11] Sources of perceived legitimacy and credibility are of course multiple and complex. The simplest source is repeated interactions over time where businesspeople and government officials establish reputations as interlocutors who do not—when the opportunity arises—push particularistic interests. Within the small worlds of economic and political elites, individuals know they are entering long-term networks and relationships where reputations matter.

The *level of the representation* at the council table also affects the dialogue. Some think it is crucial to have the highest-level representation from the government, including the president if possible.[12] Such high-level representation has the advantage of convincing business participants that the council will take significant decisions on allocation (see below) regardless of the formal attributes. For business it is nearly always worthwhile to sit in small meetings with presidents, both to convey business views in a mostly private setting and to hear what presidents have to say about policy directions. However, having the president involved can also signal that the council will not have a long time horizon. In contrast, councils comprised largely of lower-level officials and representatives of business associations, with statutory authority to allocate resources have longer time horizons.

As noted in the introduction, the institutional design of councils usually sets the varying *responsibilities* (deliberative, consultative, implementation, or oversight). Knowing these responsibilities is crucial for establishing expectations and benchmarks for success. So, for example, a council charged with promoting general discussions between government and business may appear to accomplish little in terms of changing policy or firm behavior, but then that was not the intention. Such general, open-ended forums may be more valuable in contexts where there has been little previous contact, as for example in the case of political transitions or the arrival to power of previously excluded parties and politicians (Herzberg and Wright, 2005: 8). Otherwise, the hypothesis would be that councils are likely to function better if the goals are narrow and measurable (increasing exports or upgrading production in a particular sector, for example) rather than broad and unmeasurable (competitiveness or innovation); see Porter et al. (2002: 15).

Another crucial aspect in the goals of councils is whether the main purpose is to change behavior in the private sector or in the public sector. Some councils seek primarily to change public behavior (red tape, taxes, infrastructure, trade negotiations, etc.). This was the case in most of the "public-private dialogue" (PPD) supported by the World Bank, especially in Africa and transition economies (interview with Benjamin Herzberg, 8 October 2008). This is also the focus of annual surveys like the World Bank's Doing Business that ranks countries across 11 areas of

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[12] For Herzberg and Wright, "government representation must be at the highest possible level for the partnership to have credibility: a consistent feature of competitiveness partnerships is the correlation between the progress achieved and the seniority of government figures involved" (2005: 14). High-level representation may be more important in partnerships designed to change the public sector to improve the investment climate rather than in councils charged with active industrial policies designed to change business behavior.

"regulations that enhance business activity and those that constrain it."[13] In other instances, especially of industrial policy, the goal is primarily to use public rules and subsidies to alter private behavior—to get SMEs to export more, to get firms to invest more in R&D, to get companies to enter new sectors, and so forth.[14]

The former is *passive* industrial policy where governments take action to reduce the costs of doing business on the assumption that business will respond, versus the latter, *active* policy where governments have expectations on desired shifts in private behavior, use subsidies to induce the shift, and establish performance standards (e.g., increases in exports) which, if not met, cause the governments to withdraw the subsidies. Both active and passive policies are designed to change conditions in the private sector, but passive policy does it indirectly by lifting constraints on business while active policy does it directly by imposing constraints or performance standards on firms.

The distinction between active and passive industrial policy is especially relevant to the problems of PPC. In general, generating effective business-government collaboration in passive policy is far less institutionally challenging than in active policy. In passive policy:

1. the costs to business of participation are low (business needs merely to let government know which changes in public infrastructure and regulation would most reduce their costs);
2. the benefits to business are high (e.g., lower regulation or transportation costs);
3. the risk of rent seeking is low (because most changes in the public sector are horizontal and are closer to public goods, at least for business); and
4. government officials need not be concerned with monitoring outcomes or imposing sanctions if firm performance does not improve.

In active policy, in contrast, the institutional costs and challenges are greater on all dimensions:

1. the costs to business are high because business has to reveal information about firm capabilities;

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[13] The survey covers areas such as starting a business, dealing with construction permits, getting electricity, registering property, getting credit, paying taxes, and employing workers (World Bank, 2013: i)

[14] Patent law is a common form of active industrial policy. Patents establish certain performance standards and firms adjust their behavior (invest in R&D). In contrast though to most industrial policies, the subsidy (through patent protection) comes after the change in firm behavior.

2. the benefits and subsidies may be substantial, but they come with strings attached;
3. the risk of rent seeking is higher because subsidies are firm specific (as in subsidized credit);
4. monitoring costs are high as governments need to determine whether subsidized firms are meeting performance standards (e.g., exports, local content, R&D—information that firms have incentives to distort); and
5. sanctioning low-performing firms is difficult and politically costly.

In practice, of course, governments or different parts of governments can do both active and passive industrial policy. In fact, active policy is almost always accompanied by passive polices, though the reverse is not the case. The distinction is essential, though, when considering institutional requisites.

For passive, and especially for active, industrial policy, dedicated and *competent technical staff* can be crucial for councils to make progress both at and between meetings.[15] That is, council members may discuss policy options or reveal areas where they need more information. If the council lacks staff to follow up, then the council is more likely to end up in inconclusive "cheap talk." Staff may be even more proactive in generating new information or items for discussion or decision. In most cases staff, or the council secretariat, is loaned or seconded from participating ministries or government agencies (as in Japan, as discussed by Schwartz, 1993). In some cases these officials may work closely with staff from business associations in technical working groups.

To overcome the costs of participation, councils must be perceived by business interlocutors to make *authoritative allocations*, to decide on the distribution or redistribution of resources. So, for example, social pacts set prices and wages, trade consultations decide on negotiating positions, and industrial policy councils can distribute subsidies. The presence of presidents and ministers at council meetings also increases the expectations, absent statutory regulation, that council deliberations will affect government allocations.[16] However, the best long-term mechanism for ensuring some benefit from participating in the council is to set by

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[15] The staff, or secretariat, of deliberative councils, usually drawn from participating ministries, were crucial in Japan (Schwartz, 1993: 229), Oaxacan coffee (Snyder, 2001: 89–92), and PPD generally (Herzberg and Wright, 2005: 17).
[16] Councils convened under crisis conditions (such as falling export prices, war, inflation) increase the expectation that the council will make allocative decisions (as well as increase the likelihood that participants will accept sacrifices); see Herzberg and Wright (2005: 12).

statute some allocation as in subsidized loans (as in boards for development banks), export quotas, minimum wages, training programs, or infrastructure investment.[17]

Overall, there are no sufficient and only a few necessary institutional conditions—manageable numbers, regular meetings, resources, and some technical support—for serious engagement between business and government. Otherwise, as discussed later in this paper, a wide range of different institutional configurations have had positive impacts. In thinking about optimal institutional engineering, it is better to use evolving biological rather than mechanical and chemical (or alchemical) metaphors. In most successful cases of business-government collaboration, it was not a matter of simply assembling an initial set of institutions and allowing a virtuous process to unfold, but rather a more ad hoc and dynamic evolution where participants came together, sometimes informally to begin with, then cooperated through some initial set of institutions which over time the participants (or exogenous shocks) modified to better suit their evolving functions and political circumstances. Some of the cases in Section 2.3 illustrate these dynamics.

The next main issue in institutional design is impeding unproductive rent seeking, though this is less of a concern with horizontal and passive policies. Active industrial policies by definition create and distribute rents in order to shift behaviors in business, and even squeaky clean firms will seek them to enhance competitiveness. The worry, though, is with wasteful or unproductive rent seeking. The near universal remedies proposed are various forms of external policing: transparency, regular monitoring, and evaluation by outside bodies. Hausmann, Rodrik, and Sabel (2008), for example, propose outside evaluating teams, including academics and MNC executives. Others emphasize the importance of publishing relevant data and encouraging active and independent media coverage (Coutinho et al., 2012). However, the record of supposedly independent monitoring bodies in Latin America is spotty, as they can be easy to manipulate, politicize, or ignore.

Thus, beyond transparency, there is greater reason to put hope in the potential for self-monitoring where some set of participants in the council have strong interests in preventing rent seeking. For example, in the Turkish textile sector, the government delegated to the sector

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[17] In some cases, the resource allocation may be indirect in that the government convenes meetings with businesses or sector, and then the private actors agree on allocation, without any public authority, as for example in coordinating up- and downstream investment.

association decisions on how to allocate export quotas. Within the association, a committee made the allocations in an open setting (among association members) that made it difficult to engage in rent seeking by firms seeking quotas (Biddle and Milor, 1997). In Colombia, in the CPC (Consejo Privado de Competitividad), "there are also anecdotes about members of the [CPC] opposing proposals, brought up by other members, considered harmful for the wider interests of the country despite bringing clear benefits to some [CPC] members" (Eslava, Meléndez, and Perry, 2012: 15; interview with top staff at CPC, 1 February 2013; see also Pires, Gomide, and Amaral, 2013).

The complication for institutional design is that a concern with rent seeking favors a number of features that conflict with those that promote dialogue.[18] So, for instance, expanding the numbers of council members would impede side deals and collusion. More diverse participants from multiple sectors, including representatives from labor unions and other groups in civil society, would encourage opposition within councils to special favors for one sector or firm (Herzberg and Wright, 2005: 7–8; Devlin and Moguillansky, 2011: 90). And, more open proceedings with the press in attendance would provide ongoing monitoring. However, most of these monitoring mechanisms would, as noted above, undermine effective dialogue and real information exchange, and thereby reduce the potential benefits. So, the gains of expanding transparency or numbers and diversity have to be weighed against the costs to meaningful dialogue.

On the levels of representation, technical personnel from government, especially career professionals (or Weberian bureaucrats) should in principle have more capacity for resisting rent seeking than politicians or political appointees.[19] Politicians have short time horizons and need large campaign contributions and other patronage resources, and so would be more receptive to various political exchanges with business participants. Political appointees in the executive branch are less directly dependent on resources from business, but their current and next appointments can be heavily influenced by business support or opposition. Or, as with many regulatory agencies,

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[18] Campos and Root have a more (overly?) sanguine view of the inherent ability of the council format to impede rent seeking: "In sum, when rules, procedures, and regulations are discussed openly among the relevant parties and input from all parties is encouraged, a more transparent and impartial policy environment emerges. This constricts the possible avenues for seeking or granting special favors and raises the cost and reduces the potential gains from rent seeking." (1996: 102–3).

[19] In Oaxaca, the director and technical staff of the coffee council performed, "a disciplinary role that defused the potential for a pork-barrel pattern of project allocation" (Snyder, 2001: 89–90). Evans (1995) placed a great deal of weight on the ability of Weberian bureaucracies to impede rent seeking. Chibber (2004) and Amsden (1989) placed greater weight on the ability, and political will, of governments to discipline business.

they may be considering taking jobs in the private sector after leaving government. Lastly, if business representatives are technical staff, they may be less motivated by rent seeking than business owners (see Appendix B on technology policy in Korea).

Monitoring is made difficult by both the cost of information and the asymmetry. Information is less costly in policies designed to promote easily measurable outcomes like increased production or exports, but gets far more costly in policies designed to promote upgrading, innovation, or R&D. Moreover, business has the information as well as incentives to use it to their advantage. In principle, councils can vastly reduce the cost and asymmetry problems, but the cost reductions are less likely to result from clever institutional design than from the reiterated exchanges necessary to build credibility and trust. Ideally, trust lowers barriers to information sharing, which in turn provides the basis for evaluating what worked and what did not, and engage in collective problem solving to devise better industrial policies.

In sum, the institutional engineering of councils to maximize the benefits of dialogue while minimizing the risks of rent seeking is delicate, complex, and risky. There are many ways for councils to degenerate, collapse, or vegetate. Some of the causes of dysfunction seem readily apparent, as in forums that are too large, diverse, or politicized, or councils that meet infrequently or suffer high turnover among members. Overall, it is not surprising that so few councils live up to expectations. The next section reviews a range of councils that have, for the most part, helped improve policymaking.

2.3. Scope, Function, and Benefits of Councils: Some Empirics

A fundamental distinction, noted earlier, revolves around the difference between councils designed to change the activities of government (passive policy) and councils intended to alter the behavior of business (active industrial policy). The former are often characterized as competitiveness councils or PPD and generally aim to reduce the cost of doing business by reforming what governments do. These passive policies are easier to negotiate and do not require monitoring or sanctioning of business, and so are not covered much in this section. The second kind of policy and council aims to change the private sector, the realm of active industrial policy. This conceptual distinction is crucial because the expectations of private-public interaction differ so much. However, in practice some of the specific instruments and measures may look similar (e.g., port reform). The mostly successful examples summarized in this section are a small minority of councils. Several negative cases are also incorporated to highlight critical weak points in council design.

Economy-wide, broad function. Governments sometimes establish public-private councils with broad mandates to discuss issues affecting the economy as a whole such as systemic competitiveness, overall development planning, infrastructural bottlenecks, or macro stabilization. Economy-wide social pacts are more concerned with stabilization than productivity and industrial policy, but these experiences can still be instructive.[20] For example, social pacts are often initiated in moments of crisis and with the goal of negotiating significant distribution, so the motivation for participation by business and government is high. In addition, pacts often fail because the economy-wide representation through business associations is lacking or difficult to organize in the short term (Schneider, 2004).

In the 1990s, the Chilean government created one of the early councils on productivity, the *Foro de Desarrollo Productivo*. The Foro held large annual conferences and was coordinated in between conferences by a tripartite board with representatives of major business and labor associations, as well as individual labor and businesspeople appointed by the government, with a technical secretariat in the Ministry of the Economy. The results of this Foro were disappointing, even according to its Executive Secretary, Oscar Muñoz. One of the main problems was the continuing antagonism between representatives of business and labor. Relations were so bad that the 1995 Foro had to be canceled when the CUT (Central Unitaria de Trabajadores) refused to participate. Other problems included a reluctance to enter binding agreements (in part because the representatives of gremial associations were unsure whether their associations would endorse the agreements), a lack of "peso político" (political backing), and an absence of resonance in the press and public opinion (Muñoz Gomá, 2000: 72).

In Brazil in 2002 the incoming Lula government created the Council for Economic and Social Development (CDES) (Doctor, 2007b; Vizeu and Bin, 2008). The government structured CDES to have representation of labor and business (as well as government and civil society) but had different approaches to the invitations to each side. Representatives from the labor side were

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[20] See, on Chile Weyland (1997); on Mexico Kaufman, Bazdresch, and Heredia (1994), Schneider (2004), Ortega (2002); and on Uruguay and Chile Fraile (2010). In their study of tripartite councils in eight developing countries, Fraile and Baccaro (2010) found that effective consultation and negotiation in the process of market reform helped to reconcile efficiency and equity (largely through compensatory measures to reduce social dislocation) and in part as a result made the reforms more politically sustainable.

union leaders, yet nearly two-thirds of the business members were not leaders of business associations. Moreover, the government bypassed the national industry confederation whose president was not invited and included the heads of major state-level industry associations as well as sectoral associations in areas like banking, capital goods, and auto production. Over the course of Lula's two terms, CDES had some influence in broad policy debates, but less than its proponents hoped, or critics feared. It was exclusively deliberative and consultative, without authority to allocate resources or make binding agreements.

The national competitiveness council in Colombia has been one of the most active and effective instances of national level PPC (Eslava, Meléndez, and Perry, 2012). Created in 2006 by the government of Álvaro Uribe, the council elicited active participation by business through a special organization created by business, the CPC (Consejo Privado de Competitividad). The CPC was an innovative organization with a broad membership by both large firms—national and MNCs—and major associations, and directed by a small executive committee that worked closely with government, and whose decisions and strategies were ratified periodically by the larger organization.[21]

This council was influential and with the government succeeded in a number of passive, horizontal reforms, as well as some sector-specific, though still largely passive, policies in areas like cosmetics and palm oil. Councils in Colombia often get revamped or discontinued by incoming presidents, but this competitiveness council survived into the administration of Juan Manuel Santos in part because of private sector support and in part because the top staffer at CPC was nominated to run the National Planning Department. This episode shows both the crucial impact of private sector support as well as the benefits of circulation between public and private sectors—rampant in Colombia—and the strong networks it creates that undergird formal collaboration between business and government (as discussed further in Section 2.4).

Economy-wide, narrow remit. Business-government councils may be most common and prominent in economy-wide (horizontal) policies that have a fairly narrow mandate as in trade

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[21] The council grew out of a presentation by Michael Porter to businesspeople and government officials, including president Uribe. Porter suggested Colombia create a competitiveness council. Uribe agreed and said he would include business representatives in the council if business organized that representation. The key here is that private organization and funding for staff would not have emerged in the absence of government encouragement. As one of the founders of CPC put it, "it would not have been worth the effort if the Government was not willing to recognize the Council as a formal counterpart" (Eslava, Meléndez, and Perry, 2012: 14).

negotiations, export promotion, labor market regulation (minimum wage), vocational training, innovation and technology, and R&D. Although most of these areas are not considered standard industrial policies, many of them do bear on the competitiveness of various sectors and have been used by governments to provide special and differentiated incentives, as for example in the many special clauses in trade agreements.[22]

Trade negotiations are where business-government interactions through a variety of formal mechanisms have been ubiquitous (with the conspicuous exception of Mercosur), and perhaps most visible, certainly in academic research. The practice of granting business substantial access and consultation probably started in the 1980s when, on the occasion of the negotiations over a free trade agreement between Canada and the United States, the U.S. government invited business to accompany the negotiations closely. When, in turn, negotiations over Nafta began, Mexico mobilized business to match business on U.S. and Canadian delegations. From the Mexican side, business mobilized into an ad hoc organization, Coece, Coordinación de Organismos Empresariales de Comercio Exterior (Thacker, 2000; Shadlen, 2004; Kleinberg, 1999; Schneider, 2004). Through Coece, business, especially big business-commissioned background studies, met with government negotiators prior to the start of negotiations, coordinated with up- and downstream businesses along productive chains, accompanied the actual negotiations in the "room next door" (*cuarto del lado*, sometimes literally, and sometimes virtually via mobile phone), and then spearheaded lobbying in Washington for ratification of the agreement. By all accounts the consultation was useful for giving government negotiators better information on the situation of various sectors, as well as the practical side of U.S.-Mexican trade, and for giving business a better sense of where the agreement was headed, and as a consequence helped turn skeptical businessmen into champions.

Although not as closely studied, governments made similar arrangements with business in Colombia and Venezuela (Giacalone, 1999), Chile (Bull, 2008; Schneider, 2004), and in the 2000s during the negotiation of the U.S.-Colombia free trade agreement. Most observers and scholarly evaluations had positive views of the interactions. Most of these arrangements were ad hoc, involving only the several years it normally took to negotiate a treaty. Chile, in contrast, became a

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[22] Most of these policies are passive in the sense that they revolve around changing government regulation and do not entail performance standards or subsequent monitoring of business. For a innovative reinterpretation of "wage setting institutions as industrial policy," see Davis and Henrekson (2005) who argue that centralized collective bargaining in Sweden shifted the structure of industry relative to the United States in the 1950s and 1960s.

world leader in negotiating trade agreements, so throughout the 1990s and into the 2000s, governments were negotiating agreements along with private sector representatives. Constant contact made for very close relations between association staffers and government negotiators (Bull, 2008). In contrast, negotiations over MERCOSUR largely excluded business in Argentina and Brazil (Schneider, 2001). The result was post hoc lobbying by large businesses and comparatively little business engagement in promoting the trading bloc.

Another potentially revealing economy-wide council is CNIC (Consejo Nacional de Innovación para la Competitividad) in Chile (Agosin, Larraín, and Grau, 2010). Created in 2006, this council was charged with devising a plan and institutional structure for spending up to $200 million per year (in royalties from mining) on innovation (Paus, 2011: 75). The council included five ministers, at least four representatives from business, one representative from labor, and another seven representatives (academics and experts from outside government). Through the government of Michele Bachelet, the CNIC had some successes in getting the process moving, including reaching agreement on priority sectors and activities in which to promote innovation and in getting some of the funding on its way to innovation projects. Business representatives from associations like Sofofa and CPC took an encompassing view of innovation priorities, and played a crucial role in convincing the scientists and academics to concentrate on funding applied projects (interview with José Miguel Benavente, member of CNIC, 10 December 2008). The Piñera government (2010–14) opposed vertical industrial policy and essentially suspended the activities of the CNIC.

Vocational training. Despite its crucial importance to upgrading, business-government cooperation in training and education has received scant attention (see Ducci, 2001). Business-government boards and councils or tripartite councils are ubiquitous in government-sponsored training programs in Latin America, especially the systems in many countries that are patterned on the Brazil's Senai (Serviço Nacional de Aprendizagem Industrial).[23] As skill shortages become a greater bottleneck to upgrading and overall development, they are

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[23] Colombia's Servicio Nacional de Aprendizaje (SENA) is a good example. Sena's Consejo Directivo Nacional has four representatives from government (three ministries and Colciencias), four representatives from business (Andi, Fenalco, SAC, and Acopi), three representatives from labor, and one additional director (the Roman Catholic archbishop). (www.sena.edu.co/Portal/Direcci%C3%B3n+General/Consejo+Directivo+Nacional/).
Business-government councils for training are common elsewhere in countries like Germany and even countries without a strong tradition of public-private councils or industrial policy like the United States.

more likely to figure prominently in discussions over competitiveness and as corollary policies to other industrial policies (Sabel, 2012).

Industry. Probably the most cited work on the importance of business-government relations in industrial policy is Peter Evans' book on informatics in Brazil, India, and Korea (Evans, 1995). Evans stressed the determining role of close business-government collaboration, or "embedded autonomy" in the success of industrial policy, especially evident in Korea. In Brazil, informatics policy suffered both from only a partially Weberian bureaucracy and autonomy, as well as insufficient embeddedness of policymakers in the business community in information technology.[24] Overall, though, Evans' book did not delve deeply into the specific institutional arrangements—councils or other mechanisms—to promote embedded autonomy.

The *câmaras setoriais* established by the Brazilian government in the early 1990s offer some revealing lessons about business-government deliberation. In the context of macro instability, the unraveling of an anti-inflation program, and increasing competition from imports, many sectors were having difficulty adjusting. The *câmaras* were designed to be tripartite (government, business, and labor) and negotiate short-term agreements on wages, prices and, in some cases, taxes and other sectoral priorities. The *câmara* with the largest impact was in the auto industry where representatives from labor unions, government ministries, and associations of auto assemblers, auto parts producers, and auto dealers met to negotiate agreements over prices, wages, employment, and taxes (Arbix, 1995; Toledo, 1994; Coutinho et al., 2012; Doctor, 2007a).

Although criticized as a subsidy to the middle class, most other analyses credit the *câmara* with reducing prices, increasing sales, stabilizing employment, improving labor relations, and fostering a longer-term dialogue on productivity. One of the main motivations for all participants was the specter of dramatic decline in the industry. The auto *câmara* highlights several aspects of successful PPC, in this instance with a combination of passive policy (tax reductions) and active policies (wage and price freezes with monitoring and performance standards). First, crisis, or perceptions of crisis, can help participants get quickly into meaningful negotiation. Second, success in an initial area of negotiation can prompt participants to think of other productive conversations they might have (i.e., economies of scope to collaboration) and thereby shift the activities of the council, in this case from wages, prices, and taxes to productivity and quality. The

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[24] Business-government relations were also important in IT in Mexico (Gallagher and Zarsky, 2007) and Costa Rica (Paus, 2005; World Bank/MIGA, 2006).

auto *câmara* also demonstrated the three core functions in that participants exchanged meaningful information on costs, the government offered significant benefits through tax reductions, and participants—especially firms along the supply chain and workers—could monitor one another on rent seeking. In contrast to the *Foro* in Chile, business and labor were able to negotiate and come to agreements.[25]

Fundación Chile is a private foundation set up in 1976 by the government and ITT. The foundation's public-private board includes representatives from government, ITT, BHP Billiton (after 2005), Sociedad Nacional de Agricultura, and several others. Representatives from private business also participate in many of the foundation's working groups. Its most famous project was the development of salmon farming, now a major industry and export sector (Agosin, 1999). The core focus of the foundation is on transferring technologies in sectors related to natural resources. The foundation operates like a venture capital fund, either creating firms of its own (to be sold off later) or, increasingly since the 1990s, entering joint ventures (Maggi Campos, 2006). Although subject to some controversy, most assessments of Fundación Chile are favorable. For example, a World Bank study called it "one of the most successful attempts in the Latin America region to establish national 'antennae' for new technologies" (Kuznetsov and Dahlman, 2008: 116); see also Agosin, Larraín, and Grau, 2010; Maloney and Perry, 2005.

Industrial policy and business-government councils were also widespread at the subnational level, in both industry and agriculture. Although the range of policy options is more restricted at the local level, as are the resources available for allocation, other factors may facilitate effective public-private dialogue (Sabel, 2012; Faguet, 2012). The range of participants is less numerous and less diverse, which facilitates decision-making and consensus building. In most cases of provincial elites, personal networks likely preexist the convening of a formal council, so participants may enter discussions with a presumption of trust and credibility. Moreover, parallel networks and ongoing elite interactions make it easier to monitor rent seeking. Perceived threats that encourage participation often derive from competition from other provinces, which makes it easier to analyze and respond to them.

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[25] The Brazilian government has on occasion revived the *câmara* model. In 2004, the Lula government launched a successful initiative to increase the production of biodiesel on family farms. In the following years, the government created several *câmaras* that brought together business (*usineiros*), farmers, and farm workers (Contag). The resulting public-private collaboration contributed to the success of the program (Pedrotti, 2013).

One sector where local councils have been especially important is in the promotion of software clusters. Provincial governments in Mexico (Mexico City, Jalisco, Aguascalientes, and Nuevo León) and in Argentina (Rosario and Córdoba) created councils that included representatives from government promotion agencies, software businesses (both local and multinational) and their associations, and local universities that were generally perceived as being effective in promoting the expansion and diversification of local clusters (Ruiz Durán, 2006; López and Ramos, 2008). Software development seems to thrive on ongoing, face-to-face interactions that business-government (and university) councils are well suited to promoting.

Many subnational councils are in agriculture where the problem with "industrial" policy is less the common difficulty of picking winners, because in many cases government officials do in fact know what types of changes in production (fertilizer, seed variety, crop mixes, etc.) would improve productivity. The problem lies more in getting the information and incentives to many thousands of dispersed farmers. Business-government councils can help solve the credibility gap (that farmers suspect government officials do not know what they are talking about), and business associations can be crucial in getting the word out.

In Mexico, in the wake of the dismantling of the Instituto Mexicano del Café (IMECAFE) and national regulation of coffee, state governments filled the void with various new institutions for sectoral governance (Snyder, 2001). In Oaxaca, producer groups and state officials created in 1990 a new business-government council, the Consejo Estatal del Café del Estado de Oaxaca, that helped secure "crucial collective goods for the coffee sector, such as a large share of the government's budget as well as development projects that responded to the producers' needs and yielded significant advances in productivity and quality" (i.e., mostly passive policies); see Snyder (2001: 88). The statutes established parity on the board between representatives of government and of producer organizations (apparently six of each initially), and provided the council with a director and technical staff. Besides promoting consensus and a united lobbying front for securing resources from the federal and state-level governments, the council also facilitated optimal implementation of decentralized storage and processing facilities that benefited the state's tens of thousands of small producers.

One of the crucial elements of the story of the creation of the Oaxaca coffee council and its successful functioning was the mobilization of small producers in a new, non-corporatist association, Cepco (Coordinadora Estatal de Productores de Café de Oaxaca). Cepco successfully pressured the state government to create the council and to expand the representation by producer groups. Cepco was also instrumental in helping to implement the programs adopted by the coffee council through the collaboration of its staff with staff from the government, through its knowledge of local conditions (highly variable through the mountainous terrain of Oaxaca), and through its ability to diffuse information about policies, programs, and new techniques to its dispersed membership.

One of the best researched cases of the benefits of public-private collaboration was in winemaking in Mendoza (McDermott, 2007; McDermott and Corredoira, 2011). Over the course of the late 1990s and early 2000s, Mendoza winemakers rapidly increased exports by increasing the quantity and especially the quality of production. The provincial government devised a number of novel forums for business and government to interact which were crucial in devising ways to reform the marketing, technology, upgrading practices, and skills in the sector. What helps highlight the net contribution of these business-government councils is the contrast with another, much less successful, wine-producing province, San Juan, where governments also tried to promote wine production using traditional subsidy programs without extensive forms of business-government interaction. The factors that were important in successful business-government interaction in Mendoza are several. On the government side, the governor had presidential aspirations and therefore wanted to use provincial policy innovation to showcase his leadership and vision. On the side of wine growers, they were facing an immediate crisis, and could see from Chile's earlier success the losses from not exporting more. Lastly, business and government developed over time multiple, overlapping, functionally differentiated forums and councils. The implication of this evolution is that institutional design is not a one-shot event but rather part of a longer-term process of learning and institutional experimentation.

Overall, these cases first show that governments continue to look for institutional mechanisms for bringing business and government together, whether in long-established sectors like wine and coffee or emerging areas like software and salmon farming. In addition, the wide variation of institutional formats shows that government instigators are not working with a common template but rather adjusting institutional arrangements to the task at hand and the relevant participants. Many of these councils scored significant successes in improving policymaking—in both passive and active industrial policy—by building support for new initiatives (Nafta and Coece in Mexico), enhancing information flows and problem solving (CNIC in Chile, CPC in Colombia, and wine in Mendoza), targeting government spending to better effect (coffee in Oaxaca), and facilitating cooperation (business and labor in Brazilian autos or dispersed software firms in Argentina and Mexico).

The examples in this section also provide some preliminary support for the hypotheses in Section 2.2. In terms of internal dynamics, councils seemed to function better when they had small numbers of members, frequent interaction among them, competent technical staff, and less diverse interests represented at the table (with the significant exception of the *câmaras* in Brazil). Fairly imminent threats help participants focus the deliberations (especially in Brazilian autos), and the promise of significant benefits kept business engaged (trade negotiations or wine upgrading). In many other cases, well-organized business associations added an encompassing perspective to the deliberations (as in CNIC), yet councils also seemed to work well with a mix of representatives from business associations along with individually appointed businesspeople (CPC). Lastly, explicit or implicit political backing from high authorities seemed important in many cases, especially to convince participants that the councils would have authority and access to resources, however, most worked fine without high-level representation at council meetings by presidents or ministers (or their subnational equivalents).

In most cases, the councils fulfilled the three core functions of significant information exchange, authoritative allocation, and mechanisms to impede rent seeking either through peer monitoring or because policies were horizontal and/or passive. These three functions were clearly missing in the productivity Forum in Chile in the 1990s. The Forum was only advisory without resources of its own and had a broad, vague mandate to discuss issues in productivity. Moreover, the heterogeneous and often contentious interests of business and labor politicized discussions within the forum, and neither side had incentives to divulge any meaningful information. The forum did seem to have good support from technical staff, but this was not enough to overcome the other design problems. Rents though were not a problem because there were none to be had.

2.4. Comparative Perspectives on Business Representation and PPC

Business associations are present in nearly all cases of PPC, largely of course to have more businesses represented at the table, and to keep associations from challenging and bypassing the councils. Across Latin America, associations vary enormously in their structures and capacities (Schneider, 2004) which in turn affects their ability to participate effectively in business-government collaboration. In theory, the best sorts of associations to partner with in PPC have high density, professional staffs, and capacity to reconcile divergent member preferences (Doner and Schneider, 2000; Schneider, 2004). High member density (e.g., member output as a percent of total output of the sector or relevant category) is crucial to give the associations an authoritative voice to speak for the represented group in discussions with the government. The staff is important to the information functions noted above.[26] On the dimension of managing divergent member preferences, internal interest aggregation is indispensable if business is to speak with one voice in communicating with government. Moreover, both technical staff and effective interest intermediation may serve to impede rent seeking. If association members meet regularly to reconcile differences, then they are more likely to be attentive, and resistant, to rent seeking by other members.

At first glance, well-organized associations seem a necessary prerequisite for effective business-government collaboration. However, in many instances of effective collaboration, additional less tangible, informal networks and representation can play an important part in how councils function and in some instances substitute for formal representation by associations. Some observers emphasize the importance of leadership or champions, either dynamic, committed, politically well-connected officials from government or informal leaders from the private sector, such as Jorge Gerdau Johannpeter in Brazil, Carlos Villegas in Colombia, or Juan Sánchez Navarro historically in Mexico (Schneider, 2004). Such leaders can, at least in the short run, encourage participation and investment by skeptics and stand in for formal representation. Moreover, preexisting, parallel, or overlapping informal networks can be crucial to dynamics within the formal council. That is, council deliberations can quickly establish trust, credibility and deep information sharing if members already have prior positive exchanges, expect ongoing exchanges in the future, and know that opportunism in the council could have costs outside it in other business and personal realms. Such parallel networks seem to have been key in upgrading Argentine wine production (discussed earlier) and may generally be more salient in local and regional councils where economic and political elites are smaller and geographically concentrated.

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[26] Professional staff in associations, usually long-term employees, can help provide high-quality information, long-term relations, and counterpart technical staff to work between meetings with government officials. However, and here time horizons are critical, if associations are invited to participate in a council over the longer run, this invitation itself can convince association leaders that they will need to invest in technical staff (Schneider, 2004).

The case below of the Consejo Privado de Competitividad (CPC) in Colombia illustrates well these informal factors.

The strength of business associations was crucial in successful PPC in distributional issues (stability pacts and trade negotiations) as well as in implementing large-scale outreach programs (such as agricultural upgrading). However, the strength of associations has been less relevant to, and predictive of, the success and failure of many forms of PPC in industrial and technology policy. For example, in broad cross national comparisons, encompassing business associations are better organized in Mexico, Chile, and Colombia than in Brazil (Schneider, 2004). But this organizational strength does not correlate with the prevalence of cases of more successful PPC and industrial policy. Mexico and Chile have few such cases, while Colombia and Brazil have more, despite the weakness and exclusion of many Brazilian associations from closer dialogue with the government.

These contrasts among Brazil, Chile, Colombia, and Mexico suggest that successful business-government collaboration depends on a mix of government pragmatism, business organization, and networks both within business and between business and government. Chile and Mexico may have well-organized business associations, but governments rarely invite them to collaborate. In the first instance, recent governments have, often for ideological reasons, not implemented many industrial policies. In Chile, business-government collaboration foundered either through divisions (again ideological) as in the productivity council in the 1990s or lack of continuity as in the case of CNIC, which was downgraded by a right-wing opposition government. Concertación governments (1990–2010) included almost no top officials from business, and generally viewed business as part of the right-wing opposition. Government officials consulted frequently, and formally, with leaders of business associations, but were suspicious of informal ties. In addition, Concertación governments maintained much of the neoliberal framework for economic policy while adding in more social policies. They rarely attempted to increase government intervention in the productive sector or promote major industrial policies (Agosin, Larraín, and Grau, 2010).

The story is similar in Mexico. Business is very well organized and participated in a range of collaborative policies with government through the 1990s, especially in trade and stabilization. However, governments after the 1990s, both PRI and PAN (after 2000), were liberal in overall orientation and indisposed to adopt industrial policies. Moreover, there were perhaps even greater concerns, in government and in the media, over the domination of associations by large business groups and the stronger resulting orientation by these associations to rent seeking. One of the major associations, one that orchestrates activities of other associations, is the CMHN which is in fact a club of 40 or so of the largest business groups (Schneider, 2002). In addition, large business groups like Carso (Carlos Slim) have also come to dominate some of the sectoral associations.

In contrast, in Brazil the absence of an economy-wide association, and the weakness of corporatist industry associations, foreclosed possibilities for meaningful dialogue at more aggregate, and organized, levels. However, prevailing pragmatism within the government, especially after 2002, and stronger informal networks across business and government and within government have allowed for important successes in ad hoc policies (as in the auto *câmara* in the 1990s) or narrower sectoral policies in the 2000s. For example, since the mid-2000s, the government has tried to leverage the massive new investments in oil and gas to promote domestic industries along the supply chain. Procurement by Petrobras, along with subsidized credit from the BNDES, has targeted domestic suppliers. To oversee these policies, the Lula government created Prominp, a business-government council, that brings together representatives from two ministries, Petrobras, BNDES, and 10 business associations (Pires, Gomide, and Amaral, 2013).

In 2011, the Dilma government created a new council, Câmara de Políticas de Gestão, Desempenho e Competitividade (CGDC), with four ministers from government and four representatives from business.[27] This council was largely focused on passive policies designed to improve the functioning of the public sector with a view to reducing costs to business. As in the case of the CDES, the government chose to bypass business associations in appointing four individual representatives from business. However, Gerdau has achieved such a reputation as a spokesperson for business overall that informally he is viewed as a legitimate representative of business (Bacoccina and Queiroz, 2012). This sort of representation is of course easier, and less controversial, in areas of passive policy.

Colombia represents a case where strong organizations, pervasive networks, and abiding pragmatism come together and foster an environment in which multiple, flexible forms of business-government collaboration have long been possible and effective (Thorp and Durand,

[27] The council has four ministers from government (Casa Civil, Finance, Planning, and Industrial Development and Trade, and four members from business (Jorge Gerdau Johannpeter (Grupo Gerdau), Abílio Diniz (Pão de Açúcar and other retail companies), Antônio Maciel Neto (Suzano Papel e Celulose), and Henri Philippe Reichstul (ex-president of Petrobras). Gerdau presided.

1997). From Federacafe (coffee in the 1930s), through Andi (industry, from the 1940s on), and the Consejo Gremial Nacional (economy-wide peak association in the 1990s), Colombian business has been well organized and formally incorporated into multiple councils for policymaking in agriculture, exports, training, trade, and other matters (Urrutia, 1983; Rettberg, 2001). The most intriguing recent examples, noted earlier, are the various competitiveness councils from the 1990s and 2000s.[28]

After 2006 the government encouraged the formation of the CPC, which in turn took a very active role in a range of mostly passive policies designed to reduce business costs and promote exports. In contrast to earlier councils, the major business associations were not prominent in CPC. In an ingenious structure, the small group of businessmen who initially founded CPC created a small executive committee comprised of individual businessmen who were strongly associated with the competitiveness agenda and innovation, and who were viewed as more public spirited than self-seeking (Eslava, Meléndez, and Perry, 2012). Yet, the CPC did not entirely exclude the major associations. Instead the CPC has a broader membership for its assembly. This assembly includes the major business associations, plus a range of businesses, domestic and foreign. In practice the executive committee does much of the work, runs the staff, and meets often with government, and then gets together much less frequently to the general assembly to report, consult, and have its strategies ratified. Membership in both bodies is by invitation and surprisingly does not include several of the largest business groups.

By excluding associations from the executive committee and some business groups from the CPC, the founders would seem to encourage these excluded parties to bypass council to try to influence policy through other means. To some extent, this happens as the business associations in particular have strong relations with political parties and Congress. However, to the extent it does not, it seems to be due partly to the reputation of members of the executive committee as non-rent-seeking, forward-thinking business leaders who can be trusted, informally, not to use their privileged positions to seek rents. So, if rents are not to be had in the CPC, then other groups have less to fear. CPC leaders have also taken pains to avoid policies that might give the appearance of favoring particular sectors or firms, and even supported tariff reductions that

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[28] In a very different policy area, the government created a business-government commission (with some members from academia and civil society) to monitor government spending on defense and internal security derived from a special tax on business and wealthy individuals (Flores-Macías, 2012).

angered agricultural associations (Eslava, Meléndez, and Perry, 2012). As such, the CPC focused on passive policy and would not be up to the challenges of active industrial policy. The success of CPC can be partly attributed to clever design and ongoing reputation management. However, it is also dependent on a context in which myriad and multiple networks permeate business and government elites and generate a wide distribution of information, both about reputations as well as about what actually goes on in closed meetings.[29]

These brief comparisons of national contexts suggest a number of conclusions. First, as seen in Mexico and Chile, well-organized business associations are not sufficient to promote effective PPC in the absence of government disposition to undertake industrial policies and/or solicit business cooperation. Second, in countries without well-organized business associations, as in Brazil, business-government collaboration can still thrive when governments devise ad hoc arrangements, particularly sectoral, or when "natural" business representatives like Gerdau can substitute for more formal representation. Third, even where associations are well organized, as in Colombia, governments and business may bypass these associations in order to reduce opportunities for, or perception of, rent seeking. Fourth, in both the Brazilian and Colombian cases, greater pragmatism, and closer networks between business and government facilitated the success of more ad hoc representation by business. Lastly, considering the subnational cases discussed earlier, even within politicized or disorganized contexts at the national level, subnational governments can have greater success in public-private collaboration because geography makes business organization easier, networks form more naturally, and governments tend to be less ideological and more pragmatic.

2.5. Conclusions on Micro Mechanisms

As noted at the outset, existing studies of business-government collaboration are often too vague and voluntaristic in emphasizing political will, high-level support, and consensus, as well as too detailed in the lists of institutional desiderata. Section 2.2 provided another list, though somewhat shorter, of components like small numbers of participants, technical staff, and frequent meetings, but with connections to the three basic functions of information exchange, authoritative allocation,

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[29] Returning to the three core functions from previous sections, the CPC 1) manages significant information exchange through frequent, lengthy, closed meetings of the executive committee with government representatives; 2) recommends policies to reduce business costs (authoritative allocation); and 3) reduces opportunities for rent seeking through reputation and focusing on horizontal, passive policies (Eslava, Meléndez, and Perry, 2012).

and barriers to rent seeking. The empirical cases in Sections 2.3 and 2.4 then provided some illustrations of how the institutional components might be variably and dynamically arrayed to fulfill these three main functions.

In closing this discussion of contemporary forms, it is important to remember that business-government councils in Latin America have a long pedigree. From the beginnings of industrial policy in the 1930s and 1940s, governments in Latin America created various forums to give business representation in formulating, implementing, and or monitoring policies. In Brazil in the 1930s, Vargas put representatives of the new corporatist industrial associations on various *conselhos* charged with setting tariff protections. In Chile, the government created a development bank, Corfo, and put representatives of the industry association Sofofa on the bank's board. In Colombia, the newly powerful federation of coffee growers, Federacafe, gained seats on a variety of boards, including the central bank, over the 1930s and 1940s (Schneider, 2004).

Business-government councils also show no signs of disappearing. Although patterns of business representation vary across countries, over time, and across policy areas, governments continue to create councils and appoint businesspeople to them. Recent cases from the 2000s include new councils for competitiveness in Colombia, technology in Chile, general planning (CDES) and sectoral promotion in Brazil, and for trade negotiations in a number of countries. And while experimentation continues at the national level, the proliferation of councils also continued on a subnational level, both provincial and municipal. Given this long tradition, and ongoing experimentation, it is surprising that there is so little systematic research or evidence of institutionalized learning on what sorts of councils work best and for what purposes.

So the scope for future research is wide. One extension in analyzing institutional design would be to look beyond individual councils to consider as well the interactions of particular councils with other agencies, forums, and informal networks. It may be that the key to business-government collaboration is less in finding the optimal institution or council, in the singular, but rather the optimum matrix of interconnected councils, agencies, associations, and networks. This seems to be one of the main implications of the success of wine exporters in Mendoza. A network of councils allows an evolving division of labor, gives more specific and concrete tasks to particular forums, permits cross-fertilization and sharing of experiences of successful interaction, and speeds the process of building wider-range trust.

3. Macro Politics: Political Systems and Business Group Preferences

3.1. Introduction[30]

Even if governments design optimal venues and councils for interacting with business, and find, on the side of business, well-functioning business associations and supportive informal networks, the results of public-private collaboration still depend on the larger political-economic context in two fundamental ways. First, PPC does not take place in a vacuum, and businesses are simultaneously investing in many other avenues for influencing government policy (Eslava, Meléndez, and Perry, 2012; Schneider, 2010c). If the outcome of council deliberations and the resulting industrial policies do not please powerful businesses, then they can use alternative channels to get them changed. In simple terms then, closing off alternative channels makes the council more authoritative and gives business stronger incentives to invest in it.

Second, PPC and policy outcomes will also depend on the structure and capabilities—and the preferences that arise from them—of the main business interlocutors. For many policy areas, the dominant business participants will be diversified business groups, so careful consideration of their structures and strategies is essential to understanding the kinds of preferences they are likely to push when collaborating with governments. Too many discussions of industrial policy refer to partnerships with a vague and generic "private sector" that is presumably therefore amorphous and malleable. In fact, as policy makers in any middle-income country know well, they face big businesses with well-entrenched structures, capabilities, and preferences. Industrial policy is about creating businesses of the future, but in the immediate run it also means tailoring policies and mechanisms for PPC to actual existing firms.[31]

In the overall political context, formal institutional features like the common combination in Latin America of majoritarian presidentialism with PR legislatures (MP/PRL) and informal practices like appointive bureaucracies favored business groups and other insider groups in distinctive ways. Democratization in Latin America in the last decades of the 20th century broke up a lot of cozy back-room relations between business groups and authoritarian governments.

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[30] This section draws on Chapter 7 in Schneider (2013).

[31] PPC with incumbent firms can create several dilemmas that merit separate analysis. If the policy goal is to upgrade an existing industry, then preferences among policy makers and businesspeople should be easier to align. If however, policy is intended to create new firms or new sectors, then it may run into opposition from incumbent firms that prefer more support for their existing activities (on Brazil, see Almeida and Schneider, 2013).

However, business groups in democratizing polities learned quickly to avail themselves of new venues such as parties, elections, courts, and the media (Schneider, 2010b; Yadav, 2011). These democratic means were more costly, complex, and indirect, but when they worked to further business preferences they could be more reliable and enduring than ad hoc relations with authoritarian leaders.

This second part proceeds as follows. Section 3.2 examines the features of political systems, formal and informal, that give dominant stakeholders—business groups and other organized interests—privileged access to policymaking. Section 3.3 analyzes some of the likely policy consequences of this access by looking more closely at business group preferences.

3.2. Political Institutions and Privileged Access for Big Business

Formal political systems in Latin America stand out in their combination of two core features: 1) majoritarian presidentialism, and 2) proportional representation elections for the legislature (at least for lower houses, with only a few cases in recent decades of majority or mixed system elections).[32] In 164 legislative elections in Latin America (excluding the Caribbean) from 1946 to 2000, 77 percent were proportional, the second-highest regional proportion in the world after Europe. Of the remainder, both multi-tier (14 percent) and mixed (5 percent) elections often had proportional components. Only 4 percent were straight-up majoritarian elections (Golder, 2005: 115).

The presidency is endowed with strong constitutional powers, but legislatures have a growing importance especially where, as is usually the case, the president's party is in a minority. Across 12 countries of Latin America from 1982 to 2003, presidents' parties were in majority in the legislature only 34 percent of the time (compared with 51 percent for presidential regimes worldwide) and presidents in five countries, including Brazil and Chile, never had a majority (Martínez-Gallardo, 2010: 127).[33] While there are many other differences across the political systems of Latin America (party discipline, decentralization, number of legislative chambers, and

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[32] The focus of this section is on those aspects of the political system that favor business. For a fuller analysis of all actors, see IDB (2005) which also provides cross national comparisons on the degree of proportionality in electoral systems and the positively correlated party fragmentation. The median number of effective parties was about three for all countries and above four for the larger countries (p. 37).

[33] Across all political systems, and not distinguishing between proportional and majoritarian electoral systems, minority governments occur 51 percent of the time in presidential systems, 49 percent in parliamentary systems, and 67 percent in mixed systems. In these minority governments, coalitions emerge 87 percent of the time in mixed systems, 77 percent in parliamentary systems, and 62 percent in presidential systems (Cheibub, 2007: 79).

so on), the Majoritarian Presidency/Proportional Representation Legislature (MP/PRL) model is a good starting point, especially since this combination is ubiquitous in Latin America and rare elsewhere (Schneider and Soskice, 2009). MP/PRL politics combine core elements of political systems that are common in liberal political economies like the United States and United Kingdom (majoritarian presidentialism) with those common in coordinated economies as in northern Europe (proportional representation), but the resulting mix has distinctive dynamics.[34]

The PR legislature is well suited for representing sectoral interests and organized groups (Iversen and Soskice, 2009), and domestic business has strong incentives to invest in legislators. With a PR legislature and a majoritarian presidency, deals normally have to be made with parties and, when strong party discipline does not hold, with individual politicians as well. From 1982 to 2003, governments in 12 countries of Latin America had coalition governments (with more than one party in the cabinet) 52 percent of the time (and this proportion has probably increased in the 2000s). The distribution is fairly bimodal, with six countries having coalitions 80 percent or more of the time, and four countries having coalitions 22 percent or less of the time (Martínez-Gallardo, 2010: 127). When parties are weak, the executive often has to negotiate individually with legislators over pork spending but also measures favorable to core campaign contributors like business groups. Open-list PR, as in Brazil, further weakens parties and enhances the power and independence of individual politicians. In open-list PR, with large electoral districts, candidates can build highly targeted constituencies among particular regions or cities, social groups (labor, ethnic, or religious groups), or with particular businesses.

In Brazil, the Partido da República (PR party), formed in 2006 out of two smaller parties, illustrates how parties specialize in coalition governments. The PR party (or its predecessors) has long been a member of the governing coalition in exchange for a ministerial appointment, and after 2003 in exchange for the Ministry of Transportation. This specialization, in turn, allows business to target their campaign contributions. In the 2010 elections, the main contributors to the PR party (nearly 1 billion *reais*) all had contracts with the Ministry of Transportation (*Brazil Focus*, 2-8 July 2011, p. 8).

Moreover, legislation has to go through congressional committees, so committee chairs and members have the ability to slow down and amend legislation, and hence the derived ability to

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[34] On political systems in liberal and coordinated economies, see Iversen and Soskice (2006).

intervene with ministries and agencies on questions not directly related to ongoing legislation. In other words, small parties and individual legislators have multiple ways of holding up the executive, so the executive has incentives to accede to particularistic demands from legislators on policy implementation in exchange for votes on other issues.[35] So the best way for business and other groups to lobby the executive is often indirectly through the legislature. Investment in individual legislators as well as in parties thus has potentially high rates of return for businesses whose profitability depends in part on government regulations.[36]

By way of contrast, a political system on the far, nonporous end of the continuum would be a majoritarian two-party system with closed lists and financial contributions prohibited or restricted to parties, and consequently strong parties focused on the median voter. In this sort of system, business has fewer points of access to press individual interests. In practice, Britain's polity is on the less-porous end of the continuum, as is Chile's on the spectrum in Latin America. India, with a majoritarian electoral system and stronger parties, offers a stark contrast with fragmented parties and PR in Brazil. When asked where they preferred to lobby, 52 percent of Indian businesspeople responded party leaders (versus 11 percent in Brazil) while 52 percent of Brazil business respondents preferred to lobby individual legislators (versus 3 percent in India), as discussed by Yadav (2011: Tables 4–10, 96–101). The basic point is that a fragmented party system in a PR legislature is well designed to give individual politicians and small parties power independent of the presidency, and this is what business groups can exploit.

Beyond the general MP/PRL model, some countries have peculiar institutional features that further enhance business access. Mexico has a mixed electoral system with only partial PR, and never had coalition governments under the PRI or since the transition to democracy in 2000, but it has other features favorable to business influence. The constitutional provision against

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[35] In Brazil, the informal group of legislators backed by Protestant churches, the *bancada evangélica*, provides a good, non-business example. In May 2011 the Ministry of Education was preparing to send out a kit of materials to schools intended to help with training against homophobia. The *bancada evangélica* opposed this distribution, but Congress had no formal jurisdiction on the issue. However, the government wanted to stop Congress from opening an inquiry into a top minister, Antônio Palocci, so President Roussef ordered the Ministry of Education to suspend the homophobia initiative in exchange for support in Congress from the *bancada evangélica* in stopping the inquiry (*O Globo*, 26 May 2011, Radiobrás email summary).

[36] Beyond big business, MP/PRL systems are susceptible to pressure by other well-endowed and well-organized groups such as landowners, professional associations, and labor unions. In the context of market reforms, unions in many countries were able to block extensive labor law reform, especially in the area of union or collective rights (Murillo and Schrank, 2005). A broad cross national study found that "countries with proportional representation have more protective employment and collective relations laws..." (Botero et al., 2004: 1370). Chang et al. (2011) also argue that PR systems favor producer groups over consumers.

immediate reelection means that legislators have little need to pay attention to voters who elected them, especially compared to the need they have for resources for their next electoral campaign (in some other jurisdiction); see Elizondo (2011). Moreover, after the PRI lost its majority in Congress in 1997, the party system evolved into an unwieldy three-way split, where each of the three main parties had opportunities and ambitions to win the presidency. The two losing parties in each presidential election since 2000 ended up with an opposition majority in Congress and few incentives to cooperate with the president. Government bills that countered strong business interests (as in antitrust laws considered later), often made little headway in Congress, especially in years prior to major elections because business lobbyists found ready allies among opposition legislators (Schneider, 2013).[37]

In addition to formal institutions, other informal practices also enhance business influence. Bureaucracies in Latin America are porous and staffed at the top by political appointees. Appointees in top economic positions are sometimes suggested or vetted by business groups (and sometimes are ex-employees) and most consult regularly with business groups (Schneider, 2004). In many cases, presidents appoint businesspeople directly to the cabinet. The practice varies over time and across countries (Table 1).[38] But even countries where the practice was historically uncommon—Chile under Concertación governments (1990–2010) and Mexico under the PRI (1930s–2000)—had recent governments with many businesspeople in the cabinet. Partisanship, of course, matters in these appointments, and populist left governments in Argentina, Bolivia, Venezuela, and Ecuador had few cabinet members from business. Center-left governments like those of Lula and Humala may, however, use business appointees to signal financial markets on their more conservative policy intentions (Schneider, 1998).[39]

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[37] The judiciary branch in some countries has also given business groups another political recourse, though again in a negative sense of blocking adverse policies. As the judiciary gained in powers and independence in democratizing polities, business adjusted to take advantage of these new powers. Mexico provides again the clearest example. The Mexican Constitution allows citizens to sue for injunctions (*amparos*) to stop the implementation of government measures that infringe on fundamental individual rights. Firms have been successful in getting *amparos* to stop rulings from antitrust and other regulatory bodies (Elizondo, 2011; interviews in consulting firms that help business groups file *amparos*, February 2011).

[38] At least three of Fujimori's top economic ministers in the early 1990s were businesspeople (Wise, 2003: 208). In Mexico, "under President Fox the Minister [of Communications] was himself an ex-employee of the principal firm in the sector, Telmex. While there is nothing illegal in this, it raises concerns over the extent of independence from the industry that it is supposed to regulate" (World Bank, 2007: 40). Business appointees were also common in Argentina prior to 2000.

[39] Colombia is renowned for close business-government networks. In a survey there in 2008, 30 percent of businesses participated in the design of policies that affected them. Of these, 55 percent of businesses participated directly while

Table 1. Business Appointees in Recent Government Cabinets

	President	Number of Business Appointees	Percent of Business Appointees
Argentina	Kirchner (2003–05)	0	0
	Duhalde (2002–03)	1	8
	De la Rua (1999–02)	1	9
Brazil	Rouseff (2011)	0	0
Chile	Lagos (2002–05)	0	0
	Piñera (2010)	10	47
Colombia	Uribe (2002–05)	7	54
Mexico	Zedillo (1994–99)	0	0
	Fox (2000–05)	5	25
	Calderón (2006)	3	16
Peru	Toledo	7	27
	Humala (2011)	5	31

Source: Schneider (2013).

The recent expansion of business groups abroad, largely through acquisitions of large existing firms, vastly increased the size of some firms, and in consequence their total investment budgets, both of which augment their political leverage and the interests of politicians and government officials in hearing their views and plans. The relative absence of MNCs from politics also magnifies the power of the largest domestic groups (Schneider, 2004, Chapter 4). MNCs make public pronouncements about narrow issues affecting their sectors, lobby officials for favorable regulation (especially on specific issues such as intellectual property and copyright protection), and push (and sometimes bribe) for contracts. But they shy away from commenting on broader, more controversial issues, do not invest much in associations or think tanks, and are usually prohibited from investing in electoral campaigns. Across Latin America, 13 of 18 countries prohibit contributions by foreign entities or individuals (Griner and Zovatto, 2005: 31). Lastly, MNCs are largely excluded from associations representing big business, save for Argentina where the AEA (and the CPC in Colombia, discussed earlier), an elite club of several dozen CEOs of the largest firms, invited executives from MNCs to join.[40]

64 percent participated indirectly through a business association. However, these responses are not mutually exclusive, so many firms may have used both avenues (Eslava and Meléndez, 2009: 16).

[40] Even when invited to join, MNC executives may not say much at meetings (interview with staff member at CPC, 1 February 2013).

Think tanks grew up in the late 20th century and often provided business groups with additional avenues to participate in shaping policy debates. Think tanks have long been influential in Colombia (e.g., Fedesarrollo) and more recently in Argentina, especially in the 1990s (FIEL, Fundación Mediterránea), Chile (Cieplan, CEP, and Libertad y Desarrollo), and Mexico (IMCO) (on Chile, see Cociña and Toro, 2009). Brazil, surprisingly, has fewer general-purpose think tanks, though business supports single-issue NGOs on topics like corporate governance (Instituto Brasileiro de Governança Corporativa) and education (Todos pela Educação). Elsewhere most think tanks, save some social democratic (Cieplan) or union-supported ones, are largely dependent on funding from multiple business supporters and offer business sympathetic positions on policy. In a few cases, the think tanks are closely associated with particular business groups, especially CEP with the Matte Group in Chile and Fundación Mediterránea with Arcor in Argentina. Think tanks are useful to big business in shaping public debate but also in serving as a springboard for appointments to top positions in government, as the heads of think tanks are often called to public service as ministers or other top officials.

Lastly, the media, especially television, were sometimes bought up by business groups or were mostly aligned with them on major policy issues. Some major television channels grew into important groups in their own right as in Televisa in Mexico and Globo in Brazil. In other cases, business groups have bought into TV and radio (especially in Central America; see Segovia, 2005: 31). Other business groups with major media operations include Ardilla Lülle and Santo Domingo in Colombia, and Cisneros in Venezuela. Overall, corporate concentration is high across all media (print, radio, and television) and communication services: on average the largest four operators control 82 percent of the market, ranging from about two-thirds in radio and print media to over 90 percent in television (Becerra and Mastrini, 2009: 213). These media outlets allowed business groups to shape public debate on major policy decisions. When owned by business groups, these media also gave business groups more direct influence over politicians who always stand to benefit from favorable media coverage. Media control thus gives business groups another potential currency in exchanges with politicians.

Save for a few exceptions in Brazil, nearly all large business groups are owned by families, and business-owning families have additional advantages in politics. Families have several trusted members they can send into politics (and sometimes some members develop specialized political skills) to engage on behalf of the whole family. Most importantly, families can make longer-term commitments to support politicians and can also bear an extended and consequential grudge if crossed.[41] CEOs and other salaried managers tend to rotate through firms, especially in MNCs, and so lack comparable long-term credibility. As Morck, Wolfenzon, and Yeung put it: “the CEOs of widely held firms in the United States serve an average seven-year term—an eye blink compared to the permanence of the old-money families controlling pyramidal groups in many countries” (2005: 696).

In sum, political systems and practices in Latin America are remarkably accommodating for business interests, especially narrow or individual interests of big business. Large business groups also have general advantages over others in politics, starting with more money. Steady acquisitions at home and abroad augmented the size advantage and added to their structural leverage. As with traditional MNCs, more internationalized business groups can threaten governments that they will shift investment abroad. In comparative terms, from formal institutions like MP/PRL to informal practices like appointments and media control, big business in Latin America has more options for political influence than are available to big business in other countries.

These differences in political context are crucial to bear in mind when assessing the relevance for Latin America of industrial policy making and PPC in other countries. There is a correlation between successful developmental states and authoritarian rule and more specifically between performance standards imposed on firms (through active industrial policy) and authoritarianism (Schrank, 2013). Even in more democratic contexts, developmental states in Asia counted on powerful insulated bureaucracies with strong backing from ruling parties, as in postwar Japan (Johnson, 1982). These political and bureaucratic conditions, of course, do not exist in contemporary Latin America. Moreover, business groups in Latin America are larger, more internationalized, and more diversified in political investments (media, think tanks, business associations, campaign finance, etc.) than were business groups in the early days of developmental states in Asia, as in Korea in the 1960s and 1970s.

These power asymmetries do not in principle compromise PPC in passive industrial policy, but they do make active industrial policy and associated performance standards more difficult and

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[41] See Shleifer and Summers (1988) generally on the advantages of family business in maintaining credibility in implicit long-term contracts. A number of suggestive studies correlate the prevalence of large family firms with a range of negative outcomes in growth, inequality, and social welfare (Fogel, 2006; Morck, Wolfenzon, and Yeung, 2005).

risky. Intervening to change behavior in large business and imposing sanctions for underperformance—active industrial policy—is much more daunting when firms have many alternative avenues to pressure politicians and bureaucrats to attenuate performance standards and penalties for noncompliance. The ability, discussed in the next section, of huge firms to evade or stymie performance standards imposed by regulatory and competition agencies gives one indication of the likely difficulties that active industrial policies face. Therefore, PPC in active industrial policy operates at least in the shadow of this broader context where the participants know that business has outside alternatives if dissatisfied with the outcome of council deliberations and decisions. Overall, then this "shadow" could encourage policymakers to make industrial policy more passive, that is, make the focus of policy changes in government behavior and rules rather than trying to change firm behavior. However, presumably there are areas where both business and government would share interests in problem solving, even if it meant that business had to bear some of the costs of government intrusion. However, to find out what those areas might be requires some investigation of baseline business preferences.

3.3 Business Preferences

Understanding likely policy consequences of business lobbying requires an analysis of both how business groups engage in politics (as considered in the previous section) and what it is that business groups want from policy. As Culpepper (2011) argues with respect to corporate governance in developed countries, policies vary across countries not in terms of business influence—big business usually gets what it wants—but rather in business preferences. To understand what policies business groups will push and oppose requires a brief consideration of their overall strategies and sources of competitive advantage (Schneider, 2013, Chapter 3). This section focuses on large, diversified business groups that dominate private business across Latin America. Any industrial policy seeking to upgrade a large portion of the private sector will need to work with (or find a way around) these huge business groups.[42]

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[42] The focus in this section is on business groups mostly due to their dominance, but similar analyses of structure, strategy, and preferences could be conducted for MNCs, SMEs, or firms in particular activities or likely to be subject to new industrial policies. Also, largely in the interests of space, this section does not consider much cross-national variation in business groups such as their greater size and internationalization in Brazil and Mexico or their greater specialization in Brazil and Chile (Schneider, 2008; Schneider, 2009). These variations are sometimes important, but what is more remarkable is the great similarities in business groups across countries, large and small, in Latin

Many business groups have strengths in commodity and other production that involves the organization of large numbers of unskilled and semi-skilled workers. Business groups are diversified but also have a lot of core assets in naturally low-risk sectors where they have inherent advantages in international markets (natural resources, especially mining, agroindustry, and food processing), sectors where they are shielded from international competition (as in non-tradable service sectors like banking, telecoms, and other utilities), or oligopolistic or favorably regulated sectors that provide them with a reliable cash flow (e.g., cement, beverages, media). Very few business groups have most of their assets in highly competitive manufacturing activities.

Another great source of competitive advantage comes from the ability of business groups, because of their large size, to mobilize capital both from their many subsidiaries and from domestic and, more recently, international financial markets. A last advantage is in flexibility and speed. Business groups (similar to private equity firms) are flexible externally in their ability to buy and sell subsidiaries because they have access to sufficient cash and because managerial control is so centralized. Business groups have internal flexibility because they can hire and fire workers easily largely because skill levels are on average low, and because firms circumvent costly labor regulations through subcontracting or keeping worker tenure short.

A first policy implication of this set of competitive strategies helps to explain the surprising lack of business opposition to trade liberalization, and market-oriented reform overall, in the 1990s (Naím, 1993; Kingstone, 1999). Because they are diversified, most business groups are not inherently protectionist or export-oriented, but rather some mix. Diversification reduces the intensity of business group preferences on trade protection and makes them amenable to a range of policies.[43] If anything, diversified business groups are uniquely suited to adapting to abrupt changes in overall development strategy. In addition, privatization programs opened up attractive new opportunities to business groups exiting manufacturing. Similarly, diversified business groups are fairly well insulated from, or hedged against, exchange rate fluctuations. Although exporters prefer undervaluation, most commodity producers in the 2000s had costs well below world prices and could thus more easily absorb the costs of currency appreciation. Business groups

America. For more details on history, strategy, structure, and political activities of business groups in Latin America, see also the chapters in Colpan, Hikino, and Lincoln (2010).

[43] Smaller, more specialized, import-competing firms of course had more to lose and sometimes opposed trade liberalization (Shadlen, 2004). Governments also adopted compensatory policies to ease adjustment and weaken political opposition (Etchemendy, 2011).

in services are largely shielded from international competition (they rarely export) and so are less affected by exchange rates (see Steinberg, 2010).

Where business groups have stronger interests is in the “quiet politics” of maintaining the regulatory environment that gives them competitive advantages over local start-ups and potential MNC entrants. Many business groups sought out regulated sectors in the wake of market reforms in the 1990s. A top financial executive at the Grupo Matte in Chile said the group strategy was to be big in four or five regulated sectors which were therefore “low risk and capital intensive” (*Qué Pasa*, 5 November 2005, p. 22). Many regulations are technically complex and low visibility, and politicians and voters lack the expertise and interest to engage them. Such areas of low-salience politics give big business an advantage in pressing their preferences into policy (Culpepper, 2011).

Stock markets are one area where business groups want to maintain favorable regulation. Stock markets grant business groups access to additional capital and sophisticated means for extending business group control over more corporate assets especially through mechanisms like nonvoting shares and pyramidal structures. In Brazil, for example, firms could issue two-thirds of their shares as nonvoting, so business groups could control 50 percent of voting shares with only 17 percent of the firm’s total capital (Coutinho and Rabelo, 2003: 44). Through the 2000s, stock markets grew (after a drop in the 1990s), measured in terms of total capitalization as a percent of GDP, but turnover—the actual trading of shares—remained small (Stallings, 2006). And, in some cases, listed firms organized to keep stock markets from expanding beyond the limited functions useful to business groups (Coutinho and Rabelo, 2003: 49).[44]

Business groups share an abiding interest in weak and passive antitrust regulators, largely because many of them have market power in some segments of their operations that allows them to generate the steady cash flow needed to expand and sustain other firms in the group. Mexico provides the clearest examples. With its near monopoly of fixed-line telephony, Telmex, the flagship of Carlos Slim’s Grupo Carso, charged some of the highest rates in Latin America. Telmex’ interconnection rates were 44 percent above the OECD average which raised high barriers to entry by potential competitors (*Economist*, 17 March 2011); see also World Bank, 2007: 39–40. In essence, Mexican consumers helped finance Grupo Carso’s massive expansion into telecommunications markets throughout Latin America. In cement, Cemex controlled around

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[44] In a study of 41 developed and developing countries, higher proportions of family firms were negatively correlated with various measures of financial development (Fogel, 2006).

two-thirds of the Mexican market, and Mexican consumers paid double what U.S. customers paid, in large part due to “Mexico’s deliberately flaccid antitrust regime” (Schrank, 2005: 109). Overall, “regulatory agencies in Mexico are weak and lack autonomous power” (World Bank, 2007: 40).[45]

A last area where business groups have interests is in the continuation of various policies intended to promote domestic business or national champions. These preferences are not as strong as those over other kinds of regulation, and business in fact lost many subsidies and protections in the 1990s, often without putting up much of a fight. However, as other policies emerged, including privatizations favoring national buyers, business groups stood ready to take advantage of them. The largest, by far, program of business promotion is directed by the BNDES, the development bank in Brazil, which survived the state retrenchment of the 1990s and more than tripled its lending in the 2000s. Although this growth did not apparently result from business pressures, business groups were undoubtedly the major beneficiaries (Almeida, 2009).[46] As Eike Batista, founder of EBX (a new business group in mining and logistics) and the then wealthiest man in Brazil, put it: the BNDES is “the best bank in the world” (*Economist*, 5 August 2010).

In terms of industrial policy, business groups open up significant opportunities, especially in areas where policy seeks to promote diversification (Imbs and Wacziarg, 2003; Rodrik, 2007). Interests are well aligned in a fundamental sense that business groups are, prior to any policy initiative, already diversified and usually actively seeking out new opportunities for further diversification. Moreover, in the complex process of searching for areas of optimal national diversification (self-discovery), business groups can potentially be ideal partners either because they know the “product space” around them and can easily identify the next best sector to move into (they would be, in Hausmann’s metaphor, adept monkeys, per Hausmann and Klinger, 2006). This was, of course, a key part of the story of industrial policy in Asia, especially Japan, Taiwan, and Korea, where government policies charged diversified business groups (*chaebol* and *keiretsu*) with opening up new sectors. When in the 1970s the Park regime in Korea embarked on the drive

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[45] In March 2006, the Chamber of Deputies unanimously passed, in seven minutes, a law extending television concessions and raising barriers to entry, a law subsequently known as the Televisa Law. The bill was reportedly drafted by Televisa lawyers, and passed without amendment (against the recommendations of the CFC; see World Bank, 2007: 41), in part because all parties wanted favorable television coverage in the upcoming elections (Becerril, 2007).

[46] BNDES’ president Luciano Coutinho (2007-present) had been close to business, and his appointment to BNDES may not have been unrelated to business support. There is some evidence (Musacchio and Lazarrini, 2014) that campaign contributions help with BNDES loan disbursements.

in Heavy and Chemical Industries (HCI), planners called on existing *chaebol* to develop new sectors. For example, the government "chose Hyundai and Daewoo to develop power plant facilities and Hyundai, Samsung, and Daewoo to build ships" (Chang, 2003: 54).

In Latin America, there are very few recent cases of policies specifically designed to harness the diversification capacities of business groups (such policies were more common under ISI). One revealing case is Votorantim Novos Negócios. In the early 2000s, Votorantim, one of the largest traditional business groups in Brazil, created a venture capital subsidiary. Votorantim had a long tradition of entering and exiting sectors and contracted the consulting firm McKinsey to devise a more formal structure and strategy for managing diversification. McKinsey proposed establishing a subsidiary with $300 million to invest in new ventures. So, Votorantim created Votorantim Novos Negócios (VNN) which generated several dozen proposals for diversifying into existing sectors and invested venture capital into 12 new projects (interview with Fernando Reinach, one of the top executives at VNN, 5 July 2011). Eight of these 12 did not pan out; the other four took off. Votorantim sold two of these, Allelyx and Canavialis, to Monsanto and the other two to other investors. But, to the surprise of many, by 2010 Votorantim closed VNN despite whopping financial returns (on the order of 60 percent) from the four successful investments.

From one perspective, VNN was criticized as a failure because the investment (including public funding) did not spawn a national firm with a sustained vocation for R&D and venture capital nor establish a precedent for business groups to diversify out of commodities into higher technology sectors. From another perspective, though, the fact that VNN could sell its start-ups and make a bundle for itself and the scientists who co-invested sent a clear signal to other would-be innovators that a lot of money could be made in science and engineering (and Fernando Reinach went on to create another venture capital fund with other investors). When thinking about industry policy to promote R&D, innovation, diversification, and self-discovery, the VNN example offers several clear lessons. First, large, diversified business groups can easily and successfully raise venture capital to enter risky, high-tech start-ups. But, second, business groups almost never do so on their own.

In sum, it is unsatisfying and incomplete merely to establish that business groups have power and conclude that they will use it to seek rents. The specific rents and benefits business groups seek depend on their core capabilities and strategies. So most business groups in Latin America are less intensely interested in trade, exchange rate, and foreign investment policies, and rarely invest their political energies in pushing major reforms in education or labor law. Where their interests are strong is in the “quiet politics” of various forms of regulation in financial and product markets that shore up their privileged market positions and raise barriers to entry. The institutional and informal forms of access discussed in Section 3.2 are well suited to permit big business to influence these less publicly visible regulations. However, the flexibility, agility, and deep pockets of business groups also, in principle, make them potentially well-suited partners for productive development policies, especially those promoting self-discovery and diversification (as there were in East Asia).

3.4 Conclusions

Few will be shocked by the argument that big business has disproportionate political influence. However, it certainly bears repeating since so few studies of democracy in Latin America even consider it. It makes little sense to focus exclusively on political inputs like public opinion, voting, parties, and the institutions that shape them if in fact policy outputs depend on other actors like business that distort these inputs or twist later stages of policy making and implementation. What is more interesting than the argument that business has influence is the particular ways this influence is channeled. Business in coordinated capitalism in northern Europe, for example, has enormous influence on some issues that is facilitated by access to PR legislatures (Iversen and Soskice, 2009). However, that influence comes through encompassing associations and goes into institutionalized parties. This is very different from the sorts of direct, individualized, personalized links between individual businesspeople (or business families) and individual politicians that characterize business politics in Latin America.

Returning to the institutional design issues in Section 2, the analysis of business access in Section 3 should give some indication of where and how business could bypass business-government councils and thereby undermine agreements and longer-term negotiation in councils. If, for example, a large business is excluded from a subsidy program adopted in a council, the business can use connections in Congress and parties (and their influence in the Executive) to have their firms included. If successful, such circumventing lobbying can signal to council participants that the real action is no longer in the council, and this realization can lead to a downward spiral where participants lose interest in the council which subsequently achieves less, confirming participants’ skepticism. Anticipating these reactions and probable bypass tactics, policy makers can attempt a priori to insulate the council or vulnerable parts of the policy process. These insulation investments require clear, prior, political and institutional analysis of the likely ways business can get around the council.

The analysis of the privileged access of business may also be useful for weighing the costs and benefits of active versus passive industrial policies. Many horizontal and passive policies (that improve public sector procedures to lower business costs) are public or near-public goods and should not therefore provoke business lobbying to skew or undermine them. In contrast, active industrial policies that seek to use public subsidies to change firm behavior using performance standards (exports, R&D, etc.) may be more likely to run into difficulty as firms avail themselves of alternative political channels to resist, or dilute, the sanctions imposed for failing to meet performance targets. This does not mean that active industrial policy is hopeless, but it does suggest more limited and targeted use, again using political analysis to try to anticipate business reactions.[47]

Some of the implications of the analysis of preferences in business groups work in the opposite direction, namely favoring active over passive industrial policies. As noted in the discussion of diversification in business groups, active industrial policies—with subsidies and performance standards designed to promote new sectors and self-discovery—may find willing partners in firms that are already structured and designed to seek out new opportunities. The resistance here may arise less from political resources than from the range of very profitable diversification projects that emerge for business groups abroad or in commodity sectors rather than the riskier, high-tech activities likely to be targeted by active industrial policy. On the flip side, passive industrial policies designed to lower the costs of business are likely at some point to run into private oligopolies as in many countries in transportation, energy, basic inputs (e.g., steel and cement), and telecommunications. Policies to lower these costs could be a boon to business generally (well beyond cutting red tape in government), but the political obstacles to tackling the intense preferences of the largest business groups can be daunting to insurmountable, as telephone users in Mexico can attest.

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[47] Regulators in several contexts have been able to impose fines and sanctions on firms that have not met performance standards (on Argentina, see Post, forthcoming). In Brazil, the BNDES (especially in wind power loans) and Petrobras, with its suppliers, have imposed sanctions on firms that did not meet local content requirements (Almeida, Lima-Oliveira, and Schneider, 2013).

Appendix A. Interviews

José Miguel Benavente, consejero CNIC, Santiago, 10 December 2008

Jaime Campos, executive director, AEA (Asociación Empresarial Argentina), Buenos Aires, 12 December 2008

Rosario Córdoba, presidente, Consejo Privado de Competitividad (CPC), 31 January 2013

Hernando José Gómez, president of CPC (2007-10), head of Departamento Nacional de Planeación (2010-12)

Jaime Gutierrez, president of Ptesa and member of Consejo Directivo of CPC, 1 February 2013

Benjamin Herzberg, World Bank, Washington, DC, 8 October 2008

Andrés López, Cenit, Buenos Aires, 11 December 2008

Andrés Pesce, Fundación Chile, Santiago, 10 December 2008

Fernando Reinach. Former head of Votorantim Novos Negocios, 5 July 2011

Andrés Velasco. Former minister of finance (2006-10), 26 January 2012

Korea Interviews

Choi Youngrak, professor of technology management, University of Korea, 7 August 2012

Chung Yang-ho. Director General, Energy and Environment, Ministry of Knowledge Economy, 10 August 2012

Kim Do Jeon, chairman National Science and Technology Commission, 6 August 2012

Lee Yeonho, professor, Yonsei University, 7 August 2012

Park Chung-woong. FKI Chairman Chung Ju-yung' s secretary and head of international relations at FKI, 1974-88, 7 August 2012

Song Byung-Nam, ex staff at Economic Planning Board and Korean Association of Machine Industry, ex-CEO of Kia motors, 6 August 2012

Appendix B. Business-Government Councils in Export and Technology Policy in Korea

As noted in Section 2, business-government forums, or deliberation councils, have been ubiquitous in development experiences of East Asia and usually credited with improving the design and implementation of industrial policy (Campos and Root, 1996; Amsden, 1989; Evans, 1995). Japan pioneered deliberation councils for a wide range of policy areas, but more recent and relevant experiences for Latin America come from Korea.

Historically, the most famous example was the export council inaugurated in the 1960s by Park Chung Hee. This council met monthly, chaired by the president himself, to monitor the progress of increasing exports and to discuss obstacles to that progress. This was a prime example of joint problem solving that brought together detailed information from the private sector (that state officials could not have collected) with the mobilization of the state apparatus (Park would instruct ministers to solve specified problems). Moreover, success in increasing exports gave firms access to more subsidies. That is, it was an active industrial policy with clear performance standards. This example illustrates several key arguments made generally about business-government councils:

- *Reiterated interactions*. With meetings scheduled every month in the first years, business participants knew their export performance would be monitored each month with possible public discussion, and ministers knew that they would be called to account for bottle necks not resolved. More abstractly, participants had incentives not to defect (or act opportunistically) in early interactions because they knew they were in long-term relationships.
- *Private information*. The meetings brought massive amounts of private information to government officials that would have otherwise been very costly to collect and sift through. Discovering critical bottlenecks to export expansion allowed government officials to use scarce public resources more efficiently.
- *Public authority and resources*. The presence of President Park meant of course that the council had full authority to act and sufficient resources. Business participants had every incentive to attend. However, business also had strong incentives to distort and dissemble in order to gain rents. The next two factors limited distortion and particularistic rent seeking.

- *Peer monitoring*. With all the major exporters and business associations at the meetings, as well as other government and non-government participants, all with different perspectives and access to information, individual sectors or firms would have had a difficult time making a public case for subsidies or policies that would provide particularistic rents. Others in the room would have some idea of the cost structure of particular firms and sectors and thus be able to assess whether a policy would benefit them unduly. This wider knowledge (or at least uncertainty about information available to others) raised the risks and potential costs of rent seeking and dissembling.[48]
- *Measurable goals*. The focus of the council was simpler—exports—than many councils such as those convened to discuss diffuse themes like competitiveness or innovation. Measuring exports was relatively easy, and it was hard for firms to manipulate data. In turn, government officials could easily compare the benefits firms received to their export performance.
- *Competitive context*. Korean firms were attempting to enter or expand into already competitive international markets which of course gave them incentives to engage in sincere problem solving that would help in international markets. In addition, if firms did manage to extract rents that were not in fact necessary to their export efforts, they still had incentives to use the rents productively.
- *Technical staff*. The council appears to have had ample professional staff drawn from both ministries and well-funded business associations.

Korea's export council is something of an ideal type in the way it combined all the elements deemed necessary for successful public-private collaboration (both in my selective framework (Section 2) and in approaches with longer lists of contributing factors (Herzberg and Wright, 2005; Machinea, 2008; Devlin and Moguillansky, 2011), namely incentives to sustain

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[48] With close to 100 people, the meetings could not be considered small and closed, as often recommended. According to an occasional participant in the 1960s, these 100 people included government officials, experts and academics, representatives from business associations, members of the press, and *chaebol* CEOs. The meetings (lasting around two hours) were monthly in the 1960s, then every two months (interview with Song Byung-Nam, former staffer at the Economic Planning Board and the Korean machinery association, 6 August 2012).

engagement from the public sector (access to private information) and from the private sector (access to public authority and resources), and mechanisms to discourage rent seeking (peer monitoring, measurable goals, and competitive context). Few councils in other times and countries combine all these elements.

Democratic governments in Korea in the late 1980s and early 1990s abandoned most of the industrial policies of the previous military regime, in part because the *chaebol* were increasingly viewed as too big and powerful, as well as successful enough that they no longer needed government help (a view shared by many *chaebol*). For left politicians especially, government support for, or capture by, *chaebol* continued to fuel political controversy and therefore complicated efforts to renew industrial and technology policy.

However, governments maintained, and in the 2000s significantly expanded, active technology policies, an updated name for industrial policy. By the 2000s, Korea was at the top of the world league tables in spending on R&D (over 3 percent) and three quarters of that was private. Yet, policy makers felt technology and innovation were keys to Korea's continued growth and competitiveness (especially with China taking over lower technology manufacturing). Public investment in technology is also easier to justify as social benefits generally exceed private benefits, especially if private firms are already investing heavily and governments step in only to complement and accelerate private innovation.

As with many previous policies, the Korean government set up public-private forums to help devise, monitor, and implement technology policy. In fact, various kinds of business-government forums (that often also included academic researchers) were imbricated throughout the policy making structure from the top-level NSTC (National Science and Technology Council) through lower-level, more-specialized working groups, to the advisory boards of government research institutes. The names, structures, staffing, and budgets of successive science and technology bodies varied over the 2000s, but close consultation with business was constant. Significantly, representation from the private sector did not come from *chaebol* owners or CEOs nor from major business associations, but rather from technical personnel from R&D units in private companies. The NSTC, created in 2011, with ministerial status, had an advisory board of 10 members (three from government, one from business, and six from academic and research institutes), and has a staff of 130 (many of whom were hired from business).[49] Most of the planning activities of the NSTC happened in seven working groups on areas like green technology, biotech, and IT. Membership in these working groups (15–20 members per group) was divided roughly into thirds among government, government research institutions, and business (again technical experts working in R&D). These working groups met quite frequently, around three times per month (interview with Kim Do Jeon, chairman of NSTC, 6 August 2012). Private sector representation was also common in the numerous other instances of technology policy, including the boards of a dozen or so research institutes and in the Ministry of the Knowledge Economy (MKE).[50]

These councils benefited from some of the components of the previous export council, such as private information, public resources, and peer monitoring, as well as top-level technical staff. However, the technology councils lacked simple measurable goals—always difficult in R&D where outcomes are uncertain—and a directly competitive environment. R&D is, of course, crucial to long-term competitiveness, but it is removed from day-to-day market pressures. Several other factors, though, substituted in reducing opportunities for rent seeking. For one, the representatives from the private sector were lower-level technical personnel—scientists and engineers—drawn normally from R&D departments of big businesses. By training at least, their orientation was more towards problem solving on technical issues rather than immediate company profitability. Moreover, by the 2000s, three-quarters of R&D spending was private, so business, especially the *chaebol*, was not dependent on public spending and subsidies. Although the government wanted some resources to go to less-applied research, most of it was still geared to fostering commercial applications, so private participation was intended to pull spending in applied ways that would benefit private R&D. The risk here is less of rent seeking and more that scarce public investment merely substitutes for private investment that would have happened anyway.

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[49] Significantly, when the NSTC expanded its staff in the 2000s, government officials sought to recruit half of the new staffers from the private sector. In the end, though, they hired more applicants from the public sector because they were more qualified (interview, Kim Do Jeon, chairman National Science and Technology Commission, 6 August 2012).

[50] The MKE has a strategic planning unit for R&D. The unit is a semi-public agency and the staff of around 50 are all hired on short-term contracts from the private sector (interview with Chung Yang-ho, MKE, 10 August 2012).

Appendix C. Glossary

AEA—Asociación Empresaria Argentina (Argentine Business Association)

CDES—Conselho de Desenvolvimento Econômico e Social (Council on Economic and Social Development, Brazil)

CEP—Centro de Estudios Públicos (Center for Public Studies, Chile)

Cepco—Coordinadora Estatal de Productores de Café de Oaxaca (State Coordination for Coffee Producers of Oaxaca, Mexico)

Cieplan—Corporación de Estudios para Latinoamérica (Corporation for Research for Latin America, Chile)

CGDC—Câmara de Políticas de Gestão, Desempenho e Competitividade (Chamber for Management, Performance, and Competitiveness Policies, Brazil)

CNIC—Consejo Nacional de Innovación para la Competitividad (National Council for Innovation for Competitiveness, Chile)

Coece—Coordinación de Organismos Empresariales de Comercio Exterior (Coordination for Business Associations in International Trade, Mexico)

Contag—Confederação Nacional dos Trabalhadores na Agricultura (National Confederation of Farm Workers, Brazil)

CPC—Confederación de la Producción y el Comercio (Confederation for Production and Commerce, Chile)

CPC—Consejo Privado de Competividad (Private Council for Competitiveness, Colombia)

CUT—Central Unitaria de Trabajadores (Workers' Unitary Central, Chile)

Fedesarrollo—Fundación para la Educación Superior y el Desarrollo (Foundation for Higher Education and Development, Colombia)

Fiel—Fundación de Investigaciones Económicas Latinoamericanas (Foundation for Latin American Economic Research, Argentina)

IMCO—Instituto Mexicano para la Competitividad (Mexican Institute for Competitiveness)

ITT—International Telephone & Telegraph

MKE—Ministry of the Knowledge Economy, Korea
MP/PRL—majoritarian presidency/proportional representation legislature

NSTC—National Science and Technology Commission, Korea

PPC—Public-Private collaboration
PPD—public-private dialogue
PRI—Partido Revolucionario Institucional (Institutional Revolutionary Party, Mexico)
Prominp - Programa de Mobilização da Indústria Nacional de Petróleo e Gás Natural (Program for Mobilizing National Industry in Petroleum and Natural Gas, Brazil)

Sena—Servicio Nacional de Aprendizaje (National Training Service, Colombia)
Senai—Serviço Nacional de Aprendizagem Industrial (National Industrial Training Service, Brazil)

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