

A “BRIC”-variety of capitalism and social inequality: The case of Brazil

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Abstract

The focus of this contribution is on the mode of capitalism within the industrialized sectors of “emerging markets”. Particularly in the context of the rise of the BRIC (Brazil, Russia, India and China) this question has gained considerable importance, also for the development of the world economy as a whole. The core question is whether the type of capitalism within these economies is similar to the capitalist variety of the triad, or diverges in more or less permanent ways. The article gives a preliminary answer to this question, by developing a rough sketch of a “BRIC” model of capitalism and illustrating this model with the case of Brazil. In terms of theory, the article extends the Comparative Capitalism (CC) perspective to the BRICs. On the one side, the focus is on the classical questions of CC, i.e. the determinants of economic development and the differences to other types of capitalism, on the other side the relationship between these varieties and social inequality. It argues that the “state-permeated market economies” of the BRICs rely on clans as a mode of social coordination. As demonstrated by the case of Brazil, this type of capitalism can be quite successful, but is based

on a highly unequal distribution of economic and political resources.

Keywords: Comparative Capitalism, BRIC, Brazil, Inequality

Introduction

During the last decade, studies of Comparative Capitalism have mainly been preoccupied with countries of the triad (i.e. Japan, Western Europe and the US). In particular the “Varieties of Capitalism”- approach as developed by Hall and Soskice (2001a) was strongly focused on the US and Germany. Only very recently, the approach has been utilized in order to analyse economies outside of the triad, as demonstrated by the modelling of dependent market economies in East Central Europe (Nölke and Vliegenthart 2009) and of hierarchical market economies in (Spanish-speaking) Latin America (Schneider 2009). This article extends the Comparative Capitalism (CC) perspective to Brazil. On the one side, the focus is on the classical questions of CC, i.e. the determinants of economic development and the differences to other types of capitalism, on the other side the relationship between these varieties and social inequality. In particular the question of social inequality – in the sense of the relationship between capital and labour – was of crucial importance for the original development of those models of capitalism. The main intention of their

¹ This article is based on my contribution “Die BRIC-Variante des Kapitalismus und soziale Ungleichheit: Das Beispiel Brasilien”, in: Burchardt, Hans-Jürgen/Wehr, Ingrid (eds.): Der verweigerte Sozialvertrag. Politische Partizipation und blockierte soziale Teilhabe in Lateinamerika, Baden-Baden: Nomos 2011.

inventors was to demonstrate that economies with strong unions and a relatively low degree of social inequality are competitive, in spite of the widespread belief into the superiority of the (neo-liberal) US model of capitalism during the 1980s. Social inequality here is understood as a product of economic structures, complementing a debate on social questions that is focused on transfers and the shape of the welfare state². As will be demonstrated below, Brazil has been able to realize a high degree of economic growth in spite of a high degree of social inequality – although growth most likely would have been much higher with a lower degree of social inequality. At the same time, my contribution argues that this economic success does not necessarily lead to comprehensive social participation and may also not prove to be sustainable, in the absence of a much higher degree of economic redistribution.

1. Comparative Capitalism: State of the art and perspectives

Over the last years, the Comparative Capitalism-perspective has become somewhat canonical in the study of the political economy of Northern industrialized countries (Blyth 2003: 215). The research programme that has been founded by authors such as Shonfield (1965) and popularized by Michel Albert (1991) has led to numerous typologies of national models of capitalism, with theoretical roots in the regulation school (Amable 2003; Hollingsworth/Boyer 1997), Neo-Marxism (Coates 2000) and New Institutionalism (Hall and Soskice 2001a). In particular the last version has led to many empirical studies, based on its juxtaposition of liberal market economies (LME) – illustrated with the case of

the US – and coordinated market economies (CME) – illustrated with the case of Germany. The basic assumption of this theoretical programme is that specific institutional complementarities inherent to each variety are able to explain the divergent patterns of innovation of the leading sectors within liberal and coordinated market economies. Hall and Soskice (2001b: 17-33) distinguish – similar to other approaches within Comparative Capitalism (Jackson and Deeg 2006: 11-20) – five interdependent institutions: (1) corporate finance, (2) corporate governance, (3) industrial relations, (4) education/training and (5) the transfer of innovation within the economy. Based on this distinction, the Comparative Capitalism was able to deliver a parsimonious, but still fairly sophisticated analysis of Northern capitalisms.

Still, over the last years, more and more limitations of this research tradition have become apparent (Hancké et al. 2007: 4-9, Jackson and Deeg 2006: 37-39). These limitations include the narrow focus on the countries of the triad, the overly strong dualism between LME and CME within the dominant Varieties of Capitalism approach, the omission of transnational influences and the neglect of the role of the state. A second generation of Comparative Capitalism studies tries to overcome these limitations. In line with Drahokoupil (2009), Nölke and Vliegenthart (2009), Schneider (2009), ten Brink (2010), and Taylor and Nölke (2010) this contribution will enlarge the spatial confines of Comparative Capitalism, ask for the existence of additional basic types beyond LME and CME, analyze the role of transnational influences (in particular of multinational enterprises) and highlight the role of the state for the establishment of particular types of capitalism outside of the triad.

² Both perspectives, however, can also be combined, as convincingly demonstrated by Schneider and Soskice (2009).

The focus of this contribution is on the mode of capitalism within the industrialized sectors of “emerging markets”, in particular the Brazilian case. Particularly in the context of the rise of the BRIC (Brazil, Russia, India and China) this question has gained considerable importance, also for the development of the world economy as a whole. The core question is whether these economies develop into a similar direction as those of the triad, or diverge in more or less permanent ways. In the following, we will try to give a preliminary answer to this question, by developing a rough sketch of a “BRIC” model of capitalism and illustrating this model with the case of Brazil. The focus is – similar to Schneider and Soskice (2009) – on an outline of the current status of these economies, while the historical evolution within colonialism, class conflicts and neo-liberal reforms will be neglected (Schrank 2009). Although it is yet too early to judge on the long-term stability of this model, we can identify some highly specific elements, in spite of some parallels to institutions in liberal and coordinated economies.

2. State-permeated market economies as a BRIC-variety of capitalism

The LME/CME juxtaposition as developed by Hall and Soskice (2001b) allows for a rough typology of most Northern industrialized economies, although with some limitations in case of the Mediterranean countries, where the state plays a more important role than allowed for by Hall and Soskice (Schmidt 2003). New basic varieties should not be introduced without necessity, given that the parsimony of the Hall/Soskice model was a crucial factor for its success (Hancké et al. 2007: 16; Jackson and Deeg 2006: 31-32). Still, there are limitations to this dualism, at least with regard to the economies at the periphery of Western Europe and the US, with their strong dependencies on multinationals based in their

neighbouring centres. For these economies, we have coined the model of “dependent market economies/DME” (Nölke and Vliegenthart 2009), given their dependence on decisions taken within the hierarchies of western multinational enterprises (see table 1).

Foreign direct investments are also important for „emerging economies“, such as Brazil, Russia, India and China, but they are much less dependent on these investments, if compared with countries such as Hungary or the Czech Republic. The BRIC variety of capitalism is rather dominated by dense relationships between public authorities and major domestic enterprises as central coordination mechanism. In marked contrast to DMEs, these political economies are rather dominated by national capitalists, not those of the centre. The focus is on the role of the state, as already described by Peter Evens (1979) – a state that is cooperating closely with national elites and does not have to give in to the demands of multinational enterprises, but is able to impose certain conditions onto the latter. In a more abstract way, we are witnessing a fourth mode of social coordination, besides markets (LME), networks (CME), hierarchies (DME) now clans, as developed by Ouchi (1980) based on transaction cost economics. These clans are central within the BRIC-model of „state-permeated market economies“ (SME). Clans are, similar to markets, hierarchies and network a basic mode of social coordination, with a particular focus on a background of common values (Ouchi 1980: 130f.). SMEs are dominated by a particularly close co-operation between public and business actors that is at least indirectly based on personal relations – partially even family ties – supported by common values and a shared social background. A close co-operation

between public authorities and companies can also be found within other modes of capitalism, but in no case this is equally predominant, and strongly based on personal relations and common values. State permeation does not necessarily entail the existence of a "strong", centralized state, a dominance of public enterprises and

Table 1: Three basic varieties of capitalism

Variety Institution	Liberal Market Economies/LME	Coordinated Market Economies/CME	Dependent Market Economies/DME
Distinctive coordination mechanism	Competitive markets and formal contracts	Inter-firm networks and associations	Dependence on MNC intra-firm hierarchies
Financial system	Domestic and international capital markets	Domestic bank lending and internally generated funds	Foreign direct investments and foreign-owned banks
Corporate governance	Outsider control: dispersed shareholders	Insider control: concentrated shareholders	Control by headquarters of multinational enterprises
Industrial relations	Pluralist, market-based, hardly any collective agreements	Corporatist, rather consensual, sector-wide or even national agreements	Appeasement of skilled labor, company level collective agreements
Skill formation	General skills, high research and development expenditures	Company- or industry-specific skills, vocational training	Limited expenditures for further qualification
Transfer of innovations	Based on markets and formal contracts	Important role of joint ventures and business associations	Intra-firm transfer within transnational enterprise
Comparative advantages	Radical innovation in technology and service sectors	Incremental innovation of capital goods	Assembly platforms for semi-standardized industrial goods

Source: Nölke and Vliegenthart 2009

centralized economic planning, but rather an omnipresence of public authorities that may also follow their particular concerns. At the same time, these authorities – and their cooperating companies that are tempted to pursue rent-seeking activities – are largely kept in balance by a relatively autonomous role of private capital, thereby preventing the comprehensive capture of public policies by private interests as witnessed in patrimonial regimes (although this capture clearly is not completely absent in SMEs).

Foreign direct investments (and selective acts of privatization) are welcome as modernizing factors within this neo-mercantilist model, as long as they do not undermine the general

preponderance of national capital. Moreover, it is not coincidental that the SME model emerged within the big economies outside of the triad – and that this model differs somewhat from the strongly export-oriented model of the East Asian tiger states. The rise of the SME model was based on several inter-related developments. On the one side, it coincided with the re-orientation of (North-South) foreign investments during the 1980s and early 1990s that shifted from a focus on access to raw materials and cheap labour towards access to the internal markets of the (semi-) periphery – the latter requires a fairly close cooperation with national capital and contributes to the modernization of the latter

(Abu-El-Haj 2007:96). At the same time, national capital depends for its expansion on foreign direct investments – even entailing wholesale privatization - for the modernization of those economic sectors that are providing basic economic services (e.g. telecommunication and other public utilities).

The notion of “clans” as mechanism for social coordination, the symbiosis of national capital and public authorities and the selective modernization via foreign direct investments enables us to describe the central elements of the SME-variety, addressing the five typical elements of Comparative Capitalism. The focus is on the interrelationships between corporate governance and the other four institutional domains, in line with the usual approach towards western capitalism (e.g. Hall and Gingrich 2004, Höpner 2005). (1) In contrast to minority shareholders (LME), institutional block-holders (CME) or control by multinational corporations (DME), major SME companies usually are either dominated by families or by the state, in any case by organized national capital. These ownership structures lead to obvious complementarities with corporate finance (2), as far as they make SME companies fairly independent from short-term fluctuations on global capital markets as well as from profit expectations of international investors. Moreover, control by national capital or even public ownership frequently allows SME companies to tap into public support (e.g. subsidized credit by state banks). A close cooperation between major companies and public authorities is also helpful with regard to industrial relations (3), given that public regulations (and their selective implementation) may serve as a core contribution to keeping labour costs low, an important ingredient to the competition strategy of companies from these countries. The same is true for education and training (4)

that is geared towards those sectors where national companies are most active. In addition, the class background is an important factor for the transformation of educational capital into labour market success, thereby contributing to the reproduction of class structures. Finally, public interventions also assist with the transfer of innovations and competition policy (5). Soft protection of intellectual property rights allow for reverse engineering that is an important ingredient for technological catch-up. At the same time, competition policies are geared towards the temporary protection of individual companies, e.g. to enable expansion into other markets based on monopoly profits. All in all, these complementarities enable companies from emerging markets to be competitive in particular on a medium level of technology and in the procession of raw goods, based on rather low costs.

It is impossible to empirically test this model within the limited space provided, but we can hint at individual aspects within the modern economic sectors of China (ten Brink 2010), India (Taylor and Nölke 2010) und Russia (Drahokoupil 2009; Myant and Drahokoupil 2010: 22f.), although the latter shows obvious traits of a rentier economy and family ties are obviously more important in the “old” economies of Brazil and China, if compared to the transformation economies of China and Russia. While we can thus point to the existence of a couple of Comparative Capitalism studies on Russia, India and China, Brazil so far has received much less attention.

3. The case of Brazil

Departing from the model of state-permeated capitalism as described above, the following section will provide a very rough and simplified sketch of the Brazilian political

economy. The focus is on the modern sectors of the economy, in particular on multinational enterprises expanding from Brazil, the Brazilian “multilatinas”. The purpose is to empirically illustrate the theoretical model. In contrast, the historical evolution of Brazilian capitalism, based on colonial inheritance, early independence and world market integration, or the role of various presidencies will be neglected, as well be more specific details.

Comparative advantages

Compared to many neighbour countries, the Brazilian economy is fairly diversified, also a consequence of the decades-old strategy of import-substitution. At the same time, it is lacking major clusters of companies that are global leaders in a particular sector. Still, we can highlight certain comparative advantages, based on the sector distribution of Brazilian multinationals (Flynn 2007: 17; see also Abu-El-Haj 2007; Arbix 2010; Dahlman/Frischtak 1993). One obvious focus is on the procession of raw goods, e.g. by companies such as Votorantim (cellulose, paper, cement), Vale (iron ore), Petrobras (oil), Gerdau, Usiminas und CVD (steel). Globally renowned is also the Brazilian agricultural industry, supported by rising prices and by the increasing production of organic fuels. The comparative advantages of Brazilian companies are based on natural resources, combined with low labour costs – less on high labour productivity or product quality/innovation. However, in contrast to many other economies in Latin America, Brazilian exports are not dominated by the export of raw goods, but rather by processed products (Phillips 2004: 74). Moreover, in selective cases we can identify companies that are globally competitive, such as Embraer (civil aircraft) and Petrobras (deep sea oil mining), thus “pockets of efficiency” (Phillips 2004: 55) that are already familiar from post-war Brazil.

A second major feature of the Brazilian economy that stands out, in particular in comparison to other Latin American countries, is the rising importance of the large and very dynamically growing domestic market (Abu-El-Haj 2007: 107f.). Production for this domestic market has given rise to a number of multinational enterprises such as AmBev (beverages, now part of InBev), textile producers (e.g. Camargo Correia), construction companies and the corresponding engineering bureaus (Norberto Odebrecht, Andrade Gutierrez) and air transport (VARIG and TAM). Among the large, but less internationally oriented companies, we may also count a number of banks, such as Bradesco, Banco do Brasil, Banco Itaú and Unibanco.

Corporate Governance

Next to the Brazilian companies portrayed above, we can find a substantial role of foreign multinationals. Still, these companies are much less relevant than in the dependent market economies described above. Moreover, they are exposed to fairly strong competition and thus cannot play out their powerful position to the same extent as in other Latin American economies, inter alia indicated by a fairly low financial transfer to their company headquarters (Abu-el-Haj 2007: 108). In any case, national capital plays the dominating role within the Brazilian economy. Most major Brazilian companies are exchange-listed, but usually are dominated by family shareholdings or other block-holders. In addition, the Brazilian state keeps substantial shareholdings, particularly in case of former public enterprises that have been privatized (e.g. Embraer). Direct state intervention, however, is rather rare, more important are indirect channels, in particular via institutions such as the national development bank BNDES

(Banco Nacional de Desenvolvimento Econômico e Social).

In nearly all cases, major Brazilian companies are fairly independent from short-term fluctuations on the financial markets. There is no open market for the control of companies – as characteristic for LMEs – but rather an “insider”-dominated mode of corporate control, more in line with traditional CME-structures. Completely dispersed shareholding is very rare, minority shareholders tend to be disadvantaged by dominating shareholders. Correspondingly, the recent “Corporate Governance”-movement met considerable resistance in Brazil (Grün 2010), even if the dominant role of family capitalism has been modernized:

Family-controlled companies, the typical business arrangement of the Brazilian bourgeoisie, fell from 23 to 17 units of the 100 largest between 1990 and 1997. Meanwhile, a new mode of local bourgeoisie organization, dominant minority property (companies whose controllers hold between 20 and 50 percent of the voting shares, with the remainder being offered to the public) increased from 5 to 23 of the largest 100 companies. This shift reflected the legal changes made to attract international investors” (Abu-El-Haj 2007: 106).

Corporate Finance

During the last decade, capital markets have gained increasing relevance for the financing of Brazilian companies. However, the latter still are protected by families and other stockholders, thereby moderating the pressure emanating from internationalized finance. Typical – though less dominant as in other economies of Latin America – are also large

conglomerates that have drawn on their diversification in order to survive the massive crises and adjustment programs of the 1990s. The focus is on internally generated funds as well as bank loans, in part subsidized by institutions such as BNDES. Direct and indirect state support can take on many shapes, including tax rebates, state guarantees and subsidized credit provided by state banks, all contributing to financing conditions that are more favourable than usual. Besides BNDES, semi-public pension funds and straight state subsidies have to be mentioned. The latter e.g. financed a substantial share of Embraer development costs, thus leading to a trade dispute with Canada, due to the competition with Bombardier (Flynn 2007: 19; Goldstein 2002: 111). Global capital markets are tapped selectively in order to modernize the domestic economy. In contrast to dependent market economies, however, we do not witness a “sell-out” of domestic banks: „In 2000, domestic banks combining public and private institutions, still controlled 72,6% of the total financial endowment“ (Abu-El-Haj 2007: 104). This distribution of ownership was very advantageous during the most recent financial crisis – the retreat of international banks (and the more careful operations by national private banks) was compensated by a massive expansion of public banking (Grün 2010: 14).

Compared to companies from liberal economies, Brazilian enterprises are fairly well protected against short-term turbulences. Generally, Brazilian companies weathered the global financial crisis remarkably well (Ocampo 2009: 19). Domestic banks did not have to undertake highly risky speculation, because they had good returns based on high domestic interest rates – although the “Custo Brasil” also happens to be a major cost disadvantage for Brazilian companies and consumers (Dowbor 2009: 125). Moreover,

the close interpenetration of political and administrative elites with Brazilian business also leads to a relatively small degree of capital flight, another welcome puffer during the financial crisis. Finally, the crisis was mitigated by short-term public measures, in particular by additional development bank credits and domestic demand stimulation.

Industrial Relations

The importance of cost advantages is also important with regard to Brazilian industrial relations. Although there is fairly sophisticated labour law, this only pertains to a relatively small (but important) share of the Brazilian workforce, compared to the much larger share of workers in the informal sector that is not protected at all – not an unusual situation in the Latin American context. Generally, labour markets are fragmented between a small, well-paid, organized and protected segment of core workers in the public sector as well as in major companies on the one side, and the (semi-) informal economy on the other side, without any substantial union protection. Again, state permeation is important, as far as the “labour aristocracy” is being protected by law and – in spite of the neo-liberal tendencies of the last decades – well integrated into the collusion between national capital and the state (Phillips 2004: 161-164).

Small and medium scale enterprises that operate in fairly close relationship to the informal sector, however, are much more critical towards stringent labour protection. The same is true for corporate social responsibility (CSR): Whereas small enterprises are highly sceptical towards these initiatives, the large multinationals are somewhat more open towards the campaigns of institutions such as the Abrinq Foundation or the Instituto Ethos. This openness is also motivated by cross-border campaigns within

this field, by multilateral institutions or transnational NGOs. In particular Brazilian companies with direct exposure to markets in industrialized countries are open to CSR initiatives (Arraya 2006:33). However, even those companies would be hardly keen to introduce powerful unions and better working conditions on a comprehensive basis, since affordable services by the informal sector contribute considerably to the cost advantages of the Brazilian economy. And even in those parts of the economy where labour unions are important, they operate less based on collective action and negotiations with employer associations, but rather by direct political ties with the state – a highly significant contrast to the role of unions in coordinated market economies.

Education and training

Traditionally, Brazilian companies did not invest much into education and training of their workforce, but rather relied on activities of their own government (Arbix 2010: 19; Dahlmann and Frischtak 1993: 415). Thus, they did not only follow the priorities of the given government, but also suffered quite considerably during the heavy macro-economic crises of the 1990s. Moreover, public investments in these activities generally are low, if compared to those of Northern countries. Public support into science and technology exists in particular since the 1970s, but rather in basic instead of applied sciences. Cooperation between universities and companies was limited, but has intensified more recently (Arbix 2010: 18-20; Dahlmann and Frischtak 1993: 415). State-owned Petrobras again is an exception, due to its rather close cooperation with universities and the by far largest expenditures for research and development (Carvalho and Goldstein 2008: 13).

Some other companies (e.g. Embraer) have started their own training programmes, limited, however, to a small group of employees (Goldstein 2002: 108). Most employees have only very few incentives for investments into their own education, due to their short-term and insecure employment relations (World Bank 2006). Similar to the field of industrial relations we find a fragmentation between small groups of highly qualified labour (education on foreign or private universities) and a much larger group of hardly qualified labour with a focus on general skills – a much larger and less qualified group than in CME, LME and DMEs. Only very slowly we are witnessing a process of increased secondary education, but again this is dominated by students stemming from middle and upper classes with better social relations, supported by a system of private schools and spatial segmentation.

Transfer of innovations

Due to the traditionally very limited role of internal research and development, innovations are usually imported from abroad, usually via Northern multinational enterprises. Even a leading high tech company such as Embraer has to get along without comprehensive internal research and development. Instead it has to mobilize innovations via its network of international partners. Given these circumstances, its success is highly impressive, the more so as it does not receive massive military subsidies, in contrast to most other aircraft producers (Goldstein 2002; Salles-Filho, Marcio da Silveira and Bonacelli 2009). Public institutions are involved into the transfer of innovations to a limited degree. Officially, this is a matter of high significance, as symbolized by the establishment of numerous (semi-) public institutions as well as fiscal incentives.

Still, the success of this measures is somewhat muted, Brazilian companies only profit to a rather limited degree from public technology transfer (Arbix 2010), with exceptions, e.g., in case of Petrobras or the evolution of a research and development network in the Paraíba valley (Goldstein 2002: 108).

Finally, the conduct of competition policy also gives an indication for the close collaboration between public authorities and major public enterprises. Competition policy in the strict American/European sense hardly exists at all (if so, only on paper). Over many years, a number of sectors were protected from (international) competition, thereby leading to the developments of monopolies or oligopolies. This is to the short-term disadvantage of consumers, but to the advantage of a few major Brazilian companies that were enabled to mobilize the resources needed for successful cross-border expansion. Competition policy, however, lately was also targeted in order to create competitive domestic companies. This can entail the selective attribution of market access to foreign companies, in order to give domestic companies strong incentives to get rid of the dangerous rent-seeking perspective that going hand-in-hand with import substitution and the corresponding focus on state protection (Abu-El-Haj 2007: 97). At the same time, competition policy is used in order to give way to the efficient provision of those services that are necessary for the expansion of domestic capital, e.g. in telecommunications, power supply and, more lately, in certain sectors of banking (Dowbor 2009: 125). Generally, this has given rise to the consolidation of two patterns – sectors with oligopolies dominated by national capital on the one hand and rather fragmented, competitive sectors with strong international participation on the other (Abu-El-Haj 2007: 100).

Central coordination mechanism

To conclude, it becomes obvious how strongly Brazilian companies are profiting from their close collaboration with the state, to a much higher extent than most triad companies. This close collaboration led some observers to call Latin American multinationals public-private hybrids (Clifton 2007: 7). Particularly in the field of natural resources, close cooperation with public authorities is essential for company success. At the same time, Brazil has witnessed a policy of purposeful diversification of economic structures, on the basis of state-led import substitution and targeted protection of individual economic sectors. More recently, economic elites plead more fervently for more comprehensive liberalization. Although the old protection is inefficient and may lead to wasteful rent-seeking, a literal implementation of the Washington consensus, however, is perceived to be an unacceptable sell-out and subordination under (Anglo-American) capital markets (Abu-El-Haj 2007). Compared, e.g., to the US, the internationalization of Brazilian capitalism is relatively limited (Phillips 2004: 194), although partially integrated into global capitalist networks (Flynn 2007).

The Brazil-typical „thick ties between the traditional oligarchy and the state“ (Phillips 2004: 55) are not only a recipe for success, but also a liability for economic development, as indicated by many episodes of corruption. Still, we may distinguish Brazil from many much more problematic regimes in other countries of Latin America: „The government adopted relatively autonomous policies that advanced the interests of the entire bourgeoisie without degenerating into clientelistic support for particular firms“ (Abu-el-Haj 2007: 110). Correspondingly, the model of a “clan” appears to be the best approximation of the central mode of social coordination in Brazil:

Based on a rather similar (class) background, the political economy is dominated by informal, personalized relations, thereby easing the creation of trust and social coordination. In contrast to coordinated market economies, non-market coordination is not provided by formal institutions – business associations, e.g., are rather weak, a marked contrast to the powerful role of Brazilian capital (Phillips 2004: 195). At the same time, we do not find a powerful, centralized state as in East Asia – in contrast, the state is strongly fragmented internally (ibid.: 237-239). Still, we witness a high degree of social coordination, supported by the social capital that is accumulated in clan-like relations between private and public elites. All in all, we find a type of capitalism that has worked fairly well during the last years, at least if compared with neighbour countries. Moreover, its short-term perspectives are positive, due to high prices for natural resources and a rather large internal market. Long-term perspectives, however, are less positive, due to limited innovation capacity as well as extreme inequality and the corresponding limits on the further extension of domestic demand.

4. Brazilian capitalism and social inequality

This contribution did not treat questions of social inequality with the usual focus on social programs (e.g. “Bolsa Família”), but rather from the perspective of the socio-economic system. The deeply unequal character of the Brazilian society has become more than obvious, given a type of capitalism that relies on clans as a mode of social coordination, on shared values between economic and political elites, on low inter-class mobility, on the rule of families and on close collaboration between the latter and public authorities. Generally, Brazilian capitalism reproduces the basic class structure. Elections rather lead to changes

within the elite, not to its decline. Elites are supported by multi-party clientelism (Phillips 2004: 236) and social mobility is limited to a small part of the population. Labour is fragmented between a small group of privileged workers and the majority within the informal sector, the latter with a very low grade of organization and, therefore, very limited means to enforce social redistribution.

During the last years however, the success of the Brazilian variety of capitalism has led to some positive effect, as far as we are witnessing some trickle-down effects that have allowed larger parts of the population to participate at the effects of the natural resources boom and the growth of the domestic market, e.g. via infrastructure investments, the financing of small social programs and the increase of real wages and the related pensions (Dowbor 2009: 128). Correspondingly, average incomes have risen during the last years and have increased the demand for local products and services, thereby also improving employment perspectives for a large share of the population. These positive developments, however, shall not distract from the fact that they are unable to overcome the deep-rooted inequality within the Brazilian society. They mainly benefit the growing middle classes and do not necessarily reach the marginalized parts of the population, also taking into account that the wage share of gross national program is still a meagre 40% (Dowbor 2009: 118). Generally, we are observing an economically successful reproduction of existing socio-economic structures, not a social transformation. Brazil has mastered the recent crisis better than many other states, in and outside of Latin America. It also has improved the lot of its middle classes. Still, it could do better by further stimulating domestic demand

by a more equal and just distribution of income.

In a more general perspective, this contribution has demonstrated how to use the Comparative Capitalism analytical framework in an at least indirect way for the analysis of social inequalities. The case of Brazil may not be unique, similar results may be expected for the other BRICs, with some qualifications for the role of old elite families in case of China and Russia. At the same time, the study has also demonstrated a number of shortcomings of the old "Varieties"-approach, including its narrow focus on the formal economy, its neglect of the role of the state as well as of macro-economic issues, most notably of the importance of large domestic markets in the BRIC and – particularly obvious in the context of the financial crisis – of macro-economic policies (Abu-El-Haj 2007). In sum, the Comparative Capitalism framework is useful for the analysis of the rise of the BRIC economies, but has to be complemented by a more "political" approach that takes better notice of the role of the state as well as of the elites that are backing certain socio-economic models.

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