SHIFTING STATES IN UNEVEN MARKETS:
POLITICAL DECENTRALIZATION AND SUBNATIONAL INDUSTRIAL POLICY IN
CONTEMPORARY BRAZIL AND SPAIN

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Abstract

Are established political economic theories based on centralized rule adequate for understanding a universe of politically decentralized countries employing subnational industrial policies? Are conventional theories of efficient federalism and consensual "economic governance" based on Third Italy models useful for analyzing underdeveloped regions in developing countries? This paper challenges these theories by developing an analytical framework for evaluating the effects of political decentralization on subnational industrial policymaking capacity in industrializing countries. The study is based on a comparison of six subnational cases, three in Brazil and three in Spain. The argument posits structural, political and institutional factors that constrain and determine the relative organization and performance of subnational industrial policymaking systems. These factors are highlighted in a series of subnational cases that are then compared in order to assess the causal weight of each factor.
The geographic unevenness of development in late and advanced industrializing countries is an old problem that does not seem to go away. Economists such as Alfred Marshall, Albert O. Hirschman and Gunnar Myrdal attempted to explain how "industrial agglomerations" develop and produce both economies and diseconomies within nations. While core economies develop propitious links between producers and consumers, secondary regions often stagnate due to poor infrastructure, few industrial producers and nascent markets. Recent political and economic changes in industrializing countries compel political economists, particularly those who focus on the state, to revisit these spatial distinctions in a meaningful way. During the 1980's, the crisis of state-led industrialization and the transition to economic liberalism were accompanied by political transitions from authoritarian to democratic regimes in many developing countries. These "dual transitions" transformed the institutions, functions and authorities of states. Democratic transitions and their subsequent consolidation empowered subnational governments with new authorities and fiscal resources over development and social policy. Meanwhile, liberal economic reform shifted central state functions, particularly in economic policy, to the newly empowered regional and local governments.

As these new political realities took shape, political economists were without the analytical tools to understand them. The economics profession largely abandoned its earlier concern with the spatial dimensions of development. Political economists working on industrial development employed comparative political models following East Asian contrasts with Latin America. These authors argued that "strong states" were politically centralized, bureaucratically
developed actors capable of "governing the market".\textsuperscript{4} Applications of the East Asian "strong state" model to other industrializing countries retained an emphasis on political centralization and executive-level relationships between the state and business.\textsuperscript{5} Such arguments even influenced political economists' view of democratization. These scholars would conclude that organized accountability was best maintained by two- and dominant-party systems; a politically centralized system of "stable political rule."\textsuperscript{6} The analytical framework of the strong state and centralized accountability was poorly suited for understanding the shifting of development questions such as the spatial unevenness of industrial growth to the policy domain of newly empowered, subnational governments.

Decentralization studies fared no better. Approaches to "fiscal federalism" and the principle of "subsidiarity" in the European Union (EU) created models for the distribution of intergovernmental authorities and resources that would maximize efficiency.\textsuperscript{7} These models, however, tended to be static and functionalist. As a result, they failed to highlight the distributional conflicts that punctuated the political decentralization process in developing countries. Studies of the socio-political associations governing economic change in advanced capitalist regions also failed to create applicable, analytical frameworks. Scholars of the propitious social and economic conditions ("economic governance") that explained cases of successful economic adjustment in the Northern and Central Italian industrial districts,\textsuperscript{8} Baden-Württemberg in Germany,\textsuperscript{9} and Silicon Valley and Route 128 in the United States,\textsuperscript{10} supplied few workable theories for developing countries. These studies either assumed the preexistence of a political order amenable to economic restructuring, or they posited the emergence of coherent networks of well-organized political, economic and societal actors. Analysts looking for the same
propitious social and political factors found in the dynamic industrial districts of the "Third Italy", military spending and research support of Silicon Valley and MIT, and the preexistence of a "climate of social consensus and strong credibility" could find none of these conditions in the backward or most of the core regions of developing countries.¹¹

The Argument

In this paper, I develop an analytical framework for examining the effects of political decentralization on the capacity of subnational governments in developing countries to address their economic concerns. My argument is that shifted states can respond to the challenges caused by uneven development if they build subnational political and institutional arrangements capable of consolidating industrial policies designed to increase industrial investment and employment. Although industrial firms are not the only, or even the chief employers and investors, in developing countries, they are still central to any political strategy for promoting economic growth. As in some advanced capitalist countries, a significant proportion of service and even agricultural production is linked to industrial manufacturing and extraction.¹² My focus on industrial policy is not intended to exclude other subnational policy areas relevant to regional economies. Rather, my choice of industrial policy highlights what appears to be an unlikely occurrence: the shifting of an area of economic policy previously dominated by central states in developed and developing countries to subnational government. The improbability of this shift adds to the theoretical significance of the findings. The study is also empirically significant outside the area of industrial policy. It is likely that my arguments concerning subnational political capacities apply to other areas such as social, education and technology policy.
The treatment of the state in this study does not differ greatly from that of the strong state authors. My analysis embraces Peter Evans' "comparative institutional approach" which eschews reducing the state to an aggregation of individual interests, treating it instead as a "historically rooted institution" affected by its interactions with the society and economy in which it is embedded. The approach in this study differs slightly from Evans' in the degree to which the state's institutional embeddedness is conceived. Rather than treating the state as a centralized entity and as the basic unit of analysis, the approach here focuses on decentralized state structures and their interactions with society. Decentralization and its effects are treated not in the functionalist manner of fiscal federalist studies, but as the result of a historically and politically contingent process.

The present study is not primarily concerned with the causes of political decentralization, although these issues are treated empirically in the cases. Rather, the argument focuses on a series of structural, political and institutional factors that determine the capacities of subnational governments in shifting states to promote industrial development. I do assume, however, that political decentralization is not a one-dimensional process. National states rarely have the power to determine the scope and domain of the decentralization of functions based on their own interests or under the criteria of an abstract model of efficient federalism. Distributional conflicts between national and subnational interests always intervene. As a result, many different processes of political decentralization are conceivable. Even distinct regions within shifted states may maintain different levels of political and resource autonomy from their central states. Indeed, one of the essential conclusions of my study is that they often do.

In this study I posit four structural factors which constrain how political decentralization affects the economic policymaking capacities of subnational governments: 1)
national democratization, 2) fiscal constraints, 3) distinct levels of development among subnational regions, and 4) firm strategies in global markets. These factors are often interrelated. They are not separate, insulated categories.

In developing countries where democratization leads to national institutional changes that shift authority and resources to subnational government, the nature of the institutionalization of democracy during transition and consolidation moderate these shifts of intergovernmental capacity. In new democracies where procedural and institutional assets such as electoral systems, political parties and constitutional rules are well-organized, the question of intergovernmental capacity is gradually negotiated within a strengthening “political society.” The result is a relatively stable and flexible system of distribution of policymaking capacities. Spain is often considered the archetypal empirical case of this model.

In new democracies where the procedural and institutional assets of democracy are poorly developed or fraught with organizational fragmentation and conflict, the degree of decentralization of authorities and resources is more rapid, less controlled and proceeds in an ad hoc manner. Under these conditions, alternative sources of political authority and organization built around patrimonial elites and based largely on local foci of power in subnational government attain more control over authorities and resources for economic policymaking. Brazil is frequently seen as the key archetype of this model.

Under both models, subnational governments attain a relatively high level of juridical, political and fiscal autonomy. Their capacity to act on these new authorities and resources, however, are mediated by other structural factors.
Fiscal constraints will limit the extent to which regional leaders and subnational development agencies are able to offer incentives to industrial investment. In new democracies where central states do not maintain a high degree of control over political decentralization, the result of subnational industrial promotion may be a fiscally unsustainable set of policies. Objective economic and fiscal limits, however, restrain regional leaders from pursuing unwise policies. In more developed democracies, central states will maintain more control over the fiscal autonomy of subnational governments. In either case, fiscal limits constrain subnational political ambitions.

Level of development is another relevant structural factor. "Backward regions" in shifted states do not maintain the same array of resources that core regions enjoy. The disadvantages of backwardness are inadequate infrastructure, oftentimes poor location, the presence of maturing or public industries in decline, oppressive management-labor relations in one-company towns, the lack of industrial diversity and a general unattractiveness of these regions to foreign investors. The advantages of core economies are the presence of the most dynamic industries and professional services, proximity-induced productivity gains, well-developed infrastructure, and the general attractiveness of these regions to foreign capital. Nevertheless, many of the disadvantages of backwardness can be converted into propitious political and economic advantages. The advantages of backwardness include the tendency of economic crisis to catalyze political support for concerted action. Likewise, core regions become victims of their own success if agglomeration creates urban congestion, high labor and land costs, militant unionism and other diseconomies (disadvantages of core economies). Additionally, their own success and the policy attention of national states that this success accrues dissuade subnational governments in core regions from pursuing their own economic policies.
Since subnational governments do not retain command over the key macroeconomic mechanisms of economic policy - interest rates, exchange rates and national commercial policy - they are ill-prepared for affecting the investment strategies of international firms following a global agenda. Firm interests are governed by the nature of their assets, labor needs and changes in market forces and macroeconomic indicators. Yet these are not the only influences on firms. Subnational governments, depending on their political organization and fiscal resources, provide infrastructure, political guarantees, labor regulations, information and finance that often prove crucial in determining an investment decision.

The political factors of my argument focus on the formation of political interests among subnational leaders for promoting industrial development. I assume that subnational government leaders are politicians who pursue rationally self-interested political goals, and their first-order preference is to maintain and expand their command over the state apparatus and the society over which it governs. The complexity of subnational development problems requires that politicians build a professionally-staffed array of public agencies capable of evaluating and acting upon these problems. Not all subnational politicians, however, relate their political interests with those of building such a subnational technocracy. Politicians with a weak or weakening political base often shore up their support by sacrificing institutional resources for political gain. Structural factors mediate this tendency. The more immediate and severe the economic crisis, the greater will be the political pressure on regional leaders to build technocratic institutions. In secondary regions these pressures are especially great; they are less salient in core regions. In cases where political society is weak, regional executives will face fewer, organized demands. The scarcity of fiscal resources and other structural obstacles to subnational industrial policy cause short-term
Based on these and other reasons, the continuation of development policy agencies and institutions cannot depend solely upon political leaders. Politicians, no matter their level of support, eventually expire due to the end of their mandates or natural causes. Technocrats prefer to accomplish their professional tasks without relying on political conditions, yet they are often forced to follow political-technocrats - professionals who are technically competent and politically savvy. Political technocrats rely on their connections to government, other official organizations, business groups, firms, labor unions, and national government agencies in order to exchange information, preserve their resources and garner additional political support for an expansion of authorities and assets. In this study, these connections among political technocrats and other elements of political society are referred to as horizontal embeddedness and they are crucial for the continuation of subnational industrial policy systems, especially when the political support of subnational leaders wanes. However, horizontal ties also open subnational development agencies to additional political influences. But the extent to which these agencies are already politically supported by regional leaders and have diverse, alternative sources of political support among their horizontal partners will reduce their tendency to rely too much on any one actor. A diverse political base provides the agencies with some freedom from parochial influences by arming them with what Peter Evans describes as "a combination of internal coherence and external connectedness" ("embedded autonomy").

Subnational development agencies must also foster close ties to their clients. Firms that become clients of the development agencies create vertically embedded associations with the subnational technocracy. The nature of these associations is based on exchange of information,
resources and services between the official agency and the firm, the latter being in most cases, the recipient. The vertical association occurs within a professional framework of rules established by law and the operational regulations governing the development agency itself. The ability of subnational technocratic agencies to develop vertical ties will depend on the capacity of technocrats themselves to maintain frequent contact and establish long-term relationships with firm clients. The present study indicates that the maintenance of these ties is a key factor in determining the relative success of subnational development policies. 

The capacity of technocratic development agencies to create horizontal and vertical associations is not automatic. Both structural and more proximate political factors constrain the emergence of embeddedness. First, the relative organizational strength of political societal actors will determine to what extent these groups develop horizontal linkages with subnational technocracies. In national cases where the democratization experience weakened the organizational capacity of political society the range of horizontal associations will be narrow. The strongest horizontal linkages that will emerge, if any do, in these cases will be among official agencies on the subnational level. These horizontal associations can still prove strong if a diverse and flexible range of subnational agencies develops a consistent policy network. More isolated subnational agencies will more easily fall prey to political interests. In national cases where the democratization experience strengthened the organizational capacity of political society, subnational development agencies will enjoy a wider range of possible horizontal associations. If they depend on one political actor, however, they will likely fall prey to parochial interests. Diversity and flexibility of horizontal associations translates into institutional strength.
The empirical basis of my argument is a comparative study of contemporary Brazil and Spain that analyzes the industrial policy of three subnational regions in each country. These two countries were selected for their similarities and their differences. The similarities - the regional unevenness of state-led models, the exhaustion of those models and the turn to market-oriented economic policies during the 1980's, and political decentralization linked with democratization - place both countries in the universe of cases of late industrializers with shifting states in uneven markets. Differences in democratization, relative fiscal constraints, and their position in global markets should make Spain a candidate as a "strong state", a more stable democracy and a relatively more developed "success story" than the case of Brazil. Despite these differences, the subnational comparisons show that other factors explain common outcomes in regional development systems. These similarities suggest that structural factors affect the nature and performance of subnational industrial policy, but do not determine the outcome. Rather, the cases confirm that combinations of the structural, political and institutional factors of my argument explain the relative organization and performance of subnational industrial policy in Spain and Brazil. Analysis of the comparison will attempt to flesh-out the relative weight of each factor, although space limits prevent an exhaustive evaluation.

The next section will briefly describe how the crisis of state-led industrialization in both countries was accompanied by the political decentralization of the state. Subsequent sections will briefly examine the evolution of industrial policy in three Spanish regions (Asturias, Madrid and Andalucía) and three Brazilian states (Minas Gerais, São Paulo, and Rio de Janeiro).
The Decline of Industrial Coordination from Above - Spain and Brazil Compared

The early phases of heavy industrialization in the 1930's and 1940's in Spain and Brazil were dominated by public sector investments in steel, mining and petroleum. In Brazil, statism found ideological support in Getúlio Vargas' Estado Novo (1937-1945) and its doctrine of using the state to exploit the wealth of the country.\textsuperscript{30} In Spain, General Francisco Franco created the Instituto Nacional de Industria (National Institute of Industry - INI) in 1941 as a holding company of state firms largely concentrated in petroleum, steel, mining and transportation.\textsuperscript{31} Inspired by the fascist Italian Istituto per la Recostruzione Industriale (IRI), the main goals of INI industrial policy were industrial autarky and national defense.\textsuperscript{32}

The state-led model in both Spain and Brazil exacerbated existing geographic unevenness in the distribution of industry. In Spain, INI firms operating in manufacturing tended to locate in the developed industrial regions of Spain, particularly Madrid and Catalonia, while INI firms in raw materials or commodities such as coal and steel, located in the mature industrial regions of the North (the Cornisa Cantábrica). Juan Antonio Suanzes, the INI's founder and president until 1963, argued for a purely "technical" criteria for locating INI firms that followed each region's factor endowments. The resulting inequalities were predictable. By locating public firms in the most developed regions or in the regions with the greatest abundance of natural resources, the INI further concentrated industrialization in a handful of zones and specialized the industrial structures of some regions in mature sectors.\textsuperscript{33} The majority of Spain's other regions, including Andalucía, in the relatively poorer South, were neglected by INI. Unable to rely on a diversified, existing industrial infrastructure, these regions stagnated in their underdevelopment.
In Brazil, state-led industrialization did little to change the fact that São Paulo remained the home of over 55% of the country's industrial firms, yet localization policy was far more deliberate than INI's policy in Spain. The post-1964 military governments attempted to weaken paulista opposition to authoritarian rule by reallocating official expenditures and public firms to the rural Northeast and North, a base of conservative support. The location of petrochemical poles in the Northeast and the creation of the National Cane Alcohol Program (Proálcool) sought to redistribute São Paulo's industrial assets to other Brazilian states. Nevertheless, since the industries of other states depended on the consumer market in São Paulo, federal policies failed to make a dent in the state's industrial dominance. Public expenditures on São Paulo even increased. As the chief domestic market for petroleum and steel, economic constraints compelled federal authorities to place additional refineries and steel mills in São Paulo. Arguably, Proálcool did more to revitalize São Paulo's agroindustrial sector than to create a lasting industrial structure in the poor Northeast.

In both countries, however, the larger model of state-led growth could not be sustained over time. Each pattern of state-led industrialization entered a severe period of crisis in the 1970's and 1980's. Both had international catalyzers. In the case of Brazil it was an escalating external debt that developed into a fiscal crisis of the state. Public sector-led growth policies under the military's Second Development Plan generated the largest external debt in Latin America. Growing deficits and financial speculation led to mega-inflation during the 1980's. In the case of Spain the cause of economic crisis was stagflation in Western Europe resulting from the first oil price shocks of 1973. Although the Spanish economy began its liberalization in 1959 with Franco's macroeconomic reform, Spain's public sector still represented a growing burden on
official accounts that would need to be reduced to avoid soaring deficits and promote the
country’s entry into the European Community (EC) in 1986.

In Brazil, the fiscal crisis of the state led policymakers to reduce the autonomy and
entrepreneurial role of public firms. Public production as a percentage of gross investment fell
from 21% in 1982 to 6% in 1990. The sharp reduction in the entrepreneurial capacity of the
Brazilian public sector, however, did not produce a more stable economy in the medium-term.
The continued postponement of extensive fiscal and administrative reform during the first
civilian governments of the transition to democracy (José Sarney 1985-1990; Fernando Collor
Monthly mega-inflationary rates exceeding 60% were not uncommon for much of the late 1980's
and early 1990's. Industrial policy became a secondary consideration. Between 1985 and 1991,
no fewer than 10 different proposals for an "industrial policy" were circulated by Brazilian
ministries and hyped by the presidents and cabinet officers they served. Each of these proposals,
however, did not get past the position paper stage. Macroeconomic reform remained the
political priority of national politicians.

Spain's monetary and fiscal problems were not as severe as Brazil's. The country's
industrial crisis occurred in the 1970's when the first oil price shocks of 1973 threatened
stagflation in Western Europe. The INI industries stagnated as foreign and domestic demand
declined precipitously during the decade, generating inflation, large trade deficits and high levels
of unemployment. Continued INI losses and chronic trade deficits created the conditions for a
fiscal crisis in Spain in the early 1980's. The budget deficit grew from 1.7% to 5.5% of GDP in
the short period from 1979 to 1982. Between 1980 and 1993, the budget deficit averaged 4.6%
of GDP and the public debt averaged 37% of GDP during 1980-1992 but it became progressively worse, topping out at an estimated 60% by 1994.\textsuperscript{41}

The priorities of planning were soon outweighed by the fiscal and macroeconomic exigencies of reducing inflation and the public budget deficit.\textsuperscript{42} Despite the election of the Socialists (PSOE) led by Felipe González in 1982, tight monetary and salary policies were continued over from the previous Conservative government in order to keep inflation low. Conservative and Socialist policymakers alike were convinced that they had to prepare domestic industry for competition from more advanced European economies and also to redress the fiscal imbalances and monetary instability that could prohibit accession to the EC.\textsuperscript{43} The dominance of EC policy priorities limited the scope of industrial reform by disassembling the entrepreneurial projects of the INI, but EC fiscal transfers also made a more extensive restructuring of the public sector possible.\textsuperscript{44} The Socialists pursued a wide-ranging industrial reconversion policy that premiered in a White Book report (\textit{Libro Blanco}) in July 1983, delivered by then Minister of Industry, Carlos Solchaga. Both the White Book and its legislative successor, the Law of Reconversion and Reindustrialization (1984), targeted sectors in industrial decline for subsidized credit and structural aid. The key sectors of the reconversion - steel, metallurgy, appliances and textiles - all received large amounts of state aid. Zones of Urgent Reindustrialization (ZURs) surrounding the most hard-pressed sectors were provided with preferential credit and subsidies and were the beneficiaries of funds for labor relocation.\textsuperscript{45} The result was a neoliberal policy that succeeded more at macroeconomic stabilization than at reducing unemployment or promoting industrial growth. The INI spent large amounts of public money to re-model and eliminate entire lines of production which had the effect of reducing jobs and salaries. Total employment in the
INI fell from 216,700 workers in 1983 to 154,500 in 1989, almost a 30% reduction. Like the French before them, the Spanish Socialists abandoned expansionism and embraced neoliberal reform.

Despite the apparent regional and historical differences between Brazil and Spain, two countries literally an ocean apart, the evolution of macroeconomic and industrial policy took very similar directions during the 1980's and the 1990's. The national public sector in both countries underwent a period of severe decline, jeopardizing older patterns of state-led development. As the national state retracted from its history of extensive intervention in the market, subnational governments became more involved. To a great extent, this was the result of a process of political decentralization that emerged from democratic transitions in both countries.

**Shifting the State: The Politics of Decentralization**

In both Brazil and Spain, the 1980's witnessed a rapid decentralization of both fiscal resources and policy autonomy as a result of political bargaining between local and national interests. In each case, transitions to democratic rule provided dynamic bases for these processes.

The Brazilian military, which had originally embraced a politically centralized formula of authoritarianism, eventually decentralized taxes and intergovernmental transfers through a 1967 tax reform. The act was an attempt to counterbalance the power of the Southern and Southeastern states where much of the opposition to authoritarianism emerged. Yet it also set a precedent for expanding subnational autonomy before constitutional democracy was established. As a result, fiscal decentralization could not be controlled as the democratization process proceeded. Local politicians, in the scramble to position themselves for power in the
gubernatorial elections of 1982 and the new civilian government in 1985, bitterly attacked the military's emphasis on centralization. Added to the cacophony of dozens of newly autonomous social and political actors, from unions to social movements, who joined the attack on centralism and the emergence of the Congress as an increasingly important venue for lobbying and deal-making, the stage was set for a dramatic decentralization of fiscal authority. All of these conditions expanded the "politics of the governors" - the empowerment of state and municipal governments and their local bases of patrimonial politics. Regional lobbies exerted a tremendous influence on the Constituent Assembly charged with drafting the new constitution in 1987. As a result, the 1988 Constitution would make Brazil one of the most fiscally decentralized federalisms in the world.

After figuring for revenue sharing and transfers, in 1974, the national state disposed of 50.2% of all revenue, the states 36.2% and the municipalities 13.6%. By 1988, the national state disposed of 33.4% of revenue while the states boosted their share to 50.7% and the municipalities to 15.9%. Most importantly, the 1988 reform gave the states reserved authorities to engage in economic policies not within the jurisdiction of the national state. The open-endedness of this provision granted the states carte blanche for directing spending at an array of "development" needs. Over 90% of intergovernmental fiscal transfers were not earmarked for particular purposes by Brasília and were free to be spent at the discretion of state and municipal governments.

Political decentralization was also extensive in Spain, but it did not occur as rapidly or uncontrolled as the Brazilian process. The emphasis placed during the Spanish transition on building political society allowed political decentralization to be more institutionalized than it
was in Brazil. Nevertheless, the overall result was similar with differences in degree. The institutions governing political decentralization in Spain were imbued with a degree of open-endedness that allowed subnational government to significantly expand their authorities and resources during the 1980's. As in Brazil, the nature of the democratic transition directly shaped the degree of this open-endedness. From the beginning, the question of regional autonomy dominated the emergence of Spanish democracy. Separatist violence in Basque and calls by the Catalonians for autonomy in 1977 snowballed into a wider debate concerning the structure of the state. Soon all the Spanish regions moved to claim their own rights of autonomy precisely during a time democratic institutions were being conceived. The 1978 Constitution guaranteed the regions "autonomy for the administration of their respective interests" (Article 137) and the controversial Title VIII authorized a negotiated route to autonomy based on the development of statutes of autonomy for each region, dividing up responsibilities for taxation and shares of intergovernmental transfers.

The system conceived by the 1978 Constitution was meant to be flexible, to build the "state of the autonomies" gradually, over time and through a process of negotiation between the central state and the regions. But different needs and political interests among the regions thwarted central state ambitions to generalize a model of autonomy to be applied to all cases. The negotiation of statutes of autonomy with each region had the effect of further compartmentalizing the autonomy process. Different regions obtained distinct and sometimes "exclusive" rights. Although there were differences in degree, all the regional governments successfully gained increases in fiscal resources and authority during the long evolution of the statutes of autonomy. The open-endedness of the stipulated political economic rights of the
regions allowed for a great deal of leeway in the interpretation of the capacity of the regions to promote industry. The negotiated process allowed the regions to claim authority through their statutes of autonomy that were not specifically contained in the 1978 Constitution. Thus many regions developed their own public sectors during the early to mid 1980's, launching an array of agencies designed to promote industrial investment. By the end of 1988, the regions were spending a total of 35% of the national budget, but 75% of the monies allocated to promoting industrial investment.

Subnational governments in both countries viewed these institutional transformations as fortuitous. Faced with a declining national industrial policy, regional governments concerned about promoting industrial development could expect little from their central states. Political decentralization in Spain and Brazil provided authorities and resources to mount local responses. Yet not all subnational regions were prepared or capable.

The Spanish Subnational Cases

Asturias During the 1980's, Asturias seemed an unlikely candidate for autonomy. Unlike Catalonia and Basque, Asturias lacked a distinctive national and linguistic identity. The 1978 Constitution did not place the region on the "fast track" to autonomy. Yet Asturias faced arguably the worst economic crisis in Spain. As a secondary region in Spain, far to the northwest, away from the dynamic core economies of Madrid and Catalonia, Asturias underwent a process of industrial decline and restructuring. The public mining and steel firms that had once provided Asturians with an industrial identity rapidly cut their production and downsized their workforces
during the 1980's as part of the Socialists' industrial 'reconversion.' Between 1980 and 1992, 24% of all industrial jobs were phased-out, with 55% of those losses occurring in the public sector. 62

Asturian unions, the most politically influential actors in the region, mobilized throughout the 1980's and into the early 1990's in order to slowdown the 'reconversion.' The mining unions were led by José Angel Fernández Villa, a fiery leader who exerted great influence within the national and regional PSOE. Manuel Fernández Lito, the head of the steel unions, also retained tremendous influence on national politicians. The Asturian regional government, which remained under the control of the Socialists from 1983 to 1995, was commanded by Pedro de Silva Cienfuegos-Jovellanos for most of this period (1983-90). Both the Asturian unions and the regional government shared interests in limiting the extent of the industrial 'reconversion' and garnering national and EC monies to allay the social costs. The regional government, however, also sought the political goal of building Asturian autonomy.

This second goal created strong political interests on the part of Silva to construct a regional technocracy that would promote industrial investment and employment. The Socialist president had been elected on the promise of reorienting national industrial policy to take into account regional concerns. Yet his initial contacts with the national PSOE leadership had convinced him that the industrial 'reconversion' could not be significantly amended. 63 Silva also viewed the Socialists' regional programs, the ZURs, as inefficient and limited. Faced with severe economic exigencies and lacking both a strong juridical and ethnic basis for autonomy, Silva increasingly spoke of the regional government's role in implementing industrial policy as a key legitimating pillar of regional autonomy. 64 Encouraged by the arguments of political technocrats in the Asturian Society of Economic and Industrial Studies (SADEI) and the regional
Chancellery of Economy and Industry, Silva took advantage of the open-endedness of the Asturian Statute of Autonomy's economic policymaking provisions to create an array of public development agencies.

The new Asturian technocracy, led by the Institute of Regional Promotion (IFR), created in 1983, and the Service of Assistance and Entrepreneurial Promotion (SAYPE), initiated in 1988, among other agencies, created a number of horizontal and vertical associations that helped to expand industrial investment and employment in Asturias. Backed by IFR's market and infrastructure studies, Silva and his staff of political technocrats established relations in 1989 with Germán Lastra, a native Asturian who headed the DuPont Nemours corporation's fledgling Spanish subsidiary. Despite significant legal, union and environmental challenges to DuPont in the U.S. and Europe, the firm decided to place a multi-year, billion dollar investment in Asturias during the 1990's. The decisions seemed improbable considering that Asturias maintained less than 1% of total foreign direct investment in Spain, housed the country's most politically active unions and a sensitive environmental movement. The unlikely choice of Asturias for DuPont's largest European investment was the result of concessions engineered by Silva with the unions and local environmental groups, national and regional subsidies totaling $267 million, and the technical support supplied by IFR.65

The building of horizontal and vertical linkages within the Asturian industrial policy system also proved crucial in a completely different area of policy: the promotion of small- and medium-sized firms. These firms are the chief employers in Asturias and they are perennially cut off from sources of finance due to their size and lack of collateral. Aiding small firms became a political priority of the Asturian political technocracy once the national government reduced
subsidies for small Asturian firms during the early 1990's. In response, IFR and SAYPE organized a Support Plan for Small- and Medium-Sized Firms, and then negotiated with Asturian unions and regional politicians an array of funding policies in 1993. Based on a small-n study of 10 small- and medium-sized firms conducted by the author in March-May, 1996, firm managers reported moderate to significant improvements in production and employment due to agency activities. Most of these respondents argued that such changes would not have been possible but for agency intervention. Firm managers also noted that close and frequent visits by IFR officials figured prominently as a factor that greatly improved the significance and effectiveness of agency programs.

An evaluation of Asturian industrial policy between 1985 and 1991 will reveal that industrial employment promoted by the regional agencies amounted to 40% of the number of industrial jobs lost between 1980 and 1992 (35,717). SAYPE, which works exclusively with small- and medium-sized firms, helped replace 71%, 46%, and 78% of all industrial jobs lost in 1991, 1992, and 1993, respectively. These figures do not completely reverse Asturias' total unemployment (71,000, 20%), but the figures do signify an important cut into the impact of deindustrialization. Agency activities have had a significant effect on industrial investment as well. In 1993, IFR and SAYPE programs made possible 28% of Asturias' total industrial investment that year. Again, the figures are not indicative of a total recovery, but they are not insignificant results for a subnational industrial policy system in a secondary region with few resources, militant unions and evolving juridical autonomy.
Madrid

In contrast to Asturias, the Community of Madrid is a core region in Spain. Madrid accounts for 16% of Spain's GDP and 13% of all industrial employment. About half of all foreign investors, 250 of the largest 500 firms in Spain and 31 of the 32 foreign banks authorized to do business in Spain, are located in Madrid. Not surprisingly, all roads lead to Madrid in the literal if not in the figurative sense. La Plaza del Sol, the center of the city of Madrid, is known as "kilometer zero" - the geographic heart of Spain's interconnected roadways and highways. Such centrality and industrial development gave the Community of Madrid a self-sufficiency that Spain's secondary regions do not retain. Madrid's diversified array of industries, administrative and financial services created an "introverted" agglomeration of economies that insulated the region from the vagaries of international trade. Unlike Asturias, Madrid was also spared the throes of the industrial 'reconversion.' Job-loss rates during the 'reconversion' were less than the Spanish average and job-creation rates were greater than the Spanish average during the 1980's. Madrid's industrial structure, with its array of advanced technological firms and administrative services, was also more diverse and more productive than was the case in Asturias. As a result, the region's political leaders had weak interests in promoting industrial investment.

Joaquín Leguina, the Socialist president of the region from 1983 to 1995, did not seek to develop Madrid's "slow track" autonomy by linking it to development concerns. In part this was true because the national state supplied enough resources to address the region's more important urban planning concerns. The distribution of industry within the region to relatively poorer segments was the focus of national and regional efforts. In this area, a regional technocracy was created, led by the Institute of Development of Madrid (IMADE). Yet this agency was poorly
linked to other regional and national agencies. Thus it lacked a financial mechanism.

Consequently the major industrial and technological parks and firm-promotion programs IMADE initiated, failed within months. The agency's insulation ultimately led to infiltration by corrupt administrators in 1993 and 1994. Agency links to firms, in this institutional climate, could not be maintained. Given the regional government's political and institutional weaknesses, Madrid was unprepared for addressing the sharp fall in industrial employment which occurred after 1988 due to corporate downsizing and the economic recession.

**Andalucía** As one of Spain's most underindustrialized regions, Andalucía had few of the conditions that favored the development of Madrid's core economy. Like Asturias, Andalucía is a secondary region in Spain, a peripheral territory with unproductive firms and an industrial structure concentrated in economic (and geographic) enclaves in basic chemicals (Huelva), shipbuilding (Cádiz), and auto assembly (Linares). This inflexible structure was a poor employer. Andalucía maintained unemployment rates over 30% during the 1980's, higher than the already high Spanish average of 20%. The Socialists who came to power in Andalucía in 1982 had few interests in changing this structure radically. Rafael Escudero, the region's first autonomous president, employed Andalucía's development concerns as part of a wider populist strategy to buttress the influence of the PSOE. Following the examples of Basque and Catalonia, Escudero argued that Andalusians were "oppressed", but due to the *economic exploitation* of the region's raw materials by the rest of Spain, not on ethnic grounds.

As a result, the regional technocracy that emerged to deal with Andalusian underdevelopment, led by the Andalusian Institute of Industrial Promotion (IPIA, later the
Andalusian Institute of Promotion, IFA), was manipulated by the populist politics of Socialist leaders. Unlinked to the influential Andalusian business associations that saw IPIA/IFA as a rival for representing the region's businesses, the institute depended upon the political support of PSOE leaders who routinely used the agency's directorate to make political appointments.

The politicization of the IFA forced the agency's technocrats to commit themselves to costly interventions in nonviable large firms in politically sensitive areas. In 1994, for example, the IFA bought out a failing Suzuki land rover plant in Linares called "Santana" under pressure from the enclave's unions. The firm lost millions under public ownership. Between May 1993 and August 1994, the IFA invested over $269 million to save 13 nonviable firms, including Santana. This amount exceeded the total for the IFA’s other industrial promotion programs in agriculture, industry and services in 1993; all the results of a costly, politicized system with weak institutional support.

The Brazilian Subnational Cases

Minas Gerais  Like Asturias and Andalucía, Minas Gerais is a secondary region. Historically, Minas' economy depended upon national public investments in steel and mining and the vitality of São Paulo's industries just to the south. During Brazil's developmentalist period the state government's political elites, followers of Juscelino Kubitschek (a former mineiro governor and Brazilian president from 1955 to 1960), built an array of development agencies designed to diversify the inflexible industrial structure of the state. The state utility company (CEMIG), the state development bank (BDMG) and the Institute of Industrial Development (INDI) emerged
during the course of the 1950's and 1960's as technocratically managed and politically supported agencies that were "pockets of efficiency" within state government. Unlike the Spanish subnational cases, however, the mineiro agencies were politically supported by a dense network of inter-bureaucratic ties and governmental backing. Mineiro entrepreneurs were politically weak and the state's oligarchical political class deferred economic policy to political technocrats.Mineiro labor was also weak due to a long history of clientelist manager-workers relations in one-company towns and public firms and government-supported efforts to control labor mobilization on national issues such as privatization.

During the 1970's, the developmentalist policies of the mineiro agencies generated significant results. Through an array of infrastructural, fiscal, and financial mechanisms, the agencies successfully attracted and made possible more than $7 billion of new investment and over 200,000 industrial jobs during the decade. Foreign investors flocked to Minas Gerais. Almost one-fourth of all foreign investment in Brazil between 1970 and 1977 went to Minas. The industrial structure of the state was transformed. By 1980, Minas was producing 20% of Brazil's capital goods, whereas in 1970 it produced less than 8%, and this transition occurred when national expenditures on Minas were in decline relative to other states.

The 1980's would challenge the mineiro system in many new ways. First, democratization placed self-interested, traditional elites in the newly empowered seat of governor. Tancredo Neves, who was elected Minas' governor in 1982 and would later run for president, largely ignored the state's planning structure since he associated it with the previous authoritarian regime. Newton Cardoso, a self-styled "man of public works" with a political base among oligarchical, rural elites in northern Minas, became governor in 1986. Cardoso proceeded to
attack the mineiro technocracy with political appointments and summary dismissals. Second, the economic crisis of the 1980’s eroded the agencies' client base. Foreign and domestic investment slowed significantly during the decade.\textsuperscript{85}

The mineiro agencies survived these intense political and economic threats by exploiting their horizontal linkages. Interlinked by mutual ownership and the circulation of political technocrats, CEMIG, INDI, BDMG and other mineiro agencies maintained a cohesive core of elites who could not be easily rooted out of their positions during the Cardoso administration. More importantly, these actors coalesced behind an economic diagnostic produced in 1989 by BDMG which became a blueprint for restructuring the mineiro planning system. In 1991, the election of Hélio Garcia, a former mayor of Belo Horizonte and governor of the state, provided an open political door to the mineiro political technocrats. Stunned by actual and threatened interventions by the Brazilian Central Bank in Minas' state banks, and facing a deteriorating fiscal and productive structure, Garcia gave a carte blanche to a small group of political technocrats to rework the mineiro agencies. Garcia's successor in 1994, Eduardo Azeredo, a political technocrat himself, further strengthened the role of political technocrats by placing prominent members of the class in the key economic positions of state government.

The new mineiro industrial policy system that emerged during the 1990's emphasized the pursuit of economic externalities in Minas. Perhaps the most prominent example of success in this regard was the diversification of the auto manufacturing and supplier sector in Minas Gerais. Armed with a new array of fiscal incentives and infrastructure (funded in part by international financial agencies), the BDMG, INDI and CEMIG promoted the expansion of the state's sole automobile producer, Fiat. The agencies financed the relocation and expansion of dozens of the
automaker’s suppliers to locations proximate to the firm's Betim plant. As a result, Fiat was able to launch a series of just-in-time links with its suppliers that greatly increased the firm's domestic market share from 13.4% in 1980 and 24.5% in 1990 to 33.4% in 1994, making Fiat Brazil's number one automaker in that year. The agencies also subtly opposed Fiat's interests by promoting the expansion of a massive auto supplier production network in southern Minas and then employing fiscal and infrastructural mechanisms, implemented through secret agency-firm negotiations, to lure a new Mercedes investment to the area in 1995. Dozens more investments were made possible in under-industrialized areas of Minas by similar commitments of public support.

São Paulo As the core of Brazilian industry, São Paulo's state government developed few political interests to promote industrial investment. Rather, state efforts were more focused on relieving the urban congestion and high labor and land costs produced by the intense concentration of industries in the greater metropolitan area of the city of São Paulo. The militancy of increasingly autonomous labor unions during the late 1970's and throughout the 1980's and 1990's produced additional problems for managing industrial investment in the state. These problems, however, did not cause the paulista leadership to develop their own technocratic institutions. São Paulo's governors and major politicians during and after the transition to democracy became more concerned with their own short-term political interests in state and national politics. The most prominent among them, including Paulo Maluf (governor, 1979-82), Orestes Quércia (governor, 1987-90), and Luiz Antonio Fleury Filho (governor, 1991-94), among others, engaged in internecine political conflicts within and between political parties. These
politicians distributed political rents and engaged in extensive fraud to buttress their individual bases of political support. One of the major effects of the state political class' extensive patrimonialism was the generation of a severe fiscal crisis during the 1990's which led to a massive $20 billion debt in the state bank, BANESPA. Paulista business and labor were unable to form an alternative support base for industrial policy, although there were attempts during the 1990's. Due to these pressures and constraints, São Paulo was institutionally ill-prepared for dealing with its evolving problems in the distribution of industries and industrial relations.

Rio de Janeiro Although Rio de Janeiro state once retained over 28% of Brazil's industries, it gradually lost this share to São Paulo and other states, dropping to 15.6% in 1970. The state's industrial activity declined precipitously during the economic crises of the 1980's; the lowest growth rate for all of Brazil's states during the early part of the decade. Like Andalucía, Rio's industries were largely located in unproductive enclaves in steel, ship-building, and textiles. Rio's political class, however, developed few strong political interests for promoting a more diversified industrial structure. Like the paulista political elite, Rio's political leaders were obsessed with building and maintaining a clientelist network of power. During the height of the military government, Rio's most prominent opposition politician, Antônio de Pádua Chagas Freitas, built an impressive political machine within the official opposition party, MDB, in Rio between 1965 and 1982. As in Minas Gerais, the transition to democracy empowered other traditional elites who sought to replicate Chagas Freitas' system. Leonel Brizola, an old denizen of the Brazilian left, became governor in 1982 and again in 1990 based on his own network of political clientelism. Like his counterparts in São Paulo, Brizola thirsted for national power and thus ran
for the Brazilian presidency perennially following a mixture of nationalist and populist ideas.\textsuperscript{94} Under Brizola's personalist rule, Rio could develop few lasting technocratic institutions for restructuring the state's flagging industries.

The few that did emerge were dominated by Brizola's brand of populism. The state government maintained an array of "industrial districts" managed by a Company of Industrial Development (CODIN). Brizola, and his successor between 1986-90, Moreira Franco, used the districts to subsidize land speculation and they both manipulated CODIN through their political appointments.\textsuperscript{95} As a result, the CODIN could develop few workable linkages with national or state-level agencies, business or labor groups. The latter two were, as in Minas, politically weak in comparison to the state's patrimonial network. Nevertheless, Brizola's exit in 1994 and the incoming Marcello Alencar governorship led to the appointment of ex-National Development Bank political technocrats to CODIN's directorate. Alencar backed the new CODIN with resources and political support in an effort to improve Rio's decaying public image and economic structure. Despite this commitment, the current CODIN leadership is well aware of the state's patrimonial system and the threats it poses to the emerging technocratic management of industrial policy in Rio de Janeiro.\textsuperscript{96}

Conclusion

The structural, political, and institutional factors of my argument explain the organization and performance of the subnational cases discussed above. The distinct legacies of democratization in Spain and Brazil clarify how a gradual process of institutional change in the former could create a basis for the decentralization of resources and authorities to a developing
political society. In Brazil, the process of decentralization was more ad hoc and tended to
everalize the power of traditional, patrimonial elites not a wider political society. In São Paulo
and Rio de Janeiro, this factor helped to explain why institutions representing the interests of the
subnational economy did not emerge and why the Asturian industrial policy system could rely on
a more developed political society to maintain itself. The latter proved crucial since Asturian
labor and its links with the regional Socialist party created a base for decentralizing national and
EU resources to this secondary region. The Asturian agencies were also able to develop
horizontal ties with labor once the political support of the post-Silva governments waned. Yet
this structural factor does not explain how the *mineiro* system could create horizontal ties *despite*
the weakness of political society.

**Fiscal constraints** and **level of development** also help to explain the range of opportunities
and interests in the cases. Core regions such as Madrid and São Paulo shared few interests in
promoting industrial investment and employment. In these cases, the major problems facing regional
elites had to do with urban planning and investment distribution. Madrid was able to do more than
São Paulo due the Spanish capital's relative flexibility of fiscal resources and less patrimonial group of
political elites. However, both of these subnational systems failed to develop a lasting set of
technocratic institutions for lack of horizontal and vertical links. The study's secondary regions -
Andalucía, Asturias, Minas Gerais and Rio de Janeiro - all showed more political interest in
developing industrial policies, but only Asturias and Minas Gerais, the most institutionally developed
cases, performed relatively well. Also, despite fiscal constraints in Minas, the *mineiro* political
leadership was able to reorganize the system and intervene in the market selectively. The failure in
both Andalucía and Rio emphasized the importance of the interests of subnational politicians to
support the industrial policy system and for that system to develop lasting associations with other agencies, political society and client firms. None of these factors were as salient in Andalucía and Rio as they were in Asturias and Minas. Fiscal constraints and level of development are relevant structural constraints on subnational politics, but consideration of the latter is needed to offer a complete explanations for observed differences among the cases.

**Firm interests and globalization** also intervened in all of the subnational cases. The demonstrated ability of Asturias and Minas Gerais to listen to multinational interests and offer an effective set of incentives suggests that firm interests guide investment strategies but do not entirely determine outcomes. If even subnational governments can substantially affect multinational firm interests, then the power of globalization to determine development outcomes is greatly exaggerated. State, and subnational governments within shifted states, still matter.

The strength of the **political support** offered industrial policy systems in Asturias and Minas Gerais and the relative weaknesses of such support in São Paulo, Rio de Janeiro, Andalucía and Madrid, was crucial for the formation of these systems. Silva's support for the development agencies in Asturias as part of his interests in building a base for Asturian autonomy and Garcia's and Azeredo's interests in re-empowering the *mineiro* political technocracy point to the importance of political support. This crucial factor was missing in the four other cases. Partial systems emerged or reemerged in Madrid, Andalucía and Rio due to moderate or weakening political support at different times. Yet in the case of São Paulo, where political interests never supported subnational development policy, absolutely no significant institutions emerged.

The cases of Asturias and Minas also show that political support is not enough for maintaining a subnational industrial policy. Particular aspects of the development institutions in
these systems explain their perseverance. Horizontal associations between Asturian labor unions, client firms, business elites and the development agencies determined how the Asturian industrial policy system could survive the political exit of Silva and the decline of national funding. Likewise, the developmentalist mineiro agencies survived both economic and political threats due to horizontal ties among themselves. These links became the basis for revitalizing the system through the 1989 BDMG diagnostic. The isolated and politicized IFA in Andalucía, IMADÉ in Madrid and CODIN in Rio, illustrate further how horizontal associations help to explain the relative flexibility of subnational industrial policy systems and their subsequent maintenance.

Finally, the cases of Asturias and Minas Gerais show that vertical links between agencies and client firms affect the economic performance of official projects. In these two cases, literally an ocean apart and facing distinct economic and political challenges, cases of successful intervention were characterized by close exchanges of information between subnational development agencies and firms. The cases of DuPont and the small- and medium-sized firms of the study in Asturias and Fiat, Mercedes and their suppliers in Minas Gerais provide indicative cases.

Given the complexity of political decentralization and its differentiated effects on subnational industrial policy in Spain and Brazil, it is impossible to claim that there is single model of "efficient" federalism or a single model of "economic governance" that explains the organization and performance of these subnational cases. Rather, only by studying the way that the politics and institutions of subnational government change can we appreciate the richness of shifted states. We must first, however, do away with our disciplinary tendencies to associate analytical and political "strength" with models that favor political centralization.


5. Peter B. Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton: Princeton University Press, 1995). Evans' approach attempted to correct the tendency of strong state arguments to champion the "insulation" of the technocratic elite by claiming that "a state that was only autonomous would lack both sources of intelligence and the ability to rely on decentralized private implementation" (p. 12). Yet, once again, the main protagonist of Evans' "embedded autonomous" state was the bureaucratically developed central state linked narrowly with business elites; the East Asian model *redux*.


11. Studies of this kind are predictably scarce. One exception is Harald Fuhr, "Mobilizing Local Resources in Latin America: Decentralization, Institutional Reforms and Small-Scale Enterprises," in Brigitte Spath, ed., *Small Firms and Development in Latin America: The Role of the Institutional Environment, Human Resources and Industrial Relations* (Geneva: International Institute for Labour Studies, 1993). Fuhr's preliminary work confirms the existence of formidable political and economic obstacles to the broad applications of the Third Italy model to developing countries.


This approach is similar to Locke's "micropolitical" approach to Italy. Locke also focuses on "the politics of strategic choice to explain variation within states...", p. 181. Similarly, institutions governing economic policy and political decentralization evolve historically and are shaped by continuing political processes and events. This treatment of institutions differs from the "rational choice," organization theory of institutions which depicts institutions as static entities constraining the actions of political actors. See Kathleen Thelen and Sven Steinmo, "Historical Institutionalism in Comparative Politics," in Sven Steinmo, Kathleen Thelen, and Frank Longstreth, eds., Structuring Politics: Historical Institutionalism in Comparative Perspective (New York: Cambridge University Press, 1992).

I define "structural" as national-institutional and socio-economic constraints.


Stepan defines "political society" as "that arena in which the polity specifically arranges itself for political contestation to gain control over public power and the state apparatus". See Alfred Stepan, Rethinking Military Politics: Brazil and the Southern Cone (Princeton: Princeton University Press, 1988), p. 4. Although Stepan operationalizes the term to intra-governmental lobbies and legislative politics, I will expand the meaning of the term in the political economic realm to include business, labor, and consumer organizations.

This argument is posited by Allan Tupper, "Federalism and the Politics of Industrial Policy," in André Blais, ed., Industrial Policy (Toronto: University of Toronto Press, 1986).


Storper and Walker, p. 84.


Hirschman, p. 185.

Storper & Walker refer to these firm needs as "locational specifications" - labor, natural resources and consumer markets. The authors also add the division of labor within and between industries, linkages with suppliers and other firms in the input-output chain. The authors argue that "locational
"capabilities" are distinct from "locational specifications" in the sense that the former refers to the capacity of a firm to secure its needs at a given location. In this way, firm needs are linked to level of development (my third structural factor). See Storper and Walker, p. 73.

24. Regional policies which affect factor prices will be particularly effective in attracting industries facing increased sectoral competition. See Anne Markusen, Profit Cycles, Oligopoly, and Regional Development (Cambridge: MIT Press, 1985).


26. Ibid.

27. This conception of technocrats and political-technocrats follows the distinction between técnicos and political técnicos in Ben Ross Schneider, Politics Within the State: Elite Bureaucrats and Industrial Policy in Authoritarian Brazil (Pittsburgh: University of Pittsburgh Press, 1991).

28. The term "embeddedness" is used here much as Evans employs the term to describe the official linkages between central state agencies and business organizations. See Evans (1995).


31. It should be noted that all Spanish public firms were not governed by INI. After 1970, two more holdings - the Dirección General del Patrimonio del Estado (the General Direction of the Patrimony of the State - DGPE), a collection of film, communications, food and tobacco companies - and the Instituto Nacional de Hidrocarburos (National Institute of Hydrocarbons - INH) a collection of energy firms, were created. INI, however, still remained the most important public sector holding company. This paper will focus mainly on INI firms since they are representative of the crisis of the Spanish public sector as a whole.


42. These goals were institutionalized in the Pacts of Moncloa in 1977. Among some of the anti-inflationary policies contained in the Moncloa Pacts were a tight monetary policy and reductions in public expenditures on pensions, social security and the civil service. Enrique Fuentes Quintana, "De los pactos de la Moncloa a la Constitución (julio 1977-diciembre 1978)," in José Luis García Delgado, ed., Economía española de la transición y la democracia, (Madrid: Centro de Investigaciones Sociologícas, 1990); and Joan Trullen i Thomas, Fundamentos economicos de la transición política española: la política econòmica de los acuerdos de la Moncloa (Madrid: Ministerio de Trabajo y Seguridad Social, 1994).


46. Martín Aceña and Comín, p. 542.


48. At the same time, however, the military's 1967 tax reform reduced the autonomy of the states to tax. This increased the dependence on debt to finance local development. By one estimate, in 1981 over one-third of Brazil's total external indebtedness was held by the state governments. See Lawrence S. Graham, The State and Policy Outcomes in Latin America, (New York: Praeger, 1990), p. 87.


50. Ibid, p. 179.


55. The degree of control over the transition by the military in Brazil compared to the relative flexibility of the Spanish transition, the historical emergence of a strong political society in Spain compared with the reign of personalism in Brazil, especially among the most conservative.


59. The governments of Basque and Navarra, for example, asserted their historic "foral" rights in taxing and financing themselves. Catalonia, Valencia, Andalucía and Galicia gained additional control over education and other social expenditures under the "rapid route" (vía rápida) to autonomy. The other Spanish regions were placed in the vía lenta which provided a less extensive array of capacities, yet a significant number.


61. This is at best a cursory estimate. See *El País* August 8, 1988.


64. Several government documents highlight the link the regional government made between the building of regional autonomy and the expansion of its authority over industrial policy. See especially Consejería de Hacienda y Economía, *Programa de Desarrollo Regional 1985-88* (Oviedo: Principado de Asturias, 1986), p. 135.


68. The functions performed by the agencies were widely viewed by Asturian firms as extremely valuable. This is confirmed by a recent study of 198 Asturian firms. Manuel Castells and Juan Antonio Vázquez, *Estrategias para la reindustrialización de Asturias* (Madrid: Editorial Civitas, 1994), pp. 652-653.


72. Madrid exported only 6% of its industrial production in 1989. That rate is half the national average for regional economies. See José Luis García Delgado and Cándido Muñoz Cidad, "La industria de Madrid de la segunda mitad del decenio de 1980," *Economía industrial* Nº 279/280 (May/August, 1991), p. 213.


79. Hagopian, pp. 87 & 124; and Schneider, Chapter 6.
80. Montero, Chapter Seven.


84. Author interview with Marilena Chaves, Assistant Secretary of Planning, SEPLAN, June 14, 1996, Belo Horizonte, Minas Gerais.

85. BDMG, p. 28.

86. Based on author interviews with INDI and mineiro government officials; and various issues of *Diário do Comércio* (1995-1996).

87. See Montero, Chapter Seven.


90. Guanabara (the contemporary city of Rio de Janeiro) was the federal district and the administrative capital of Brazil until the early 1960's when the capital was moved to Brasília. During the mid 1970's, Guanabara was integrated into the surrounding area, thus creating the contemporary state of Rio de Janeiro.


95. Author interviews with CODIN officials, May-June, 1996.

96. Author interview with Marco Antonio de Araújo Lima, CODIN president, June 5, 1996, Rio de Janeiro.