"LEADING COALITIONS" AND PATTERNS OF ACCUMULATION AND DISTRIBUTION IN SMALL COUNTRIES

A Comparative Study of Costa Rica and the Dominican Republic under Globalization

by

Diego Sánchez-Aancochea

April 2004

Submitted to the Graduate Faculty of Political and Social Science of the New School University in partial fulfillment of the requirements for the degree of Doctor of Philosophy.

Dissertation Committee:
Dr. William Milberg
Dr. Duncan Foley
Dr. Lance Taylor
Dr. Courtney Jung
# TABLE OF CONTENTS

ACKNOWLEDGMENTS ................................................................................................................... iv  
LIST OF TABLES ........................................................................................................................... xi  
LIST OF FIGURES .......................................................................................................................... xiv

Chapter One. “Leading coalitions” and the structure of accumulation and distribution in small countries in the global economy ................................................................................................. 1

1. Introduction ................................................................................................................................... 1
2. Some key issues within the comparative institutional political economy literature 4
   2.1. CIPE: definition and origins ........................................................................................................ 4
   2.2. Bringing the state back in, bringing East Asia in .......................................................................... 7
   2.3. The post-Washington Consensus and the new focus on institutions ........................................... 10
   2.4. Globalization and the “powerless state” debate .......................................................................... 14
   2.5. Conclusion: questions and applications to Costa Rica and the Dominican Republic .............................. 17
3. Capital accumulation, income distribution, economic models and the concept of leading coalitions ................................................. 21
4. Applying the concept of leading coalitions: state-capital leading coalitions and other alternatives for development ........................................... 27
5. Globalization and the shifts in leading coalitions ........................................................................... 34
6. Building new comparative advantages in the manufacturing sector .................................................. 39
7. The interest of small countries and “middle” cases: the comparison between Costa Rica and the Dominican Republic ........................................... 45
8. A note on methodology .................................................................................................................. 49
9. Conclusion and following chapters ............................................................................................... 52

Chapter Two. Capital accumulation and exports at the macro-level: a simple model .......................... 56

1. Introduction ................................................................................................................................... 56
2. Basic assumptions of the model ....................................................................................................... 57
3. Short-term equilibrium .................................................................................................................... 59
4. Steady state ................................................................................................................................... 67
5. Explaining the East Asian miracle through the model ..................................................................... 69
6. Comparing the Costa Rican and Dominican experience during the ISI period .............................. 73
7. Costa Rica and the Dominican Republic in the new global era ....................................................... 76
8. Conclusions ................................................................................................................................... 81

1. Introduction .................................................................................................................. 83
2. Comparative evolution of Costa Rica and the Dominican Republic: economic growth, structural change and income distribution in the period 1950-1980 ........................................................................................................... 89
3. Building an exclusive coalition oriented towards capital accumulation in the Dominican Republic .......................................................................................................................... 106
   3.1. The origins: Trujillo’s attempt to modernize during the 1940s and 50s .... 107
   3.2. The period of turmoil and redefinition: the crisis of the early 60s, the Civil War and the US occupation ............................................................... 111
   3.3. The consolidation: ISI and the state-family conglomerates alliance during Balaguer’s administration ............................................................................ 114
4. Costa Rica: an encompassing leading coalition results in higher social spending and a more equal income distribution ........................................................................... 130
   4.1. The origins: liberal attempts to open up the system in the 1940s .... 131
   4.2. The period of turmoil and redefinition: the 1948 Civil War and the new model of growth ........................................................................................................ 134
   4.3. The consolidation: ISI and the welfare system, supported by an encompassing leading coalition, 1950-1980 ........................................................................ 138
5. Conclusions .................................................................................................................. 153

Chapter Four. Coping with the economic crisis and the new policy environment. Costa Rica and the Dominican Republic during the 1980s

1. Introduction .................................................................................................................. 155
2. Costa Rica during the 1980s: facing the crisis and transforming the economy ... 157
   2.1. Trade liberalization and export promotion as answers to the debt crisis and the break of the regional market .......................................................... 157
   2.2. Financial deregulation, public employment freezes and their impact on the Costa Rican leading coalition ................................................................. 160
   2.3. Summary and conclusions .................................................................................... 170
3. The Dominican Republic during the 1980s: an unclear path .................................... 171
   3.1. Regressive adjustment during the first half of the 1980s ....................................... 171
   3.2. Balaguer’s (failed) attempt to promote public investment-led growth .... 176
   3.3. The Dominican Republic during the 1980s: reinforcing the strategic role of large conglomerates in the country’s leading coalition ........................................... 181
   3.4. Summary and conclusions .................................................................................... 190
4. Conclusion .................................................................................................................. 190
Chapter Five. Accumulation, distribution and leading coalitions in the new economy, 1990-2003

1. Introduction ......................................................................................................................... 192
2. Costa Rica during the 1990s: slow transformation... to what?........................................ 195
   2.1. The first half of the 1990s: weakening of the bureaucracy and continuation of the neoliberal reforms .................................................................................................................. 196
   2.2. Shifts in the Costa Rican private sector as a response to the new policy model ................ 203
   2.3. Lack of a stable leading coalition, lack of a clear direction for Costa Rica 221
   2.4. Summary and conclusions ............................................................................................ 230
3. The Dominican Republic during the 1990s: growth between crises and with an old leading coalition .......................................................................................................................... 231
   3.1. The economic crisis of the 1990s and the government's response ................................. 232
   3.2. The impact of the new economic model on the large groups: capital concentration, diversification and financialization ................................................................. 238
   3.3. Large family conglomerates-state interactions ............................................................. 249
   3.4. A second ring of domestic investors in the Dominican Republic and its response to the new policy environment ................................................................. 252
   3.5. Effect of the new model on labor in the private and public sectors during the 1990s ................................................................................................................................. 261
   3.6. The breakdown of the Dominican miracle of the 1990s and the limitations of the exclusive state-capital leading coalition ......................................................... 270
   3.7. Summary and conclusions ............................................................................................ 273
4. Conclusion ............................................................................................................................ 274

Chapter Six. New comparative advantages in small countries... same old problems in the balance of payments? Causes and limitations of the new external insertion of Costa Rica and the Dominican Republic in the global economy ................................................................................................. 277

1. Introduction ............................................................................................................................ 277
2. The importance of changing the export structure for long term economic growth ................. 282
3. The changing export structure in Costa Rica and the Dominican Republic and its impact on economic growth ............................................................................................................. 292
4. Development of the free trade zones: different evolution but similar shortcomings .......... 308
   4.1. Understanding the regime: state policy and the new strategy of TNCs .......................... 308
   4.2. Evaluating the regime: well known shortcomings that have not been overcome ........ 325
5. Do “national exports” change the preceding conclusions? .................................................. 360
6. Conclusion: the new insertion of Costa Rica and the Dominican Republic in the global economy .............................................................................................................................. 373
Chapter Seven. Conclusions ................................................................. 376

1. Internal dimension of accumulation and distribution: the central role of leading coalitions ................................................................. 377
2. Internal changes under neo-liberal globalization ..................................... 380
3. External dimensions of accumulation and distribution: new comparative advantages, some old problems ........................................ 383
4. Where do we go from here? .................................................................. 386

APPENDIX I. LIST OF INTERVIEWS .......................................................... 389
REFERENCES ......................................................................................... 393