NATIONAL DEMOCRACIES, LOCAL AUTOCRACIES: THE UNEVEN
DEMOCRATIZATION OF SUBNATIONAL GOVERNMENTS IN ARGENTINA AND
BRAZIL

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By

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Once a country has democratized at the national level, what allows it to retain autocratic enclaves in its provincial governments? In Latin American democracies, many provinces and states display autocratic characteristics that are at odds with the national democratic context. These autocratic characteristics can vary from minor differences in the transparency of electoral procedures or rule of law to full-blown provincial autocracies, with political persecution, control of the media, limited division of power and clientelistic use of the provincial budget. To address this empirical puzzle, the dissertation relies on a multi-method approach that combines statistical analyses with qualitative case studies, fieldwork and archival research conducted in four provinces in Argentina and Brazil. I argue that subnational autocracies are possible in a context of low economic diversification, which facilitates the homogenization of social and economic interests and limits the number and strength of opposition parties. Undiversified economies with a dominant economic sector, such as San Luis (Argentina) and Bahía (Brazil), create a network of interests aligned with the incumbent and reduce the support for the opposition parties. In more diversified economies, such as Mendoza (Argentina) and Minas Gerais (Brazil), the inter-capitalist competition transfers economic actors’ demands to the political arena, financing opposition parties whenever they feel they are being unheard. The statistical analysis offers support for the argument in the rest of the subnational units of Argentina and Brazil, and controls
for alternative hypotheses. Desegregating countries along territorial divisions allows me to
desegregating countries along territorial divisions allows me to
explore the interrelationships between different regions and levels of the political system. This
research helps the existing literature build a more robust explanation of the internal dynamics of
democracies in Latin America.
For Geraldine

Ad majorem Dei gloriam
Acknowledgements

This dissertation concludes the long process of the Ph.D. program that started even before the beginning of coursework in 2009. Since I began with the process of application until this concluding work, I have counted on the generous help of a long list of people that I owe, in small or large part, the place where I’m now. I’d like to start by thanking the Georgetown University and its Government Department for letting me experience, first hand, the work of an amazing group of scholars, whom were able to motivate me with their energy, hard work and sharp analysis of the world we live in. Among them, I owe a special thanks to Matthew Carnes who is a role model as a person, teacher and researcher. He stepped in when I needed his help the most, and has been a great advisor in the building of this dissertation. I worked with Matt even before we both joined the Government Department in 2009. Since then he has always been a reference and, as a student or a teaching assistant, I always admired his passion. I often joked with him by saying that on Sundays he preached the gospel but in class he preaches political science; same passion, different audiences. The Georgetown community is very lucky to have him as a prominent member. Desha Girod was my first professor in the program and her course on Methodology of Comparative Politics changed the game for me. It was an eye-opening course that shaped how I now understand political science. I was also lucky to have her for my last course, closing the cycle with what would be the initial proposal for this dissertation. Other professors also had a deep impact on my development as a political scientist: Marc Howard, Gerard Mara, Andy Bennett, Dan Hopkins, Kent Weaver, Keir Lieber, Eric Langenbacher and Clyde Wilcox, among many. A special acknowledgement also goes for the other two members
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<tr>
<th>Acronym</th>
<th>Original Name</th>
<th>English Translation</th>
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<tr>
<td>ACM</td>
<td>Antonio Carlos Magalhães</td>
<td>Antonio Carlos Magalhães</td>
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<tr>
<td>FAEMG</td>
<td>Federação da Agricultura e Pecuária do Estado de Minas Gerais</td>
<td>Federation of Agriculture and Livestock of the State of Minas Gerais</td>
</tr>
<tr>
<td>FECOVITA</td>
<td>Federación de Cooperativas Vitivinícolas Argentinas</td>
<td>Winemaking Cooperatives Federation of Argentina.</td>
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<tr>
<td>FIEB</td>
<td>Federação das Indústrias do Estado da Bahía.</td>
<td>Bahian Industrial Federation</td>
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<tr>
<td>FIEMG</td>
<td>Federação das Indústrias do Estado de Minas Gerais</td>
<td>Federation of the Industries of the State of Minas Gerais</td>
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<td>GDI</td>
<td>Movimento Democrático Brasileiro</td>
<td>Brazilian Democratic Movement</td>
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<tr>
<td>MID</td>
<td>Movimiento Integración y Desarrollo</td>
<td>Integration and Development Movement</td>
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<tr>
<td>PCI</td>
<td>Partido Demócrata</td>
<td>Democratic Party</td>
</tr>
<tr>
<td>PD</td>
<td>Partido da República</td>
<td>Republic Party</td>
</tr>
<tr>
<td>PFL</td>
<td>Partido da Frente Liberal</td>
<td>Liberal Front Party</td>
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<td>PJ</td>
<td>Partido Justicialista</td>
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<td>Partido da Social Democracia Brasileira</td>
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<td>PT</td>
<td>Partido dos trabalhadores</td>
<td>Workers Party</td>
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<tr>
<td>SDI</td>
<td>Superintendência do Desenvolvimento do Nordeste</td>
<td>Northeast Development Superintendence</td>
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<td>SUDENE</td>
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<td>Radical Civic Union</td>
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INTRODUCTION

Once a country has democratized at the national level, what allows it to retain autocratic enclaves in its provincial governments? In Latin American democracies, many provinces display autocratic characteristics that contrast with the national democratic context. These autocratic characteristics can vary from minor differences in the transparency of electoral procedures or rule of law to full-blown authoritarianism with political persecution, control of the media, limited division of power and clientelistic use of the provincial budget (O’Donnell 2004; Gibson 2005). Citizens that might otherwise express dissent or back opposition parties will either have to support the provincial government or refrain from expressing dissent (Gervasoni 2010).

Latin American countries present a variety of examples both of low and high levels of political competition. For example, the Estado de Amazonas in Venezuela has had only two governors in the last twenty years. José Bernabé Gutiérrez and Liborio Gaurulla have been in office for three and four periods respectively, controlling not only the executive but also the legislative branch. Moreover, Gutierrez won the reelection for his fourth period in 2000, but the electoral fraud was so extended that the National Supreme Court decided to repeat the elections. As a consequence, Gaurulla won and has been in office for the last 15 years. Many other examples of low political competition and high levels of autocracy can be mentioned, such as the province of Santiago del Estero in Argentina or the state of Oaxaca in Mexico, where in both cases party bosses have been in power for decades, limiting political opposition and depriving provincial inhabitants of rights and liberties enjoyed by citizens of other provinces in the same country (Gibson 2005; Giraudy 2015).
On the other side of the spectrum, the Argentine province of Mendoza has presented in the last thirty years eight governors from two different parties. In the legislature, the seats are divided among three parties (PJ, UCR and PD), generating the political context for coalition building and negotiations among political powers. Mendoza is one of the best examples of democratic developments in Argentina, presenting high levels of rule of law and a vibrant democratic culture (Chavez 2003; Giraudy 2015; Guiñazú 2003).

Latin America is home to a wide diversity of provincial situations, and it is difficult to describe generalities that can be applied to all the regions alike. Therefore, it is necessary to use a subnational comparative analysis to describe the political competition within a country. The high inequalities among regions and provinces are determined by diverse factors such as history, culture, politics and economy. As a consequence of that, the federal system is a complex arrangement of relationships that varies among provinces, regions and policy areas. One of the most important tensions that characterizes Latin American countries are geographic inequalities in growth and economic structure, something that increases in times of open markets, since the subnational and regional economies have different insertions in the global economy (Repetto and Nejamkis 2005).

So, what explains autocratic enclaves in democratic countries? Since variation across subnational units do not present the level of complexities of a cross-national comparison (cultural, historical, ethnical, etc.) the hypothesis that I test in this research is that the economic structure generates the most important cleavages that explain the formation of a competitive political system. Therefore, economically undiversified subnational units will present low levels of political competition and foster the persistence of more autocratic governments, while more
economically diversified subnational units will have higher political competition and will allow for more democratic governments. In order to test this hypothesis I selected the cases of Argentina and Brazil, two Latin American countries that show similar federal systems with a wide variation in the level of democratic development of their provinces and states (Borges 2011; Montero 2011; Gervasoni 2010; Giraudy 2015).

On the one hand, this research is relevant because desegregating countries along territorial divisions allows us to explore the dynamics between different regions and levels of the political system. Understanding internal relationships is also key to explaining the national level. The extent to which the level of democracy varies from province to province will have considerable consequences for political representation, public policy making and even the survival of democracy (Harbers 2009).

Subnational comparative analysis helps to mitigate two forms of bias that affect how national cases are understood. The first one is the inappropriate use of generalizations at the national level to evaluate countries with high levels of internal heterogeneity, such as Argentina and Brazil. The second one appears when the characteristics of an important subunit are erroneously used to describe the national level (Snyder 2001). The benefit that emerges from the subnational comparative analysis is that it allows for building theories to explain the dynamic interconnection between regions and levels of a same political system. The analysis of these interconnections may help us to understand not only national policies but also the macro process of political and economic transformation.

On the other hand, the question of what explains autocratic subnational enclaves is interesting because it looks at aspects of democratization that have been understudied by political
science. It will also contribute to disentangle internal processes of democratization and the
interstate dynamics of two Latin American democracies. Although there is a vibrant new
literature on subnational authoritarianism, we have yet to find satisfying explanations as to why
they emerge and also last. Most of the literature relies on national level explanations instead of
looking at the subnational political dynamics (Gibson 2008; Snyder 1999; Benton 2005;
Gervasoni 2010).

**Explaining Political Competition in Subnational Governments**

This study demonstrates that local autocracies are possible in a context of low economic
diversification, which facilitates the homogenization of social and economic interests and limits
the number and strength of opposition parties. Why economic diversification? The central
mechanism that links the economic structure with political competition is the role that business
sectors have as the main contributors to political campaigns. Since it´s impossible to compete in
an election without funds, the availability of campaign donors determines the chances of success.
It then follows that an undiversified economy with a dominant economic production usually
leads to a network of interests aligned with the incumbent and reduces the chances of financing
the opposition. In a more diversified economy, we will find various economic groups and a more
complex network of interests. The inter-capitalist competition that emerges from a more complex
economy will translate their demands to the political arena, financing opposition parties
whenever they feel their demands are going unheard.
A first assumption of the explanation is that a more developed and diversified economy will generate the emergence of more economic groups, because the economic structure affects the diversity of business interests. The role of economic actors in politics has been systematically studied in every capitalist country. Economic groups, as political actors, have historically influenced the state due to their control over the means of production (O’Donnell 1982). Therefore, they can work as veto players for the public policies developed by the state. But it is also well known that they are not a homogeneous group and that a variety of interests exist among them, sometimes opposing ones (Schmitter 1971; O’Donnell 1978; Schmitter and Streeck 1999). This situation generates an inter-capitalist competition for the pursuit of interests that is reflected in the emergence of associations that compete for the limited market resources and for the influence/incidence over public policies. In this way, inter-capitalist competition among economic actors would tend to be replicated in the political arena (Schmitter 1971).

Phillippe Schmitter (1971) was one the first authors to talk about the importance of the different dimensions of business interests’ influence. He argues that there are two logics that affect business groups: the logic of “membership” and the logic of “influence.” The former reflects how market interests affect the number and types of associations, and the latter how institutions and ideology affect the interaction of these associations with the state. In this way, Schmitter overcomes the common assumption that either the structural position or the political scenario is enough to understand the characteristics of business groups. Guillermo O’Donnell (1978) extended the analysis and argued that the division and competition among business groups is affected by the interaction of three levels: structural, corporative and political-ideological. Conflicts of interest not only emerge from market differences, but also from the
position that a firm occupies at the local and the national level. Two identical businesses in two different countries will not have the same competition, influence and relationship with the state. Finally, Carlos H. Acuña (1995) combines Schmitter’s and O’Donnell’s approach by arguing that while the economic structure establishes the feasible limits for the strategy of the actors, political-institutional and ideological factors determine the probability of success of the strategies.

Therefore, the theory points to the importance of the economic structure in which sectors are embedded. This will determine their interest and their strategies. When the economic power is concentrated in fewer economic actors it would be easier to aggregate interest and, thus, to coordinate these interests among fewer political actors. But, the higher the diversity of the economic structure, the more economic actors will appear, and the harder it will be to coordinate interest. The result would be higher inter-capitalist competition for the influence on the state. This competition will generate support for different political actors, generating more political competition.

To further develop the theory and consequently identify the level of economic diversification in a province I chose two main cleavages that can explain business interest aggregation: sectoral diversification and geographic diversification. In the first case, sectoral diversification refers to how diverse the composition of the economic production is in a given province, that is, the percentage of GDP that each type of economic sector represents: e.g. agriculture, mining, manufacturing, construction, etc. In the second case, geographic diversification refers to how disperse the economic production in the province is and how many economic poles exist. Both measures describe a relevant type of economic diversification and are
structural explanations for the aggregation of the economic interests that could be translated to the political arena.

The key mechanism through which I evaluate the influence of economic diversification over political competition is campaign funding. In contexts of economic diversification, the competition will translate into the funding of alternative political representation. The network of interests will be wide and challenging parties will be able to find support from those economic actors not benefited by the state. The opposite will be true for undiversified economies, where a hegemonic sector or region will align with the incumbent party and cut off funding for opposition parties.

When looking at the nature of electoral competition we find that the ability of opposition parties to raise enough funding to run a successful political campaign is a key element. Regardless of the capabilities, honesty and personal appeal of a candidate, if he/she wants to run a successful campaign, he/she needs economic resources to promote their candidacy, be recognizable by the voter and be competitive. The distribution of political funds has a direct impact on the real possibilities that candidates have to promote their message (Casas Zamora 2005; Fisher and Eisenstadt 2004). Debates over party spending suggest that disparities in the financial endowment of parties bias electoral competition in favor of the wealthiest party creating unequal or unfair political competition (Fisher and Eisenstadt 2004). We then infer that competitive electoral systems have a more equitable distribution of funding than uncompetitive systems.

Campaign contributions from economic sectors may seek to affect the election outcome in favor of a desired candidate and/or to influence policymaking. The literature has studied the
promotion of favored candidates, showing that in some cases candidates are supported based on their policy positions and ideology (Jacobson 1980) and in other cases they are supported to get access to policymaking decisions (Aranson and Hinich 1979; Austen-Smith 1987). While individuals can make contributions to electoral campaigns and political organizations, business and unions can use their financial power to staff an office, hire lobbyists and make donations to political action committees (Schlozman, Verba and Brady 2012). Business contributions are consequently more effective at influencing politicians than individual contributors (Bergan 2005). This positions economic sectors as the fundamental variable that explains the availability of significant resources to run competitive elections.

The weakness of functional homogenizing cleavages in Latin American democracies makes electoral behavior more vulnerable to regionalization (Harbers 2009), which is why I focus mainly on the local context. The theory, while based on the local dynamics of the provinces, also includes the interaction with the national government. The national political system still affects the level of democratization through formal and informal interventions in the subnational political arena. Thus, national variables could increase or decrease political competition in interaction with local variables. National authorities may use formal or informal powers to strengthen, weaken or even remove subnational incumbents (Gervasoni 2010). These actions are ad hoc and depend on the political context in the subnational units and the central governments at the time of the interventions. However, it is expected that variables such as presidential-gubernatorial co-partisanship will condition the level of intervention of the national government in local politics.
A first alternative explanation present in the literature is that governors’ political strategies are the ones determining the level of political competition and the level of democratization/autocracy of a province (Gibson 2015). This approach focuses more on the role of agency than on the role of structural contexts. In this argument, subnational governments are able to maintain authoritarian control by controlling the influence of the national political arena on the local politics. Incumbents prevail when the scope of conflict is localized and opposition groups are cut off from allies and resources in the national policy, and threatened when provincial conflicts become nationalized. Therefore, subnational authoritarianism depends on strategic dynamics depending on incumbent and opposition tactics. In Gibson’s words: “local authoritarian elites strengthen boundaries that minimize outside involvement in provincial politics, while opposition struggle to breach those boundaries and turn parochial struggles into national political contest” (Gibson 2010). I agree that the strategies adopted by politicians at the local level have an impact on the continuity of an administration or the emergence of alternative parties, as I acknowledge in my theory. Nonetheless, I believe that the structural context is what allows for the success or failure of the party boss’ strategies.

A second alternative explanation is that the distribution of federal funding allows some subnational states to obtain resources without taxing the population. In this way, the autonomy of the subnational government from society, limits the level of accountability and allows for the existence of authoritarian government (Gervasoni 2010). This theory is derived from fiscal theories of the state, which are extensively used in the analysis of oil rich countries. In the case of subnational governments, the theory is adapted, and the resources are produced not by a hegemonic natural production, but from federal transfers. The rentier subnational states can
enjoy a privileged fiscal position and support less democratic regimes. This approach proposes a
top down analysis in which the amount of funding distributed by the central government will
determine the level of accountability and political competition at the local level. In this way, it
subordinates the role that the local context has in determining the political competition. In my
argument, it is not the amount of resources obtained from the constituency, but the type of
constituency that provides the resources that influences political competition.

Both alternative hypotheses are evaluated during the case analysis as well as tested in the
statistical models. While they are presented as alternative because the literature so far has
explained subnational democratization through these mechanisms, they might also be considered
complementary explanations. The objective of my research is not to affirm that economic
diversification is the sole explanation for political competition locally, but to show that
diversification is the key independent variable without which we cannot understand local
politics. Clearly, the way a governor is able to control the political agenda will impact his
chances of maintaining power, in the same way that obtaining national transfers to maintain
operational level of resources will also determine a successful administration. Nonetheless, these
hypotheses are secondary to the theory I present, because the main determinant of local political
competition are local actors and local issues. The national political arena and the national
transfers can affect local politics, but they do not determine them. The alternative hypotheses are
top down explanations that rely solely on the interaction with the national government to explain
local political contexts. The theory I present is a bottom up explanation of local competition that
looks at the internal dynamics of provinces and the network of interests the economic structure
generates.
Research Design

In order to test this argument the methodological strategy is twofold, with an in-depth analysis of a two pair comparison and a quantitative analysis of Argentina and Brazil. I have chosen these for the two pair comparisons the neighboring provinces of Mendoza and San Luis in Argentina, and the neighboring provinces of Bahía and Minas Gerais in Brazil. Map 1.1 shows the two pair comparisons highlighted on the maps of each country. The two selections are a controlled comparison based on the most similar cases (George and Bennet 2005). They were selected based on their variation of the dependent variable, but also on their geographic size, economic development and cultural similarities, which allows for the isolation of the independent variable and control for alternative explanations. I develop the case selection and methodology further in Chapter 2.

Figure 1. Argentina and Brazil with Political Divisions and Case Selection.

The statistical analysis extends the hypothesis test to a larger N by including all subnational governments in the two countries. In the case of Argentina we have 24 provinces and
8 electoral periods between 1983 and 2011, with a total of 185 observations. For Brazil, we have 27 states and eight electoral periods from the first democratic election of governors in 1982 until 2010, with a total of 205 observations. Not all the current provinces and states in Argentina and Brazil held gubernatorial elections in the beginning of the transition from military regimes, as some gained their autonomous status later on.

The dependent variable will be a political competition index. As explained in the theory section, political competition is a proxy for level of democracy. There are several examples of this kind of index at the subnational level for Latin America (Hill 1994; Hernandez Valdez 2000; Solt 2003; Borges 2007; Tommasi et.al 2007; Giraudy 2010, and Gervasoni 2005, 2010, 2011). Essentially, these indexes measure the effective number of parties and the volatility of the votes. Some of the existing indexes for subnational governments include subjective classifications of local governments by local scholars, which not only make the comparability of cases less reliable, but also require an extraordinary amount of time and resources. Therefore, I base my Index on objective data –electoral results- in order to find a balance between effectiveness and replicability. The Political Competition Index is described at length in Chapter 7.

The independent variable, economic diversification, is divided among two main cleavages: sectoral diversification and geographic diversification. Both diversifications might generate the need to translate inter-capitalist conflict to the political arena. For this reason, I created a Sectoral Diversification Index and a Geographic Diversification Index. The first index captures the diversification in the composition of the GDP, while the second index quantifies the number of economic poles within a province. The methodology and assumptions behind these two indexes are described in Chapter 6 as well.
The qualitative and quantitative analysis presents strong evidence to support the argument that economic diversification is a determinant of political competition which operates as a proxy for democracy. For the Argentine cases both the sectoral and geographic diversification had an influence in the political dynamics of Mendoza by changing supports over time and promoting overturns in government. In the same way, the geographic and sectoral concentration in San Luis created an alignment between the private sectors and the governor. In both cases, opposition parties justified their victories and defeats mainly by the availability or not of campaign funds. The statistical analysis presents highly significant results for the sectoral and geographic indexes, controlling for all alternative hypothesis.

In the case of Brazil, Bahía and Minas Gerais resemble the mechanisms found in Mendoza and San Luis. In the case of Bahía, the enclave economic development mostly based on manufacturing and petrochemical industry was centrally located around the capital city. The economic sectors had a strong alliance first with the PFL and then with the PT, and allowed governors to exert autocratic power. In the case of Minas Gerais we found a resemblance to a small federal system, where each region of the province, as well as the economic sectors, competed for the influence over the governor’s election. In the statistical analysis, the states in Brazil showed a behavior similar to the Argentine provinces. Once a couple of outliers are taken off the sample, both sectoral and geographic diversifications have a significant influence over political competition and present similar correlations as Argentina.

To sum up, the statistical analysis has produced the results as expected by the theory and support the argument that economic diversification is a strong explanatory variable for
subnational political competition, and therefore, for the democratic development of provinces and states.

**Outline of the Study**

The dissertation has been divided into nine chapters: the current introduction, one theory chapter, six chapters with the empirical analysis -including four case studies and one statistical analysis-, and one final chapter with the concluding remarks.

In chapter 1, I develop the theory of the study in depth. I firstly define what I understand by democracy and autocracy and describe the differences between the study of democracy at a subnational and a national level. The analysis serves the purpose of justifying the election of a procedural definition of democracy that will later be used to guide the development of the Political Competition Index. Secondly, I describe the mechanism behind subnational political competition by analyzing business interest aggregation, economic structure and political finance. This is the core of the theory, as it describes how structural cleavages translate interests into political competition. Finally, I comment on the literature relevant to this study and lay out the hypothesis I then test in the case studies and statistical analysis.

Chapter 2 is an introduction to the case analysis, where I explain the case selection, the research design and methodology. It also works as a bridge chapter between the theory and the cases, where I review the main findings of the cases providing a comparison across them and deriving implications for the theory.
Chapters 3 and 4 consist of the pair comparison within Brazil. I first study Bahía in Chapter 3, starting with the process of economic and political modernization. I show how, during the 20th century, transformations in the economic structure have had a direct impact on the political structure. When focusing on the last democratic period (1982-2011) I identify two domination periods, one under the PFL and the other under the PT. Both periods are characterized by the hegemonic domination of a party in close alliance with the economic forces that were created during the military regime. The Bahían economic structure shows a geographic centralization around the capital city and a sectoral concentration in manufacturing and petrochemical industries that defined political competition.

Chapter 4 studies the case of Minas Gerais, a democratic state that presents a highly diversified economy and geography. Known as the ‘little Brazil’, Minas Gerais has historically operated as a small federal system where different regions interacted politically and balanced power in order to coexist. After describing the political and economic evolution of Minas, I focus on the transition to democracy and the involvement in politics of the economic sectors. Evidence is presented on how sectors and regions translate economic interest into the local politics, even to the point of joining efforts in order to compete in the national arena to obtain a Mineiro President. Finally, I describe the evolution of the gubernatorial elections and how private finance has balanced the political competition.

I then move on to test the hypothesis in the Argentine cases of Mendoza and San Luis. Chapter 5 covers the case of Mendoza, a western province that was marked by the influence of its wine production. In the historical analysis of the political and economic development of the province, we find that the decentralized production of wine created a process of associativism
early on in Mendoza’s history that favored democratic participation from the beginning. The process of modernization during the 20\textsuperscript{th} Century diversified the economy, and as the new industries overpassed the importance of wine, the political and economic elites were thus modified. During the current democratic period, we analyze the existence of three relevant parties that compete in every election, which is a distinctive feature of Mendoza. We also see how the support from economic groups, shifts the balance of power and helps keep a high level of political competition.

In chapter 6, we make the comparison with the province of San Luis. This case is the archetypical autocratic government, and shows the close relationship between a hegemonic sector and a government. Unlike Mendoza, this province shows very little civic development during its history and low levels of economic diversification. It is during the military regime that took over the country in 1976 that an Industrial Promotion policy modified the economic structure of San Luis. The relocation of thousands of industrial companies around the capital city consolidated an alliance between Governor Rodríguez Saá and the hegemonic manufacturing sector. In the description of the current democratic period we see how that alliance plays a role in the political competition by limiting the chances of the opposition to compete on equal bases with the incumbent governor.

With the conclusions from the case studies, I translate the main findings into the statistical analysis in Chapter 7. Firstly, I describe how the dependent and independent variables are operationalized and coded. For this process I develop three novel indexes, one on political competition and the other two on sectoral and geographic diversification. I also present the control variables and the alternative hypotheses that will be operationalized and tested as well.
Finally, after describing the dataset and justifying the election of the statistical models, I present the results of the analysis. Here, I highlight the influence that economic diversification (sectoral and geographic) has in determining political competition at the local level in Argentina and Brazil. The two countries are then compared, showing differences and similarities in the behavior of the main independent variables and the control variables.

The last chapter presents the conclusions of the study. I do a summary of the main argument, I describe the study’s principal findings and their contributions to the literature. I describe the limitations of the analysis and the lines of research that emerge from these. Finally, I look into the implications of the theory with regard to its possible application in the study of democracy at the national level, and the extent to which the mechanisms described are universal and could eventually be replicated in the rest of Latin America as well as in other regions of the world.
CHAPTER I

Theory

In the previous chapter (Introduction) we have presented the problem of subnational autocratic enclaves in Latin America. The objective of this chapter is to present the theory on the origin and persistence of this problem in the region, basing the analysis on the two countries selected for the case studies, Argentina and Brazil.

To define the phenomenon it’s important to understand that subnational autocracies exist in the context of democratic countries, and they are embedded in the institutional framework of a democratic government. That is, they have regular elections for local and national authorities, formally they have institutional checks and balances and liberties are guaranteed by the national constitution. Nonetheless, autocratic governors are still able to establish an autocratic government, controlling the state, limiting liberties and affecting democracy.

Given the institutional context in which subnational autocracies are embedded, we will argue that a province is autocratic when a governor or party is able to rule unchallenged and unconstrained by other branches of government. To do so, political leaders need to overcome the democratic institutional constraints that exist within a democratic country. This is possible when a leader or party boss can control the legislative and judicial powers. In a context of low political competition, where the incumbent party holds the majority of votes and seats, governors are able to consolidate power due to controlled legislatures and lack of opposition. The consolidation of a hegemonic party in government is the baseline for autocratic practices. That is why low levels of political competition can operate as a proxy for subnational autocracy.
Having defined when a province is autocratic, the question then becomes what explains low or high levels of political competition? The theory presented in this dissertation is that the economic diversification of a province (i.e. of the number of economic sectors or economic areas) generates the most important cleavages that, in turn, explain the formation of a competitive political system. Economically undiversified subnational units will present low levels of political competition and foster the persistence of autocratic governments, while more economically diversified subnational units will have higher political competition and will produce more democratic governments.

The logic behind this theory is based on the premise that parties cannot compete in an election without a successful campaign and cannot have a successful campaign without funds. While incumbents may use both public and private resources, challengers rely primarily on private funds to run a campaign. The main contributors for political campaigns are businesses, which have the economic capacity and an interest in contributing. When the economic power is concentrated in fewer economic actors it would be easier to aggregate interest and thus, coordinate these interests among fewer political actors. On the contrary, diversified economies will be unable to coordinate interested making competing economic groups align and finance different political parties.

That is to say that in the context of undiversified economies, we’ll expect to find a small network of interest and an alignment between the party in government and the hegemonic economic sector. This alignment will limit the available resources for the opposition and significantly reduce the political competition, setting the basis for a potential autocratic government. But, the higher the diversity of the economic structure, the more economic actors
will appear, and the harder it will be to coordinate interests. The result would be higher inter-capitalist competition for the influence on the state. This competition will generate support for different political actors, generating more political competition. In the context of economic diversification, the competition will translate into the funding of alternative political representation. The network of interests will be large, and challenging parties will be able to find support from those economic actors not benefited by the state.

This chapter will disentangle this theory, describing in detail each mechanism and supporting the argument with related literature.

**Defining Democracy and Autocracy**

The first step in developing the theory on subnational autocracies is to define what we consider to be democracy and what we consider to be autocratic. This does not escape from the well-known debate on “what defines democracy” that has been core in political science and that is still being discussed in the specialized literature. As the literature on subnational authoritarianism in Latin America has pointed out (Hill 1994; Hernandez Valdez 2000; Solt 2003; Borges 2007; Montero 2007; Gervasoni 2010; Giraudy 2010; Gibson 2012), these governments present similarities with what the broader literature has defined as illiberal democracies (Zakaria 1997), competitive authoritarianism (Levitsky and Way 2010) or electoral authoritarianism (Schedler 2009). Nonetheless, the important fact is that these subnational governments, embedded in democratic countries, create particularities that should be addressed.
Typically, scholars have been divided into proponents of: procedural, deliberative, or substantive definitions of democracy (Dahl, Shapiro and Cheibub 2003). Procedural definitions put the focus on the practices and institutions of the regime without much care for the implications to the citizens’ lives and interests (Schumpeter 1943; Downs 1957; Przeworski 2004). Given the focus on procedures, usually on free and fair electoral mechanisms, this definition is considered minimal or sub-minimal (Mainwaring, Brinks and Perez Liñan 2001). Proponents of the deliberative definition put their focus on the formation of preferences and the impact of deliberative procedures on democracy (Fishkin 1997; Gutmann and Thompson 2009). Finally, substantive democracy scholars see procedures as insufficient to fully describe democracy, and incorporate notions of equity and civil liberties (Diamond 1999). These three branches can group most of the literature on democracy even though a seminal author like Dahl, with one of the most influential definitions of democracy, would cross these three types (Dahl 1971).

For the purpose of analyzing subnational governments I will choose a procedural definition, putting the focus on whether there are free and fair elections. While a substantive definition of democracy might be more compelling for the median reader to subscribe to, the wide scope of conditions make it hard, if not impossible, to apply to subnational governments embedded in democratic countries. For example, Larry Diamonds’ comprehensive definition of democracy includes aspects such as: subordination of the military; horizontal control on executive power; fair elections; minorities’ rights; alternative channels of political expression; various sources of information; ideological freedom; equality under the law; independent judiciary; and freedom from terror (Diamond 1999). In democratic countries most of these
characteristics are defined at the national level, not the subnational. It is not the responsibility of
the provincial governments neither to subordinate the military nor to protect the citizens from the
terror of a paramilitary group. Moreover, freedom and equality are established by the national
constitution and not by local constitutions, as the latter is subordinated to the former and cannot
reduce rights and liberties. Therefore, while one might agree with a more substantive definition,
it becomes inadequate at the subnational level to define autocratic governments. A procedural
definition, on the other hand, looks at aspects of fairness and competiveness in elections that are
in the realm of provinces.

As Collier and Levitsky (1997) explain, there is not a consensus over a minimal
definition of democracy either, and some authors include requirements like: that the elected
government must have effective power to govern. I’ll rely on a traditional definition such as
Schumpeter’s: “The democratic method is that institutional arrangement for arriving at political
decisions in which individuals acquire the power to decide by means of a competitive struggle
for the people’s vote” (Schumpeter 1976). By the Schumpeterian definition, democracy is a way
to select representatives through competitive elections. While it is minimal, the notion of
“competitive” allows us to expand it in order to evaluate a gamma of scenarios. Schumpeter’s
definition does not include notions of civil liberties, freedom of speech, assembly and
association. However, one can affirm that these are implicit in the notion of “competitive.”
Limits to speech and association would directly affect the competitiveness of an election. It’s
common in procedural definitions to acknowledge the importance of minimum levels to
guarantee competition and participation, but without devoting attention to measure it as part of
democracy (Diamond 1999).
The Schumpeterian idea of “competitive election” allows us to incorporate several prerequisites for democracy that are linked with electoral competition. Informal limitations on campaigning, controlling the use of the media or affecting the equitable access to financing are all ways that can affect competition, and thus affect our conception of democracy.

A proponent of procedural definitions of democracy, Adam Przeworski (2004), affirms that the prospect that a government may change is what allows for the peaceful regulation of conflict, which is in his view the core of democracy. Following this logic, and playing with his “coin toss” illustration, we could affirm that a perfectly democratic state would be one in which - as in a coin toss - there is a 50% chance of an opposition victory. While the incumbent can win a reelection in the same way we might have ‘heads’ two times in a row, in the long run we should have a healthy turnover and periodical government renovation. The further we are from the ideal 50-50, the further we are from an ideal democratic competition. If, due to systemic inequality, the chances of the opposition to win have a ceiling lower than 50%, the further we will be from democracy and the closer to an autocracy.

Schumpeter affirms that “there is a continuous range of variation within which the democratic method of government shades off into the autocratic one by imperceptible steps” (Schumpeter 1976). While I do not agree that those methods are ‘imperceptible’, they are hard to measure and compare. Then, by looking at the consequences of those steps (e.g. one party dominance) we can assume their existence, and position states in the continuous democracy-authoritarianism range. In Przeworski’s example, what we measure is the result of the elections

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1 The range of levels of electoral competition can go from one-party systems to multiparty systems. There is a broad literature base that classifies one-party or “dominant party” systems as undemocratic (e.g. Pempel 1990; Arian & Barnes 1974; Levite & Tarrow 1983; Giliomee & Simkins 1999; Nyblade 2004). Broadly, one can define a dominant party system when a given party “is identified with an epoch, when its doctrines, ideas, methods, its style,
over time and, based on that, we infer whether the prerequisites are free and fair. If the chances of obtaining ‘heads’ or ‘tails’ is 50% we assume that the coin toss is not biased. If the coin always lands a “head”, we will be fairly certain that the process is biased. In the same way, regular turnovers and pluralist legislatures imply that parties or political bosses are not able to bias competition in their favor and that elections are free and fair and the regime is democratic.

As David Elkins (1974) affirms, “the chance, or probability, of turnover is perhaps the most salient feature of representative democracy; and that probability (...) is the correct and most useful interpretation of the concept of party competition” (Elkins 1974:2).

The literature presented supports our initial argument that low levels of political competition can operate as a proxy for subnational autocracy. Elkins (1974) operationalizes competition based on fractionalization and fragmentation of parties and seats, as well as uncertainty of the results. All these elements theoretically support the election of a procedural

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so to speak, coincide with those of the epoch...” (Duverger 1963:308). There’s a close resemblance between the type of authoritarian government that is studied in this dissertation with Duverger’s depiction of a hegemonic party. The domination of these leaders and/or parties are defining the era and are shaping the political and social life of the state.

The hegemonic party literature focuses on national governments in countries that have all the democratic liberties necessary for a pluralist competition but that end up with decades of party hegemony. They tackle a topic that theorizes on voting behavior or party systems that are unequipped to deal with it. It’s not the electoral systems that can explain the party hegemony according to this literature, but the socio-economic coalitions, policy-making structures, and public policies (Pempel 1990).

In terms of the mechanism behind party hegemony, some authors highlight the importance of the ability to mobilize the electorate and the ideological positioning of the hegemonic party (Pempel 1990; Levite & Tarrow 1983). Others put the focus on the importance of ties with interest groups (Arian & Barnes 1974) and the close relations with the business sector (Giliomee & Simkins 1999). But in all the cases the structure of interests are secondary to the political abilities of the party leadership. From the literature on hegemonic party dominance we can deduce that the pragmatic use of the instrument of power matters more than the institutional and structural context.

In accordance with the literature on single party domination, we find that ideological legitimation, state resources and ties with interests groups are relevant aspects that are present in the subnational autocratic cases under study. However, we put more emphasis on the structural capabilities to conduct such strategies and not solely on the agency of an individual or political group. We believe that autocratic success is dependent on the economic structure that allows for the reduction of power competition through the economic and political alliance that limits the incentives and means to construct a political alternative. Naturally, a clever politician has more chances of holding on to power than a clumsy one, nonetheless it is the structure of the political game that allows for (or not) the possibility of a one party domination. That is why we move away from the individual characteristics of the party or politician and move towards the network of politicized interest in the province to understand the phenomenon.
definition of democracy as well as empirically provide tools to measure and compare levels of democratization. So, if we find over time a constant reelection of the incumbent with large majorities in the legislature and a week opposition, we can confidently assume we are looking at a hegemonic party. Only when a governor or party can establish itself as hegemonic it will be able to overcome the institutional checks and balances and be considered autocratic. We then need to move forward to explain what the causes are behind low levels of political competition at the subnational level in Latin America.

**Explaining Subnational Political Competition**

The theory here proposed is based on a two-step mechanism that traces the influence of the economic structure to the existence of autocracies (See Figure 1.1). The overall conclusion is that the level of economic diversification of a province, given the network of interests it creates, may allow for the existence of an autocratic government or may incentivize more democratic competition. By economic diversification I will focus on both a sectoral and/or geographic diversification. In the first case, sectoral diversification refers to how diverse the composition of the economic production is in a given province, that is, the percentage of GDP that each type of economic sector represents: e.g. agriculture, mining, manufacturing, construction, etc. In the second case, geographic diversification refers to how disperse the economic production in the province is and how many economic poles exist. Both measures describe a relevant type of economic diversification and are structural explanations for the aggregation of the economic interests that could be translated to the political arena.
Step 1                                      Step 2
Economic Diversification → Political Finance → Democracy/Autocracy

Figure 1.1. Mechanism of the Theory.

If we start from Democracy/Autocracy, the Step 2 in the mechanism linking political competition with campaign financing. A candidate can neither access power without a successful campaign nor have a successful campaign without funds. Given that an autocratic governor finds his power in winning elections uncontested, the fewer the sources of finance for opposition parties, the higher the chances of the incumbent to consolidate power. This links up with the Step 1 mechanism, which looks at the sources of campaign funds. The private sector is the main source for campaign funds for opposition parties. The existence of economic sectors that are not dependent nor aligned with the local government and that have an interest in financing opposition parties, is a condition for a competitive electoral system. It is the economic structure of a province that will determine the relationship between the economic sectors and the local government and its interest and capacity to finance alternative candidates.

The theory will sustain that an undiversified economy with a dominant economic sector usually leads to a network of interests aligned with the incumbent and reduces the chances of financing the opposition. In a more diversified economy, we will find various economic groups and a more complex network of interests. The inter-capitalist competition that emerges from a more complex economy will translate their demands to the political arena, financing opposition parties whenever they feel their demands are being unheard. Therefore, an undiversified
economy will favor autocratic leadership, while more diversified economy will favor democratic competition. I will now disentangle these two mechanisms and give more substance to my arguments.

The Link between Political Finance and Democracy/Authoritarianism

I will now look at the link between the emergence and consolidation of an autocratic government with the availability of obtaining campaign finance. It is self-evident that in order to win an election, a candidate has to be known by the voters. If we look at how Schumpeter arrives at his procedural definition of democracy we see that he describes the emergence of political options—candidates—not as a reflection of the demands of the population as an ideal or normative democracy would propose, but limited to those parties that are able to compete. As Schumpeter affirms, a classical definition of democracy assigns the electorate with an unrealistic degree of initiative (Schumpeter 1976).

Citizens vote for the options they have, not necessarily the options they’d like. The political market limits the entrance of new actors with the high economic cost of carrying out a political campaign. Citizens will only be able to vote for those candidates with access to sources of financing which would allow them to compete and get themselves known to the general public. I’m not disregarding the role of the citizens, nor is Schumpeter. Just like the market, the politicians will try to adapt their ideology and policies to what seems to please the general public. But with the oligopolistic tendencies of modern democracies and the political apathy of
the medium voter, the role of the citizen becomes passive in most cases. Therefore, we can accept the axiom that a candidate cannot win an election without a successful campaign.

From that self-evident truth derives the argument that a candidate cannot have a successful campaign without funding. While initially the academic literature questioned whether money had a real electoral impact or not, today the evidence has moved the debate to questions over how much and in what way does campaign financial backing influence elections and politics (Cox and Thies 2000; Denver, Hands and MacAllister 2004). Even in countries where the system is dominated by party loyalty, campaign spending by individual candidates can change their performance in a measurable and politically significant way (Scarrow 2007). As Benoit and Marshal conclude in their review on campaign literature, “campaign spending has been found to matter for at least some candidates in almost every electoral context where its effects on results have been examined, and because spending is arguably the best summary measure of campaign effort, these results leave no doubt that campaigns do matter” (Benoit and Marsh 2002).

There is nonetheless an ongoing debate over whether results of campaign spending differ between incumbents and challengers. Most of the research done on this matter focuses on the US case (Green and Krasno 1988; Jacobson 1978; Erickson and Palfrey 1998) but the literature has recently extended to isolated examples from other countries (e.g. Benoit and Marsh 2002; Samuels 2001; Denver, Hands and MacAllister 2004).

The seminal work by Jacobson (1978) used basic statistical tools to study the Upper House candidates and discovered that challengers convert money into votes more efficiently. Where voters have little or no knowledge of one or more candidates, campaigns can play a very
important role by providing information to influence the citizen’s choice. In some cases, voters are already familiar with the incumbents, and thus the impact of the campaign is small. The opposite is true for unknown challengers, whom depend on the campaign to get themselves known. That is why the Jacobson study on US senators’ campaigns finds that money spent by challengers has a significant impact while campaign money spent by incumbents has no impact. Ansolabehere and Gerber (1994) reviewed Jacobson’s work and singled out money spent on publicity from other campaign expenses. They found that the challenger’s spending on publicity showed a considerably larger impact than shown by the general funding and that the incumbent spending mattered little, but had an impact.

Nonetheless, this finding is based on the analysis of the US case and one should be careful when extrapolating these findings to other countries. According to Samuels, in Brazil, the multimember district system does not allow for a clear identification between a representative and a constituency as happens in the U.S. That is why both challengers and incumbents must spend money to increase their name recognition and thus both benefit from spending. “If a candidate accrues and spends an additional 1% of all campaign finance in the state, he or she will add around half a percent to his or her vote as a percentage of all votes. In an electoral system in which 3% of the total vote in a state typically guarantees victory, campaign finance clearly plays a critical role” (Samuels 2001). A similar finding is presented by Benoit and Marsh (2002) for Ireland, where all candidates show a benefit from increased campaign spending. For the Argentine case, Freille (2015) affirms that: the larger the share of private contributions the larger the votes share for any candidate.²

² This still remains true even when controlled for party-level characteristics such as vote share in the previous election and the size of the party membership, as well as from district-level perspectives such as the number of
The importance of electoral spending applies also to elections for executive positions, such as mayors, governors and presidents. Some authors have argued that spending effects do not differ significantly between incumbent and challenger in the contest for governor (Leal 2006). But Brown and Jacobson (2008), for example, affirm that in a gubernatorial race the strategies of candidates and campaign contributors have an effect on electoral results. According to these authors, sitting governors’ campaign spending significantly affected their victory chances, with a larger coefficient than for challengers. Unlike senators, governors have to take responsibility for the policies implemented by the executive branch and suffer the negative effects of unpopular actions. They cannot avoid the blame from policies such as raising taxes or cutting services nor escape from economic problems, unemployment or crime. Negative information on governors is available even before the beginning of the campaign and receives much more media coverage than information on senators. Therefore, the campaign gives incumbent governors the chance to claim credit for the positive actions of the government in order to regain the trust of the voters. The authors tested this theory in the 2006 U.S. gubernatorial election, and found out that as campaigns run longer, incumbents gained esteem among those who would be most responsive to positive information about them, such as their own partisans and independents (Brown and Jacobson 2008).

3 In the case of presidential elections, there’s a competing literature that focuses on forecasting models. For example Lewis-Beck and Stegmaier (2014) admit the importance of campaign influence, but believe that electoral cycles and economic information are better predictors of electoral results. This literature focuses on fundamental such as the state of the economy, distribution of partisans, political business cycles, etc. (e.g. Tufte 1978; Rosenstone 1983). Critics of this literature point to the fact that campaigns are necessary for the fundamentals to be realized, and therefore are a determinate factor to determine voter’s preferences (Benoit and Marsh 2003; Erikson and Wlezien 2012).
The literature on electoral spending shows that voters have low candidate recognition and evaluation capabilities, so candidates (incumbents and challengers) can modify their image or increase recognition through campaign expenditures. Therefore, spending is positively linked to the electoral success of candidates regardless of the district magnitude or if they are running for an executive position. The question of “how much” would depend on the individual systems as well as the individual candidates.

When looking at the nature of electoral competition we find that a key element is the ability of opposition parties to raise enough funding to run a successful political campaign. Regardless of the capabilities, honesty and personal appeal of a candidate, if he/she wants to run a successful campaign, he/she needs economic resources to promote the candidacy, be recognizable by the voter and be competitive. We are talking about TV air time and the quality of the TV advertisement, transportation, promotional material, a campaign team, etc. These supplies and activities are expensive and their cost is increasing exponentially in every democratic country.

The most important transformation in electoral funding in the last decades has been the emergence of direct state funding that regulates political finance trying to guarantee a plain field for electoral competition. Nonetheless, the literature has as many supporters as detractors, and the most common conclusion is that state funding cannot prevent the unequal effects of private funding. On one hand, state funding is seen as strengthening the autonomy of politicians, preventing corruption and enhancing transparency, thus generating political equality of opportunity for electoral competition. On the other, state funding does not replace private donations and has limited real effects against corruption and might create a bias in favor of the
status quo, depending on the distribution rules. The opinions in favor and against end up balancing the scale. “Electoral systems, party system formats, regime structures and the parties’ historical evolution and organizational culture impinge on the features and effects of state funding schemes, and, ultimately, mold political finance practices as much as the subsidy’s own presence” (Casas-Zamora 2005:6).4

With the notion that money affects electoral results, it is useful to return to Schumpeter’s analysis of democracy. The author makes a very useful comparison between political democracy and the economic market. As a political equivalent of Adam Smith’s theory of the market, Schumpeter points out that politicians compete for votes in the same way companies compete in the market to sell their products. Instead of selling a can of soda, politicians sell ideologies or governmental programs to the citizens that will decide who they are going to vote for. As with the economic sphere, “there is always some competition, though perhaps only a potential one, for the allegiance of the people” but this competition “does not exclude the cases that are strikingly analogous to the economic phenomena we label ‘unfair’ or ‘fraudulent’” (Schumpeter 1976). The party competition could be bias or ‘unfair’ in the same way the market is. A market is unfair if there is an unequal access to loans, if there is arbitrary distribution of state subsidies or there are oligopolies preventing competition. A party system is unfair if there’s an unequal access to

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4 There’s also a debate on whether the level of democracy is correlated with the existence and type of direct state funding. Some authors affirm that there’s no significant correlation between democracy and the propensity to regulate income and expenditures (Van Biezen 2004), while others state that at one point reduction in the level of political rights reduces the probability of having lawful public funding by 35% (Álvarez 2011). The geographical distribution of countries with direct state funding is heterogeneous, but are more commonly found in Western Europe, Latin America, Eastern and Central Europe and East Asia.
campaign funding, if there’s arbitrary use of state resources or if there are barriers to the entry of new political actors to the arena.\(^5\)

The importance and type of campaign finance has evolved together with the format of political parties. Initially, oligarchic proto-parties would finance their campaign activities with the resources of the candidate and a close group of allies. This elitist politics consisted of landowners, bankers, urban professionals, etc. that would compete in hardly democratic elections. If mass voting was required, victory would be achieved through the (forced) mobilization of followers rather than by programmatic differentiation and campaigning. But with the emergence of modern political parties we find a growing importance of campaigns that convince voters through the diffusion of ideological programs. Two traditional types of party finance can be identified. While mass parties finance themselves on a dues-paying membership, cadre parties finance would come from some large-scale contributors and interest groups. Even then, there is a big difference with the size and complexity of modern national campaigns. As the electorate grew and the franchise extended, the parties needed organization and workers to mobilize voters. This, in addition to the emergence of mass-circulation newspapers, radio and television turned parties into electoral machines (Denver, Hands and MacAllister 2004). Over time, financing campaigns with voluntary contributions by party members became insufficient due to the diminishing willingness of their members to make financial sacrifices and also due to the rising costs of campaigning (Heidenheimer 1963).

The professionalization of elections, the changes in media communication and the increasingly larger audiences made the mechanisms to win elections more complex.

\(^5\) On this last point, there is literature that presents the notion of “party cartelization” where dominant parties support the implementation of public financing for parties in order to limit the entrance for new competitors (Paltiel 1981, Alexander 1989, Katz & Mair 1995).
Campaigning became a publicity competition where parties tried to position their candidates and diminish the image of their opponents. But the biggest transformation of electoral campaigns was the rising costs, something that is replicated all around the world.

It is possible then to conclude that, to have a competitive party system, it’s necessary to have available funds to run a campaign. The distribution of political funds has a direct impact on the real possibilities that candidates have to promote their message (Casas Zamora 2005). Debates over party spending suggest that disparities in the financial endowment of parties bias electoral competition in favor of the wealthiest party creating unequal or unfair political competition (Fisher and Eisenstadt 2004). We can then infer that competitive electoral systems have a more equitable distribution of funding than uncompetitive systems. But what are the potential sources of funding for incumbent and challenging parties? This question leads us to the a more fundamental step, which describes the importance of the local economic structure on the availability of resources for campaigning.

**The Link between Economic Structure and Political Finance**

The other step in the mechanisms looks at the connection between the economic structure and the political finance. With electoral races becoming more and more expensive, and the impossibility of relying on dues-paying memberships to finance them, business becomes a fundamental actor. Industry and business can more easily raise large amount of funds than any other interest group (Heidenheimer 1963), and thus possesses an advantage. This solidified the influence of economic sectors over elected officials.
This link falls into the realm of the literature on interest groups, which studies the relationship between the economic structure, class-based social groups and politics. The productive structure, as the base of the economic system, is the starting point for the study of political change. It defines actors and interest, and it shapes the relation of domination and subordination among social groups (Silva 2009).

**On the Importance of Structural Power.**

In a capitalist society, the economic elites have the political advantage because they control private investment. State actors and society in general are structurally dependent on private investment for the wellbeing of the economy. This gives business more political resources to pressure the state than any other group in society (Schneider 1997). The power over investment makes capitalists the only class that is both strategic and privileged. It’s strategic because if their interests are not fulfilled the rest of society if negatively affected – e.g. economic downturns, unemployment. It’s also privileged because its interests have to be satisfied prior to any other group in order to maintain the cycle of profit-investment-distribution (Acuña 1995).

The literature that analyzes the relationship between economics and politics can be located across a continuum, from a pure emphasis on political institutions to a sole reliance on the economic structure. Both extremes end up denying the influence of other variables over the political outcomes. Every reductionism, whether it’s cultural, institutional or structural, is making the mistake of not including relevant variables (Acuña 1995). The theory I present assumes that the political institutions establish the rules of the game, and the economic structure, the interest and options that the political players have.
On the political-institutional side of the spectrum we find literature that does not recognize structural contradiction in the determination of interests nor a differential access to political power by a class or group. A clear example is pluralism, which believes that all interest groups, regardless of their structural position, have the same level of influence over politics. This view assumes that if we have freedom of speech, expression and access to the state, the realization of interests depends only on the capability of the different groups to define, organize and promote an interest. Interest groups compete for the legitimation of their interest on society in order to pressure the government, and use propaganda to promote themselves. As a final outcome, the way that the state distributes political power and resources is determined by the results of this competition (Truman 1971). The state is presented almost as a neutral actor potentially open to the influence of any well-organized interest group. Pluralist understanding of the emergence of interest groups is problematic as it does not acknowledge the problems of collective actions nor the inequality of power and resources of different interest groups. This type of political-institutional reductionism eludes the importance of the economic structure, which provides unequal political resources to different groups in society.

Moving along the continuum of theoretical traditions, we start to see the incorporation of the economic-structural variable as a relevant feature of politics. Biased pluralism describes policymaking as a struggle among an unrepresentative universe of interest groups, which favors the influence of corporations, business and professional associations (Gilens and Page 2014). Contrary to the idea that all interest groups have ex-ante the same chances of influencing public policy, biased pluralism acknowledges the structural difference in the influence.
Several papers appear as good examples of this tradition. Schmitter and Streeck (1999) argue that business owners have the benefit of controlling capital investment. This power places them in advantage to influence policies, as the government will try to favor them in order to secure capital investment. Thomas Ferguson (1995) postulated what he defines as the “investment theory” of politics, where business representatives work as “major investors” of politics, funding political campaigns and obtaining beneficial policies in return. In this theory, the lack of other relevant social interest groups permits business sectors to dominate the political arena. The work by Schlozman, Verba and Brady (2012) describes how unequal voices are in American democracy. Given the rising cost of politics, money became the way people and groups can express their voice. While individuals may use money to make contributions to electoral campaigns, organizations have access to larger economic resources. Thus, they conclude that “these gaps in socio-economic status are intimately connected to the structures that sustain social and economic distinction” (Schlozman, Verba and Brady 2012).

An extreme version of biased pluralism is the notion of “economic elite domination.” This literature presents politics as a closed game that limits the influence of other less powerful groups of society. A recent work by Gilens and Page (2014) analyses thousands of policies passed by the US Congress and affirms that “economic elites and organized groups representing business interests have substantial independent impacts on US government policy, while average citizens and mass-based interest groups have little or no independent influence” (Gilens and Page 2014).

At the end of the continuum we find pure structural explanations of politics. Marxist theories explain politics through a class system were the owner of the means of production, the
bourgeoisie, dominate policymaking and control the state. “Capitalists are always organized. They need in most cases no formal union, no rules, officers, etc. Their smaller number, as compared with that of workmen, the fact of their forming a separate class, their constant social and commercial intercourse stand them in lieu of that” (Engels 1960). Structural Marxism not only assumes that the capitalist interests dominate politics but also consider interest groups such as business associations as an epiphenomenon that only work as a façade to show the state as neutral and universal (Schmitter and Streeck 1999).

Several papers from Latin America (e.g. O'Donnell 1978; Cardoso and Faletto 1979) challenged the oversimplification of authors like Frank by rejecting the idea that the underdevelopment of the periphery was uniformly and irreversibly caused by the exploitation of the metropolis. They incorporated local bourgeoisie and local politics into the equation. How dependent societies were integrated to the international system and the type of domestic political alignments that occurred, based on the different economic structures, affected how the dependency operated. While center-periphery subordination existed, it was affected by structural and political factors.

Both sides of the spectrum possess limitations due to theoretical reductionisms. Solely focusing on the economic structure obscures the political reasons that separate business from government. Although historically they have enjoyed great advantages over workers, entrepreneurs or employers are still forced to politicize their interests and form sectorial

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6 A typical structural reductionist tradition in Latin America is the dependency theory. Gunder Frank (1966) postulated that local capitalists serve to impose and maintain the monopolistic structure and exploitative relationship of the international financial system. The local economic structure is an instrument to suck capital or economic surplus out of the “satellites” and to channel it to the world metropolis located at the “core”. This tradition considers transnational capital as an almighty god that conditions the autonomy of local capital, making the local bourgeoisie an irrelevant actor. Local business interest groups are not worth studying given their lack of autonomy and their submission to international power (Acuña 1995).
associations due to internal class conflicts. Price competitions, foreign price competition, conflict with sellers of raw materials and other supplies generate cleavages among businessmen and explain the need for associations. In addition, the mobilization of workers and the institutionalization of class conflict, and the intervention of the state in the market allocating investments are other open areas for conflict (Schmitter and Streeck 1999).

Whether they compete with other capitalists, the state or workers, businessmen have politicized issues that are translated into the political arena. The number of issues that exist in a province might generate an inter-capitalist competition to gain influence over the state so as to solve them. The structure of the economy, whether it’s diversified or undiversified, would increase or decrease the number of politicized issues. This is the baseline argument behind the theory that diversified economies would generate the interest of different economic sectors to finance political alternatives.

Structural analysis has the advantage over pluralism in recognizing that there is an unequal dominance of economic interests over politics. Its limitation lies in overestimating the power of the economic structure and the disregard for contextual social and political history. In pure versions of structural analysis, the organization and behavior of actors is an epiphenomenon of the capitalist dynamics of accumulation (Acuña 1994). But it is true that the structural conditions establish the capacity and political power of interest groups. The political and institutional context establishes the range of possible strategies for actors. Therefore, both the structure and the institutional context influence the interests, objectives and strategies they may follow (Acuña 1994).
The economic structure (diversification of interests) interacts with the political structure and institutions, which then determine the strategies followed by business in politics. For example, Yadav (2005) affirms that in systems with strong parties that have control over the career of its members, lobbies target political parties. But in systems with weak parties, were politicians’ are not dependent on their parties, lobbies target individual members. Thus, he affirms, the institutional ambience shapes the incentive structure of all political agents (Yadav 2005).

The lack of strong parties may also increase business’ uncertainty. When Schneider (1997) analyzed Brazil he found that after the transition to democracy, big industrialists were forced to rethink their strategies. Smaller groups with defined interests were effective at securing particular advantages through small groups of legislators, but to the contrary, large interest groups where not so successful. Schneider hypothesized that “legislators actually are responsive to demands, yet business generally demands solutions only for their particular area of interest (…). Businessmen want their delegates in [Congress] to take care of their contracts and subsidies, but they leave it to the politicians to decide how to vote on general policy” (Schneider 1997).

The adaptive strategy of business explains the existence of variations between subnational governments within the same country. They might decide to cooperate and align with a hegemonic party or to compete in the political arena depending on the institutional and economic context.
Inter-capitalist Competition and its Influence on Politics.

So far we have debated over the importance of structural and institutional factors to determine the influence of interests over politics. We have affirmed that it is the interaction of both factors that sets the range of possible strategies and relative power of each interest group. As a logical conclusion we can assume that the existence of powerful economic actors (businessmen, business associations, unions, etc.) will depend on the structural and institutional context we are studying.

The organization and actions taken by firms depend not only on mutual interest but also on the behavior and power of competing interests. Business associations become relevant in contexts where there is inter-capitalist competition for the resources of the state or relevant socio-political cleavages that may affect their long-term benefits (Offe and Wiesenthal 1980). This is why the inter-capitalist competition among economic actors tends to transfer conflicts to the political arena (Schmitter 1971).

Acuña (1995), studying the type of organization and behavior of the bourgeoisie, affirms that their need to create associations depends primarily not on the class conflict with labor, but on the competition with other capitalist sectors and with the state. While the need, capacity and relevance of an organization is limited by the economic structure, it’s also dependent on the social and historical context.

A diversified economy increases the diversity and influence of business interests on politics (O’Donnell 1982; Schmitter 1971; Acuña 1995). When economic power is concentrated in fewer economic actors it would be easier to aggregate interest and then coordinate these interests among fewer political actors. But, the higher the diversity of the economic structure, the
more economic actors will appear, and the harder it will be to coordinate interests. The result would generate support for different political actors, causing more political competition. Moreover, higher diversification also implies a distribution of power among more actors and an obstacle for authoritarian figures to concentrate power. Therefore, it is important to identify the conflict of interest across sectors or economic regions. Capitalists are commonly subdivided in finance, commercial, industrialists, agricultural, construction, mining, etc. Economic sectors can be subdivided further depending on the capacity of subsectors to compete in national and international markets (Silva 2014). But also the interest aggregation could be based on geographic proximity, as economic actors from different areas of a province can compete for the allocation of resources in, for example, infrastructure.

O’Donnell (1978) considers that the bourgeoisie, as a class or fraction of society, establish themselves simultaneously in three planes. Their interests not only derive from their structural position, but also from the type of links they have with other social actors in the corporative and political-ideological level. Firstly, a bourgeoisie establishes his own structural differentiation within his sector, in relationship with other economic sectors, with other classes, and with the state. This implies that small or large firms, national or transnational might have divergent interests determined by their position in the productive system. This should warn us, before making generalizations, about the different interests of the various business groups.

The second plane of analysis is the type of corporative organization they participate in, whether it’s local, regional or national. The interests of the organizations may differ as many times as levels that sector has. Each organization represents different interest aggregations and is
controlled by different business coalitions, which might present geographical, sectorial or market size cleavages (O’Donnell 1978).7

The consequence of the multi-level analysis of the bourgeoisie is that two identical economic sectors in the structural plane, in two different provinces, won’t have identical interests or strategies if they differ significantly in the corporative organization. 8 It’s not only the nature of a given sector what defines its interest and political strategies, but its relative position compared with other sectors and type of corporative organization. Therefore, the sectoral and geographic diversification of the economy will define the formation of interest and organization of the economic actors.

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7 The third plane, the political-ideological, corresponds refers to the political actions taken by the business organizations. It focuses on the interventions that, directly or through state bureaucracies, parties or social organizations, these business organizations may make to affect the political or economic organization of society (O’Donnell 1978). Example of business organizations trying to affect the organization of society are the support for military coups in Latin America during the 1960s and 1970s.

8 We can find several interesting examples in the literature. Jeffrey Frieden (1991) analyzes the variation in the autonomy/dependency of the state from/on the capitalist class. He affirms that in countries with high class conflict, capitalists will be fearful of a violent outbreak and thus would give autonomy to the state to take actions to keep the social order. In countries with moderate class conflict the state would conversely be more controlled by the economic elites. Shafer (1994) proposes a related theory on the transformation of the authority of the state based on socio-economic structure. He postulates that when big capital intensive companies dominate the export of goods (e.g. mining), we should expect greater difficulty coping with international market fluctuation. This would induce collective action by the big companies in order to demand protection from the state. On the contrary, when the exports are represented by small firms with less specialized products, they will be able to cope with market fluctuations better and would have more difficulties organizing a collective action and demanding action from the state. Therefore, it is the flexibility or inflexibility of the leading export sectors to cope with international market fluctuations what defines the autonomy of the state. Interestingly, Schneider (1999) criticizes Frieden and Shafer for not paying attention to the variation in the type of company organization that may affect the preferences of the capitalists and their incentive for collective action. For Schneider, the sources of collective action of business organizations are many, and are dependent on the previous action that the state took to promote or suppress these organizations. In his piece on business politics in contemporary Latin America, Schneider (2005) concludes that the more state actors attract business associations to decision making, and the more they delegate the implementation of policies on these organizations, the more incentives business will have to invest in collective action. Unlike Frieden and Shafer, Schneider postulates that it is the state that will define the interest that business could have to pursue collective actions and invest in creating powerful business associations.
Business and Political Finance.

One of the most direct ways that business seeks to influence politics is through the financing of political campaigns. Business has an inherent power due to their control over investment and employment, but as it was discussed, that inherent power is not sufficient to determine the actions of policymakers. Moreover, in contexts where different economic sectors may assume investment and employment, there’s an inter-capitalist competition for the influence over the resources of the government.

Campaign contributions may seek to affect the electoral outcome in favor of a desired candidate and/or to obtain influence over policymaking in both the legislative and the executive branches. The literature has studied the promotion of favored candidates showing that, in some cases, candidates are supported due to their policy positions and ideology (Jacobson 1980) and, in other cases, they are supported to get access to policymaking decisions (Aranson and Hinich 1979; Austen-Smith 1987).

In Latin America, looking at the financial sources available to political parties more broadly, we find that they may be public or private. Public support may include subsidies or direct and indirect funding from the state. We have already covered the importance of direct state funding on electoral equality, which has turned out to be relatively null (Casas Zamora 2005). Among private resources we can find “internal funding” such as dues and donations from party members, contributions from officeholders and funds generated by the party; and “external funding”, which includes donations from non-members and from firms, unions and other organizations (Zovatto 2005; Scarrow 2007).
Another way to classify financial sources in Latin American countries is based on their relevance. We have primary sources of campaign funds and secondary sources of campaign funds. Among the primary sources we find: 1. State resources; 2. State contractors, consultants and suppliers; and 3. Economic sectors. These are primary sources because of the volume of funding they provide to campaigns (Samuels 2001). Incumbents have the advantage of controlling the state resources, allocating the budget for state contractors and answering the demands of the economic sectors. These interactions could imply both licit and illicit use of these connections.

In the first case we are not referring to state resources such as the state direct funding but to the incumbent’s embezzlement of state resources for their campaign. Incumbents have the possibility of using taxpayer’s money for their own benefit. It could be the use of official transportation, public employees, state propaganda or direct budget reallocation. The most common way is using official public appearances or air time on the media to promote investments and inaugurations. Even in highly regulated contexts, the use of state resources could fall into a grey area in-between official use and campaign abuse. In states considered autocratic the use of state resources is more tangible and at the same time more inevitable due to the lack of effective horizontal controls. Either way, these resources only benefit the incumbent, what gives them an initial advantage over opposition parties.

A similar advantage is observed in the second source, the campaign contributions made by State contractors, consultants and suppliers. Public contracts are a major source of corruption. The incumbent may engage in transactions with firms demanding bribes in order to award contracts and/or overpricing products or services in expect of campaign contributions. Especially
with engineering, construction and real estate industries, these practices are a major source of campaign funds for incumbents. Not surprisingly, when we review any list of political donors we will find at the top the public infrastructure contractors. While part of the “private sector”, the group of state contractors is considered different from other private construction companies due to their special connection with the State and their dependency on public funds. Moreover, frequently construction companies are created “ad hoc” by incumbent’s close friends or family in order to obtain public contracts and launder misappropriated public funds.

The third primary sources of funding are the economic sectors. Here we include firms, unions and business organizations, as they all represent interests from specific sectors. They are part of the larger “private sector” together with individual donors, but have the particularity of controlling large sums of money. While individuals can make contributions to electoral campaigns and political organizations, business and unions can use their financial power to staff an office, hire lobbyists and make donations to political action committees (Schlozman, Verba and Brady 2012). Business contributions are consequently more effective at influencing politicians than individual contributors (Bergan 2005).

Economic sectors are the most important campaign funds source for parties. Freille (2015) affirms that for the Argentine case, while parties receive both public and private funds, private contributions are the most relevant source of finance. Samuels (2001) reaches the same conclusion when analyzing Brazil’s general elections, where parties also receive funding from the state but most money still comes from business sources. This positions economic sectors as the key variable to explain the availability of significant resources to participate in competitive elections.
Unlike what happens with State resources and State contractors, where incumbents are the only beneficiaries, economic sectors are also the only primary source that could finance opposition groups. The decision by business and unions to contribute to an incumbent or a challenger, will be dependent on the interest and strategies that emerge out of the economic structure –as we have pointed out in the theory-. What is important at this point is to highlight that out of the three primary sources of funding, only economic sectors are available for opposition parties. This shows the relevance of business structures and interests for the existence of funding to support competitive campaigns by the opposition. We will later explain how business might weigh against the incumbent based on expectations and relative structural position.

The secondary sources of finance for campaigns are: 1. Individuals, 2. Branches of the party, and if subnational: 3. The National Government. Compared to the primary sources, these options can mobilize fewer resources and thus are less relevant. Nonetheless, sometimes these are the only sources of funding opposition parties may have. Individual contributions are composed of dues from party members and donations from individuals - not considering here the support of businessmen, which are listed among the primary sources-. As described earlier, with the level of spending modern campaigns require, individual contributions are relatively insignificant. When analyzed separately, individual contributions have no influence on the candidate’s strategies or policy proposals (Bergan 2005).

The second source is the transfer of funding by other branches of the party, whether it’s the national committee or committees from other states. These tend to be a last resource for unfunded candidates and they usually respond to the desire of the other branches to maintain a
certain amount of votes in order to sustain the relevance of the party in the region and the country. More importantly, if a subnational campaign overlaps with a presidential campaign, the national committee might contribute to increase the support for the presidential candidate in a given province.

Finally, we consider as a potential source of campaign financing the intervention of the national government. This occurs when the President wants to support a challenging party that is lacking funds. It’s rarely the case where the President supports the incumbent’s campaign economically, given that the support already exists through State transfers and public infrastructure. For those cases where they support opposition, the President might ask businessmen and state contractors from any area of the country to contribute to the election. This situation is more common in contexts where the President is very aware of cultivating the support/obedience of governors. As will be presented in the case studies, Argentina and Brazil stand as good examples of this situation.

The secondary sources of funding are not only relatively smaller compared to the primary sources, but in many cases are “ad hoc” and dependent on the political juncture of the moment. The intervention by other branches of the party or by the national government is not a constant, it only appears in those elections where the political competition might be of interest for other provinces or the government, and when there’s a shared interest between the different levels of the government.

Figure 1.2 summarizes the primary and secondary sources of political finance. It also illustrates how the availability of more sources of finance for the incumbent affects the equity of the competition. More funds tilt the balance in favor of the incumbent candidate. It is not a
deterministic relationship, but a probabilistic one, making the theory interact with the alternative explanations to explain the political dynamic of subnational governments.

Figure 1.2. Sources of Political Finance.

When we go from the general theory about campaign finance to the case specific context of Argentina and Brazil we can observe the mechanism at work. Let’s put a focus on the economic sectors’ strategies, given that they represent the only primary source that can balance incumbents and opposition. A typical expression among the businessmen and politicians is that firms contribute money to all of the candidates based on expectations. So therefore, the difference in the amounts contributed to different candidates could be completely unequal. Businessmen have to weigh (their personal ideological affinities with the chances the candidate has of winning. The Unions, considered here as part of the economic sector, tend to have a more ideological support for specific candidates, so they tend to support only one candidate. Most of
their support is in the form of mobilization of supporters, infrastructure and logistics, which in many cases could be very effective.

Does the influence of “expectations” make campaign contributions endogenous to the candidate’s chances of winning? The answer is clearly no. Businessmen are risk averse, so they will be careful with the message they send out along with their economic contribution. Business may always contribute to the incumbent for the sole reason that they are in office, but whether they contribute more or less to the opposition is the key.⁹

In the delicate game of favoring their preferences businessmen have to make sure they will not be retaliated on by the incumbent or any potential winner. Most of the time the amount firms declare they have contributed to each contender’s campaign is not a reflection of the true amount. There could be under-the-table contributions. When trying to favor the opposition, firms hide the actual amounts contributed from incumbents and from public records.

How are expectations formed? Since businessmen are risk averse, the first question they ask is “who’s going to win?” Here is where the political situation plays an important role. If an administration is showing decadence, if there is a political crisis that is creating the sense of a future loss, or if there is an opposition with high support from the population, we will expect that the business sectors will pay attention and invest their money in backing the opposition. If the election is run together with a presidential election, a relevant presidential candidate can favor a local opposition candidate. Business associations will tend to still put money on the incumbent, but they may support the opposition in a significant way, especially under the table. It is

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⁹ For example, Box-Steifensmeier and Dow (1992) find that contributors may have different strategies when contributing to state legislators, but the Speaker of the House tends to obtain consistently more contributions than other legislators. Other authors (Eismeier and Pollack 1986, Hart 2001) find that businesses that are regulated tend to favor the incumbent more than businesses that are unregulated.
important not to forget that while business support is important to run and win a campaign, the political arena and public opinion are also important.

The image of the candidate is important to businessmen, but as mentioned, it’s not the only important factor. The second expectation is “what he/she will do for us?”. If business groups have an expectation that the candidate will benefit them politically – either because he/she comes from that economic sector or because he/she has close ties – they will support the campaign. The level of support will also be influenced by the expectation of success; nonetheless they will try to position the candidate as best as possible. Again, under the table funds are typical here.

Economic sectors are enablers, not king makers. They are fundamental to run a successful campaign, but at the end of the day voters are the ones deciding. The worst candidate is the one unknown to the voters, and we have seen that money correlates with votes. Nonetheless this is not a deterministic theory. In certain political situations, economic or political crises, a candidate can be raised or dropped regardless of the amount of money they collected.

The chapter has laid out a mechanism that links the prevailing economic structure with the existence of a democratic or an autocratic government. The mechanism implies that the economic structure affects campaign finance and consequently it affects political competition, which may favor the existence of democratic or autocratic governments.

Firstly, we justified the use of political competition as a proxy for level of democracy. We chose a procedural definition of democracy, pointing out that the existence of hegemonic parties implies the overcoming of democratic institutional checks and balances. More
importantly, we have shown evidence on the importance of campaign funding in electoral competition arguing that a candidate cannot win an election without a campaign and cannot have a campaign without money.

We continued to show that business contributions are the most important source for campaign funds, especially for the opposition parties. We also maintained that economic sectors might compete among themselves depending on the economic and institutional context. This led us to argue that in a context of economic diversification we will find more inter-capitalist competition and therefore different political interests, while in undiversified economies we would find less conflicting interests and an alignment with the state.

We have described so far the theoretical explanation for the existence of subnational autocracies. In the following chapters we will review four cases—Argentina: Mendoza and San Luis, Brazil: Bahía and Minas Gerais—to present evidence for the proposed theory presented. But before jumping into the specific cases, we should review alternative explanations for subnational authoritarianism.

State of the Art

This dissertation speaks of the literature on democratic consolidation (e.g. Linz and Stepan 1996, O’Donnell 1994, 1996, Diamond 1999). This literature studies how illiberal or delegative democracies are trapped in a gray zone between dictatorship and democracy, a land of feckless pluralism and dominant-power politics (Carothers 2002). The contribution to this literature is based on the description of internal processes of democratization at the subnational
level. In parallel, there is also a large set of literature which deals with the relationship between development and democracy (e.g. Lipset 1959, Diamond 1992, Alvarez et.al. 2000, Ross 2001, Epstein et al. 2006, Boix and Stokes 2003). These scholars have been unable to produce conclusive results and many times run up against a problem of mutual influence or endogeneity. The research I here present will also contribute to this literature by arguing that the kind of development that fosters democracy is the one in which there is competition among economic actors.

More importantly, this work is in dialog with the literature on subnational authoritarianism in democratic countries. Within this trend, some authors have underscored the role of political cleavages in allowing the emergence of hegemonic parties (Key 1949, O’Donnell 2004, Mickey 2005, Gibson 2005). For these authors, local party bosses are able to subdue democratic institutions by limiting the power of the opposition either through the exploitation of social cleavages or through political strategies that limit the opposition’s political resources. Another trend focuses more on control of the economic resources that provinces receive from the central government (McMann 2006, Gervasoni 2010, Giraudy 2010, Borges 2007, Montero 2007). This allows them either to avoid accountability from the local constituency and/or to create a clientelistic machine to guarantee their electoral results. However, the literature on the emergence and endurances of autocratic subnational governments offer partial explanations of the problem and obscure the internal dynamic of local politics. The present research aims to help solve this problem by providing a novel approach that builds on the existing knowledge and generates a more robust analysis on the issue of subnational authoritarianism.
Given the geographical focus of this dissertation, I will describe the most salient theories for the countries selected. A first alternative explanation is that governors’ political strategies are the ones determining the level of political competition and the level of democracy/authoritarianism of a province. Gibson’s (2005, 2012) “boundary control” argument refers to the political and institutional strategies that incumbents and challengers may use to control the scope of provincial conflict. According to Gibson, incumbents will try to keep the “boundaries closed” in order to isolate the local conflict from any external intervention and, through authoritarian mechanisms, control the opposition. On the contrary, the opposition will try to bring national actors into the local conflict in order to counterbalance the power of the incumbent. National actors may have incentives to intervene or stay away from local conflicts depending on the benefits they might receive. Gibson’s argument resembles the literature on party hegemony as he relies on the active strategies of the incumbent to explain the survival of an authoritarian regime. At the end of the day, is the political ability of the incumbent to separate the local and the national arena that will determine his future. While he affirms that social, economic or cultural factors may contribute, this is an agency story.

Gibson highlights how a national intervention in the local arena may help to even the playing field and give the opposition a chance to defeat the incumbent. When talking about this potential scenario, he describes it as “national political parties who ally with local opposition parties and invest resources in the jurisdiction to defeat the incumbent party” (Gibson 2012:32). The material capabilities transferred are clearly resources for the campaigns, so what he is implicitly arguing is that, in order to successfully compete against the incumbents, the opposition needs funding. This is more in tune with a material explanation than a strategic explanation. As
he concludes, “the strengthening of local party capabilities by national parties is the primary mechanism that shifts the local power balance” (Gibson 2012:32).

If the solution to authoritarianism is the availability of resources to compete against the incumbent, then the lack of resources for the opposition is the explanation for the existence of authoritarianism in the first place. While national investment in local politics is one possible solution to the problem, it’s not the problem itself. The existence of democratic governments in other provinces is not explained by the “open boundaries” and the constant national intervention. It is explained by the availability of resources for the opposition parties to run competitive campaigns.

The political strategy of separating the local arena from the national arena is a strategy that could be used both in authoritarian as well as in democratic states. A reflection of that is how many provinces may decide to separate or overlap local and national elections depending on their political conveniences but regardless of their level of democratization. Moreover, in many cases authoritarian governors benefit from opening the boundaries and nationalize the election.

In tune with the idea of different strategies, Giraudy (2010, 2015) underscores the fact that subnational authoritarianisms are heterogeneous in their relationship with the national government. She finds that not all these “subnational underdemocratic regimes” have the same relationship with the sitting presidents. Giraudy’s work makes an excellent point of highlighting how subnational governments might have different strategies to continue operating without economic or political crisis, whether this is with the support of the national government or with its own fiscal autonomy. Thus, she classifies authoritarian governments as reproduction from above –where the President is able to penetrate through transfers and condition the governor-,
and self-reproduction—where the governor is politically and economically autonomous and limits the national interference. 

Giraudy shows the complexities of interests across levels of government and the strategies that actors may decide to take. The work introduces a much necessary analysis of the complexities of politics over time that is complementary to the structural explanation presented in my analysis. What seems to be missing in the analysis is an explanation on how subnational authoritarianism initially emerges. The explanations of the endurance of autocratic governments might not be the same as the reasons behind the emergence of hegemonic party domination in the first place.

Another alternative explanation is that the distribution of federal funding allows some subnational states to obtain resources to control power without depending on the population (Gervasoni 2010). Gervasoni presents his theory in various publications where he also explores ways of measuring subnational authoritarianism (2009, 2010 and 2011). In tune with McMann’s (2006) study of Russia and Kirgizstan’s subnational governments, Gervasoni finds that there’s an inverse relationship between the government autonomy from the citizens and level of democracy. The explanation derives from rentier theories, where the lack of dependency from the citizens gives the government autonomy to rule through undemocratic means. In this way, the autonomy of the subnational government from local actors limits its accountability and allows for the existence of an authoritarian government. Instead of obtaining rent from production such as oil or mining, the provincial autonomy comes from receiving transfers from the national government which, in many cases, is significantly larger than the income from local taxes. This theory does not look into local political context, which seems to be black-boxed. In
my hypothesis, it is not the amount of resources obtained from the local actors, but the multiplicity of interests among those local actors that influences political competition. There might be a correlation though between those provinces with lower levels of economic diversification and those provinces that receive the largest proportions of national transfers, but not necessarily a causal relation. Regardless of this, the top down mechanism presented by Gervasoni contrasts with the bottom up mechanism of this dissertation.

Other more localized studies put the focus on the ability of governors to use clientelism. Borges (2007) argues that the least-developed states in Brazil present the greatest opportunities for patron-client strategies. Montero (2011) goes a step further and affirms that subnational authoritarianism is a function of the relative levels of economic development, as the governors are able to concentrate control over patronage resources. While they have a relationship with the economic structure, these theories look at the ability to pay patronage. There are several authors that contest the determinacy of clientelism for gubernatorial victories (Carvalho and Santos 2015, de Melo Fadigas 2010). Even Montero finds examples of electoral results in authoritarian states that are not directly explained by clientelism, such as Bahía in Brazil (Montero 2011). As I will show with the two autocratic cases studied in this dissertation, undiversified but developed states can still produce authoritarian results.

The literature on subnational authoritarianism presents interesting insights into different mechanisms that allow for the emergence and continuity of these governments. These theories, nonetheless, present limitations as well, by either overestimating the importance of political strategies or by underestimating the importance of the local arena. It is the objective of my work to present an alternative theory that encompasses some of the mechanisms developed in the
literature but presenting a novel focus on the importance of political competition. By looking at what allows or limits opposition parties to challenge incumbents we are able to understand the continuity of hegemonic parties. In this process, we highlight the importance of business sectors to finance campaigns, and the economic structure that defines the interests of these actors. The following chapters will support the theory by presenting qualitative and quantitative analysis of two countries: Argentina and Brazil.
CHAPTER II

Research Design and Case Selection

There’s still, in political science, a methodological debate over whether qualitative or quantitative studies are able to capture causation (see Ragin 1987; King, Keohane and Verba 1994; Geddes 2003; George and Bennet 2005; Shapiro, Smith and Masoud 2004; Lichbach and Zukerman 2009; Brady and Colier 2010). In the case of qualitative analysis it’s argued that only experimental inquiries can determine causality, and that case studies can only inform causal quantitative research (Maxwell 2004). But the development of a causal explanation depends on the strategy used and the data collected to identify the connection between events and the causal process. A process will hardly be visible in its entirety, so it’s key to identify and interpret observable evidence. The dissertation presents a mix-method approach with case studies and statistical analysis. This seeks to find the evidence to support the theory and rule out alternative explanations. The way I structured the causal mechanisms in the dissertation is first, through the analysis of two pair comparisons of most similar cases and, secondly, with a quantitative analysis that tests the hypothesis in the rest of Argentina and Brazil. The way these two approaches are structured and interrelated, support the causal effect of the economic diversification over political competition.

For the qualitative analysis, I employ a method of causal imputation through which the interpretation gains plausibility with the available data and the backing of relevant generalizations that are supported by existing studies (George and Bennett 2005). The use of pair comparisons of most similar cases and the longitudinal analysis of each case help to address
causality. By comparing Bahía with Minas Gerais in Brazil and San Luis with Mendoza in Argentina, I attempt to control for the bias of culture, region, size, GDP, country, etc. and pinpoint how variation in the economic diversification shapes the level of political competition.

For each of the four case studies, I gathered enough evidence to support my causal argument. As said, since the mechanism that links economic structure with democracy/autocracy is hardly visible in its entirety, I use existing knowledge to identify and interpret evidence. Therefore, in Chapter 1 (Theory) I described the advances that literature has made on the impact of political finance over political competition, and on economic interest aggregation. Based on this literature, I affirm that funding affects the chances of a candidate to win, that private funding is the main source of campaign funds, and that sectors and regions are two of the main cleavages that aggregate economic interests.

In the study of each case, I trace the evidence to confirm these arguments and show that local economic diversification determines the distribution of campaign funds, and subsequently, has an impact on the level of political competition. To do so, I reconstruct the decisions made by the main economic and political actors through a series of in-depth interviews with key actors in the four cases. I rely on economic actors to explain how they aggregate interests and how they allocate support for political parties, and I rely on political actors to explain how and where they obtain these funds and how important they are in their political success. Then I incorporate data from primary and secondary sources on campaign funds and political competition, which confirmed the evidence obtained through interviews. The aggregation of these sources of evidence support the hypothesis in each case and show that the theorized mechanism is at work.
The two pair comparisons of subnational governments are intended to follow the method of difference, as they are similar in every aspect except for the IV and the DV. Given the nature of the case selection, the comparison is also part of the subnational comparative method, which makes it easier to construct controlled comparisons. As Richard Snyder, in his seminal article on subnational studies, affirms “two strategies of subnational analysis can be distinguished: (1) within-nation comparisons that focus on subnational cases within a single country; and (2) between-nation comparisons that focus on subnational cases across countries. Moreover, these two strategies can be fruitfully combined in a single study” (Snyder 2001). The dissertation uses precisely that combination when analyzing the four provinces. The subnational comparative method allows for the matching on cultural, historical, ecological, and socioeconomic dimensions. In the dyads selected, the fact that they are neighboring provinces with similar sizes and GDP increases that benefit. The subnational comparative method also allows for the analysis of the dynamics between subnational and national governments, which is important for understanding the national processes. National political regimes construct their power through coalition building with a heterogeneity of subnational actors, thus, the variation in the level of democratization of these actors will affect the type and success of these coalitions.

I chose to structure the chapters following a historical chronology to support the theory-oriented analysis and to enable the reader, not familiar with the history of the cases, to understand the analysis. Also, the historical sequence allows me to make inferences in some of the cases almost as “before” and “after” observations. While the pair comparison is the main methodological approach, the within-case comparison adds to the evidence and helps me identify the causal impact of the IV. The theory implies that structural transformations are followed by
political transformation, so the sequencing is important to show causality. In cases like Bahía and San Luis, where the modernization generated an economic centralization and allowed for the emergence of autocratic governments, the historical description shows the evolution of the mechanism. In the case of Minas Gerais, the modernization generated even more sectorial diversification, which helps improve an already healthy political dynamics. In the case of Mendoza, for example, presenting the historical development of wine and the ultimate transformation of the 1990s allows me to show how a change in the sector modified its internal balance of power and its influence over political competition.

Chronology also shows the emergence and consolidation of alliances or the development and dissolution of those relationships. For the cases of Minas Gerais and Mendoza, following the gubernatorial elections in chronological order helps show the shifts in support from the economic sectors from one party to the other, which would be otherwise hard to understand for the uninformed reader.

**Case Selection**

As mentioned above, in order to test my argument the methodological strategy is twofold, with an in-depth analysis of a two pair comparison and a quantitative analysis of Argentina and Brazil. I have chosen these countries not only because of personal interest and knowledge, but because both countries share a similar history, culture, and present a similar geo-political context. Moreover, these are two federalist countries that present similar internal heterogeneities across provinces or states. The variation in terms of subnational democratic development and
economic diversification within these countries makes them ideal cases to test the hypothesis of
this study.

The cases selected for the two pair comparisons are the neighboring provinces of
Mendoza and San Luis in Argentina, and the neighboring provinces of Bahía and Minas Gerais
in Brazil. The two selections are a controlled comparison based on the most similar cases
(George and Bennet 2005). They were selected based on their variation of the dependent and
independent variables (see figure 2.1), but also on their geographic size, economic development
and cultural similarities, which allows for the isolation of the independent variable and control
for alternative explanations.

![Figure 2.1. Case Selection by Variation in the Dependent and Independent Variables.](image)

Below, Map 2.1. puts the Mendoza and San Luis cases within the geographical context of
Argentina. Following the objective of selecting a controlled comparison of most similar cases,
Mendoza and San Luis are comparable in all respects except for the independent variable that
explains the variation in the dependent variable. These two provinces share the same
institutional settings and levels of development, but differ in the economic diversification (IV) and the level of political competition (DV).

Figure 2.2. Argentina with Subnational Political Divisions and Case Selection.

Looking at the Political Competition Index in Table 2.1. -developed in detail in Chapter 7-, we observe that Mendoza is coded as a highly competitive province while San Luis has low political competition, thus varying significantly on the DV. When we look at the IV we also find significant variation, as Mendoza shows much higher levels of economic diversification in both indexes: sectoral and geographical. Mendoza is ranked 3rd in both the Geographic Diversification
Index (GDI) and the Sectoral Diversification Index (SDI) with a value of 10.8 and 0.74 respectively. San Luis, is ranked 20\textsuperscript{th} in the IGD and 22\textsuperscript{nd} in the ISD, with values of 3.4 and 0.35 respectively. These series of indexes show that San Luis and Mendoza are extreme poles in terms of the IV and the DV (see Chapter 7 for more detail).

Table 2.1. Average Political Competition Index, Argentina.

<table>
<thead>
<tr>
<th>State</th>
<th>Index of Political Competition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tierra del Fuego</td>
<td>3.14</td>
</tr>
<tr>
<td>Ciudad de Buenos Aires</td>
<td>2.71</td>
</tr>
<tr>
<td><strong>Mendoza</strong></td>
<td>2.23</td>
</tr>
<tr>
<td>Corrientes</td>
<td>2.22</td>
</tr>
<tr>
<td>Chaco</td>
<td>1.96</td>
</tr>
<tr>
<td>Rio Negro</td>
<td>1.89</td>
</tr>
<tr>
<td>Chubut</td>
<td>1.80</td>
</tr>
<tr>
<td>San Juan</td>
<td>1.79</td>
</tr>
<tr>
<td>Santa Fe</td>
<td>1.64</td>
</tr>
<tr>
<td>Entre Rios</td>
<td>1.63</td>
</tr>
<tr>
<td>Tucuman</td>
<td>1.63</td>
</tr>
<tr>
<td>Neuquen</td>
<td>1.62</td>
</tr>
<tr>
<td>Catamarca</td>
<td>1.50</td>
</tr>
<tr>
<td>Jujuy</td>
<td>1.48</td>
</tr>
<tr>
<td>Salta</td>
<td>1.46</td>
</tr>
<tr>
<td>Misiones</td>
<td>1.37</td>
</tr>
<tr>
<td>La Pampa</td>
<td>1.34</td>
</tr>
<tr>
<td>Buenos Aires</td>
<td>1.31</td>
</tr>
<tr>
<td>Cordoba</td>
<td>1.22</td>
</tr>
<tr>
<td>Santiago del Estero</td>
<td>1.05</td>
</tr>
<tr>
<td><strong>San Luis</strong></td>
<td>0.90</td>
</tr>
<tr>
<td>Formosa</td>
<td>0.86</td>
</tr>
<tr>
<td>Santa Cruz</td>
<td>0.84</td>
</tr>
<tr>
<td>La Rioja</td>
<td>0.59</td>
</tr>
</tbody>
</table>

Following the design of a most similar case comparison, the rest of the relevant variables in the analysis, show similarities that allow for their control. If we look at the development indicators, we can see that Mendoza and San Luis are in similar conditions. Mendoza is the 5\textsuperscript{th}
largest province in terms of GDP and San Luis the 6th, but San Luis has a higher level of GDP per capita. Moreover, both have almost identical levels of poverty, ranking 7th and 8th out of the total 24 provinces in Argentina.

Finally, the fact that Mendoza and San Luis are neighboring provinces of similar size (Map 1.1) implies that they share similar history, geography and culture. The five regions in which Argentina is traditionally divided not only represent geographic characteristics, but a history of alliances between provinces. Mendoza and San Luis are part of the Cuyo Region, which has historically been interconnected. Its location, on the route between Buenos Aires and Chile has been one of the most important political and economic assets of the area. Out of the constant interaction, they share also a lot a cultural traditions that differentiate them from the other regions in the country.

When analyzed in detailed, the cases of San Luis and Mendoza show the close connection between the economic diversification and the political competition. Mendoza transforms during the 20th Century from an oligarchic system dependent on the wine industry to a polyarchic economy that fosters party competition. San Luis, shows a different path, and transforms from an oligarchic system dependent on the national government to an independent closed autocracy.

The key is found in the process of modernization, during the second half of the century, that transformed the local economies. Both the sectoral and geographic diversification had an influence on the political dynamics of Mendoza by changing supports over time and promoting overturns in government. In the same way, the geographic and sectoral concentration in San Luis created an alignment between the private sectors and the governor, allowing for the emergence

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10 Instituto de Estadísticas y Censos (INDEC); Ministerio de Economía de la Nación, Argentina.
of a closed autarchy. In both cases, opposition parties justified their victories and defeats mainly by the availability or not of campaign funds and the support of economic sectors.

Mendoza has maintained over the years its characteristic three party system, with the PJ, UCR and PD competing for the governorship and the seats in the Legislature. Mendoza has presented, in the last thirty years, eight governors from the UCR and PJ, while in the legislature the seats are divided among three parties. Even though the PD suffered a legitimacy crisis after the military regime, they still operate as a balance between the UCR and the PJ.

The UCR and the PJ have rotated in government, showing the periodical shift in the support. Sectoral support changes frequently, and it’s on the agenda of the candidates. Every administration tries to form alliances with the various economic sectors, but economic crises or better proposals from the opposition party moves economic support across the political spectrum. The local economic representatives actively participate in politics and even in party primaries we see the influence of regional economic groups supporting their local politicians in the state wide competition. Economic issues, especially those related with traditional products, are one of the most politicized topics during electoral campaigns.

On the other side of the spectrum, San Luis has been governed during the last 30 years by the brothers Adolfo and Alberto Rodriguez Saá, with the sole exception of Claudio Poggi (2011-2015), a mere figurehead. The source of the hegemonic control that the brothers have is the close alliance they built with the manufacturing sector, the hegemonic sector that is centrally located in the province. Governor Adolfo Rodriguez Saá took advantage of an industrial promotion law passed during the dictatorship, and distributed tax exemptions to new manufacturing industries. The industrial promotion modified the economic structure of San Luis turning manufacturing
into the dominant sector making traditional sectors irrelevant economically and politically. Adolfo and Alberto Rodriguez Saá have exerted a tight control over political finance, limiting campaign funds even for their own party candidates. Opposition parties are unable to carry out competitive campaigns due to lack of resources, and this has allowed for the hegemonic dominance of the Rodriguez Saá.

The cases selected in Brazil are Bahía and Minas Gerais. Following the same method of selection, these two states vary on the level of political competition and the level of economic diversification, but are similar in the rest of the relevant variables. As we can see in Table 2.2, selecting Minas Gerais and Bahía allows for a comparison between a state with high level of political competition and one with a low level of political competition, in the same way I selected Mendoza and San Luis (I develop further the implications of this Index in Chapter 7).

At the same time, Minas Gerais almost doubles Bahía’s level of economic diversification measured in terms of geographic diversification. Using the Geographic Diversification Index developed in this work, we find that Minas Gerais has an average value of 36.7, while Bahía has a value 20.7 (for further detail see Chapter 7).

It would have been ideal to also have a wide variation in the Sectoral Diversification Index—the second way I measure economic diversification,—but the availability of suitable comparisons for most similar cases in Brazil is limited due to the high economic heterogeneity. There’s a high inequality in economic development among regions and states in Brazil. For example, the GDP of the state of Sao Paulo is larger than 22 other states combined. Therefore, in order to look for a suitable case selection it’s important to select among those states that present similar levels of GDP. Otherwise, it would not be possible to control for the alternative
explanation of economic development. The Minas Gerais and Bahía comparison can control for economic development given that are ranked 3rd and 7th respectively in terms of state GDP in Brazil\textsuperscript{11} out of the 28 states in the country.

Table 2.2. Average Political Competition Index, Brazil.

<table>
<thead>
<tr>
<th>State</th>
<th>Index of Political Competition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rondônia</td>
<td>8.11</td>
</tr>
<tr>
<td>Rio G. Sul</td>
<td>4.98</td>
</tr>
<tr>
<td>Amapá</td>
<td>4.79</td>
</tr>
<tr>
<td>Distrito Federal</td>
<td>3.99</td>
</tr>
<tr>
<td>Espírito Santo</td>
<td>3.88 High competition</td>
</tr>
<tr>
<td>Rio de Janeiro</td>
<td>3.80</td>
</tr>
<tr>
<td><strong>Minas Gerais</strong></td>
<td>3.63</td>
</tr>
<tr>
<td>São Paulo</td>
<td>3.49</td>
</tr>
<tr>
<td>Paraná</td>
<td>3.31</td>
</tr>
<tr>
<td>Pará</td>
<td>3.04</td>
</tr>
<tr>
<td>Piauí</td>
<td>2.94</td>
</tr>
<tr>
<td>Santa Catarina</td>
<td>2.93</td>
</tr>
<tr>
<td>Roraima</td>
<td>2.70</td>
</tr>
<tr>
<td>Acre</td>
<td>2.59 Medium Competition</td>
</tr>
<tr>
<td>Maranhão</td>
<td>2.56</td>
</tr>
<tr>
<td>Rio G. Norte</td>
<td>2.51</td>
</tr>
<tr>
<td>Tocantins</td>
<td>2.36</td>
</tr>
<tr>
<td>Mato Grosso do Sul</td>
<td>2.24</td>
</tr>
<tr>
<td><strong>Bahía</strong></td>
<td>2.12</td>
</tr>
<tr>
<td>Pernambuco</td>
<td>2.11</td>
</tr>
<tr>
<td>Sergipe</td>
<td>2.10</td>
</tr>
<tr>
<td>Paraíba</td>
<td>2.03</td>
</tr>
<tr>
<td>Goiás</td>
<td>2.01 Low Competition</td>
</tr>
<tr>
<td>Alagoas</td>
<td>1.90</td>
</tr>
<tr>
<td>Mato Grosso</td>
<td>1.72</td>
</tr>
<tr>
<td>Amazonas</td>
<td>1.53</td>
</tr>
<tr>
<td>Ceará</td>
<td>1.49</td>
</tr>
</tbody>
</table>

With this case selection I attempt to control for culture, region, size, GDP, country, etc, following the benefits of the subnational comparative method. As we see in Map 2.2, Bahía and

\textsuperscript{11}Instituto de Pesquisa Econômica Aplicada (IPEA)
Minas Gerais are neighboring provinces with similar sizes. Minas is the 2nd largest populated state in Brazil with around 20 million people and Bahía is the 4th with 15 million people, a similarity that is also found in terms of the size of their territory. Moreover, the closeness of Bahía and Minas Gerais, and the large shared border has generated a common history. Since colonial times, both states have interacted through trade and internal migrations, sharing many cultural and socio-political similarities.

![Figure 2.3. Brazil with Subnational Political Divisions and Case Selection.](image)

In the case of Brazil, Bahía and Minas Gerais resemble the mechanisms found in Mendoza and San Luis. Minas is a diversified state with several important geographic regions, making it operate as a small federal system, where each region of the province, as well as the economic sectors in them, compete for the influence over politics. Bahía presents a similar mechanism to in San Luis. It was transformed by the modernization process under the military regime into a centralized industrial state, and has seen the emergence of an autocratic
government, that was controlled by the PFL during the first twenty years and has been under PT rule since. Bahía and Minas Gerais are opposites in terms of the relationship between economic interests and political interests. In Minas we see a vibrant competition between sectors and regions that fosters associativism and participation in politics in order to promote the candidates that support their interests. Bahía, on the contrary, presents a close alliance between the economic power concentrated in the industrial poles with the incumbent, in order to maintain the prerogatives that the industrial promotion policies has given them.

Minas Gerais went from a competitive oligarchic system to a polyarchic economic system where economic competition translated to the electoral arena. The process of modernization in the 60s-70s continued to diversify the state economically and geographically but also created a new set of political actors that challenged the political power of the traditional oligarchies. Economic sectors are powerful in their regions and actively participate in politics. Industrial and agricultural business organizations finance the campaigns of local politicians for Mayors, National Representatives and Senators. Thus, parties adapt their strategies in order to obtain economic support. That diversification translates to the political competition for elected officials and also generates highly competitive primaries within the parties competing.

Bahía, on the contrary, shows throughout the 20th Century, the transformation from an uncompetitive oligarchic system dominated by local bosses, to a closed autocracy. During the military regime, the modernization process generated an enclaved economic development, mostly based on manufacturing and petrochemical industry. Industrial poles centralized production around the capital city of Salvador. Unlike the case of Minas Gerais, the industrialization worked as an enclave economy with no transformation of the social structure.
and no new socio-political groups. The figure of Antonio Carlos Magalhães of the PFL dominated politics and built a strong alliance with the hegemonic economic sectors. Opposition parties were unable to compete due to lack of local economic support. Only the PT was successful in 2006 when the opposition became organized and the national government actively participated in the competition. But the turnover didn’t change the structural dynamics of economics and politics in Bahía, and the level of political competition afterwards remained low. The concentrated economic sectors had allowed for the autocratic governments of the PFL first and then, more recently, the PT.

While the main comparison is between the cases in each country, there is also a potential comparison across countries. The two dyads present very similar results, with the two autocratic cases (San Luis and Bahía) showing similar processes of modernization and alliances between the hegemonic economic sectors and the autocratic government, and the two democratic cases (Mendoza and Minas Gerais) are also showing similar mechanisms of competition among regions and sectors. This allows us to affirm that the theory holds independently from each country, but more importantly, independently of the size of the economy, population and territory. The Brazilian cases are significantly larger than the Argentine cases in many aspects. Minas Gerais has a territory three times larger than Mendoza and Bahía seven times larger than San Luis. In terms of population, Minas and Bahía have fifteen times the population of Mendoza and San Luis. This reinforces the idea that what is key is the economic diversification –sectoral and geographic- regardless of the size. Figure 2.4 summarizes the potential double comparison.
Through the process of in depth interviews with economic and political actors in the four cases I have noticed the close similarities between the actions and attitudes of these actors. It is the structural contexts that determine how they operate. In the cases of Mendoza and Minas Gerais, there’s always a reference to the more democratic culture of their province, which is their way to explain the different connection between economy and politics. Nonetheless, the rationale behind their actions is the same as the rationale in San Luis and Bahía: politicians want to govern as long and as unconstrained as possible and businessman what to do well economically. It is the context of sectoral or geographic competition that forces them to change the strategy. In a context of more competition they find the need to interact with other political actors in order to find a representative for their interests. Politicians have to seduce different economic sectors to gain their support and be able to compete in the elections. But when there is a hegemonic sector that dominates the economy, it’s in their interest to maintain the status quo and form an alliance with the incumbent that would benefit both parts. The opposition has nothing to offer to this sector, and thus struggle to obtain any significant support so as to compete in elections.

The fact that this logic stands regardless of the country –Argentina or Brazil- and regardless of the size of the province or state, talks about the universality of the theory. In
Chapter 7 the statistical analysis will cover all the provinces and states in Argentina and Brazil in order to extend the theory testing. The results show great support for the theory, which implies that the mechanism is present across the variation in level of democratization and level of diversification in these two countries.

In the next four chapters, I’ll develop a more detailed analysis of each of the four case studies, showing the transformation of their economies and the political-economic dynamics for the last thirty years. The Conclusion Chapter will present the summary of the findings and the future steps in this research.
CHAPTER III

Bahía

Bahía\textsuperscript{12} represents a case of low democratic development, and the explanation for it lays in the alignment of the concentrated economic sectors with the government. As described in the theory chapter, the low economic diversification of the economy allows for the alignment of political and economic interests hindering the emergence of political alternatives and thus reducing the democratic competition. The origin of this economic-political alignment is found in the economic transformation of the 1960-1970 that changed Bahía from an agricultural state to an industrialized one. Implemented by the military government, this transformation modified the oligarchical structure replacing the old economic elites with new enclave companies. The new dominant bourgeoisie, having their headquarters outside the territory of Bahía, had no political aspirations and demanded only economic returns. The political structure was affected by this transformation, changing into a technocratic apparatus that promoted budget moderation and tax benefits for the industries located in the industrial poles. In retribution, the new dominant sectors aligned behind the incumbent and restricted their support to alternative parties and forces.

As this chapter will show, Bahía throughout its history has presented a direct link between its economic structure and its political structure. Every time there’s has been a structural modification of its economic sectors there has been a modification of the political elites and the

\textsuperscript{12} The State of Bahía is located on the north-eastern coast of Brazil. It’s bordered by the states of Sergipe, Alagoas, Pernambuco and Piauí to the north, Goiás and Tocantins to the west, and Minas Gerais and Espírito Santo to the south. It is the fourth most populous state –after Sao Paulo, Rio do Janeiro and Minas Gerais- with 15 million people, the fifth largest in territory -564,000 km\(^2\)- and currently the sixth in terms of GDP –US$ 66 billion-. Salvador, the capital city, was founded in 1549 and was the first capital of colonial Brazil until 1763, when the political power shifted to Rio de Janeiro. Bahía remained loyal to the Portuguese Empire until the very last day of ruling on November 15th 1889, and became a fervent republican on the 16th.
redistribution of political power. Whether it was the dominance of sugar cane, cacao, or more recently, petrochemicals, it always shifted the political balance and crowned a new elite in power. The main period under study in this dissertation looks at the dominance of the industries that settled during the military regime (1964-1985) and during the 1990s. The novelty of this economic transformation in Bahía was that it created an economic concentration that favored a political hegemony of the Carlismo first and the PT later. This new undiversified economy also implied a replacement of the local elites for new exogenous bourgeoisie that provided investments and aligned behind the incumbent, limiting the chances of the opposition to compete.

![Figure 3.1. Brazil With the State of Bahía Highlighted.]

The traditional economic elites of Bahía did not participate in the modernization process and were pushed away by newcomers that, in coordination with the state government, installed their extractive industries. The results, as I will describe in this chapter, is the alignment of interest between the new dominant economic sectors with the party dominating the state, as this
maintained the status quo for both parts, and limited the scope of action of any other alternative political group.

The scope period of the dissertation goes from the first popular election for governor during the democratic transition in 1982 until 2011. For this period, Bahía is a clear case of low democratic competition. Other authors have already classified it as either Conservative Competition (Montero 2007), Dominant Machine (Borges 2007) or High Dominance (Borges 2011). During the span of more than thirty years we can identify two periods of domination, one by the PFL (1982-2006) and the second by the PT (2006-2015). The two clearly defined periods present differences in form but a continuation in substance. While the PT has changed the personalist manners of the PFL for a large coalition/cooptation strategy, both periods show a hegemonic party with a strong control of the economy, aligned with the main economic sectors, and in good terms with the national government.

The first and more extensive period studied is the PFL dominance, also known as Carlismo, in reference to the Antonio Carlos Magalhães (ACM), the undisputed figure of Bahía’s contemporary politics. This Bahían leader is an archetypical autocrat that dominated local politics for over thirty years. Since he was appointed governor for the first time in 1971 until he died in 2007, ACM was a decisive political player that peaked his dominance over Bahían politics during the 1990s.

He was governor three times and personally chose and controlled three: João Durval Carneiro (1983-1986), Paulo Souto (1995-1998; 2003-2006) and Cesar Borges (1999-2002). He was able to govern between 390 and 400 out of the 417 municipalities, including the two most important, Salvador and Feira de Santana (Rubim 2001). This dominance period was built on
three interconnected pillars: control over the economy, control of the media and close links with the national government, all of which were possible due to the tight alliance with the economic forces.

The autocratic power of Antonio Carlos Magalhães was tangible in many areas of the Bahian life. ACM controlled the media, through which he persecuted the opposition leaders and controlled the public agenda. In the 1991-1998 period, the persecution in the media was violent, and some journalist even accused Magalhães of the murdered of 10 media workers and journalist from different regions of the state (Teixeira Reis 2011). Since 1986, with the help of Rede Globo, he controlled with an iron fist all the communication process in Bahia, not only using his own media - TV, newspaper, radio, etc. - but also through the radio and TV concessions he obtained during the Sarney government (Teixeira Reis 2011). More importantly, Magalhães controlled the Judicial and Legislative power, positioning allied judges and favorable majorities to pass legislation (Dantas Neto 2006). A good example of his political persona occurred when the federal police began investigating the undeclared sources of campaign finance in Bahia. Magalhães called Wilson Romao, General Director of the Federal Police, threatening to arrest the deputy Roberto Chagas Monteiro, appointed by the police to investigate the case in Bahia. The investigations were suspended, the delegate Monteiro removed from Bahia and excluded from the investigation, and then sent to Buenos Aires as the attaché of the Brazilian embassy (Teixeira Reis 2011).

The undisputed dominance of the Carlismo extended until 2006 when the growing PT was able to capitalize the worn-out image of ACM and the high popularity of the President Lula da Silva (PT) and prevail in the gubernatorial election. As I described at length in the Theory
Chapter, campaign contributions respond to expectation. We have the expectation of receiving benefits, which is the baseline for the alliance between the incumbent and the businessmen. We also have the expectations of who will win. In the election of 2006 the PT was able to take advantage of the political momentum of the national PT, the ware-out of the Carlismo and the unification of the state opposition. The political context, in addition to the national party committee transfers and the private funds from outside Bahía managed by President Lula made the local economic sectors contribute to the local PT as well. If we look at graph 3.5 later in the chapter we see the shift in campaign funds for 2006. Following the theory, this explains the successful campaign of the PT.

The second dominance period started with the victory of the PT in 2006 and continues nowadays. The PT rapidly took control of the political machine in Bahía and has retained power in the last three elections: Jaques Wagner (2006-2009; 2010-2013) and Rui Costa (2014-2017). While less coercive and personalistic than ACM, the PT has achieved through negotiation and cooptation what some consider an even higher control of Bahían politics (Interview Almeida, Lins, Dantas Neto). The alignment with Bahía’s economic interest is clear when one analyzes campaign funding, what represents a core continuation from the Carlismo era. The other significant parallel is the close relationship with the national government that allowed the PT to obtain key federal appointments, such as judges.

The Bahían case is a clear example of how the economic structures allows for an alignment between politics and economics that derivate into low political competition and concentration of power under a party or party boss. The process of industrial modernization that started in the 1960s created an oligopolic capitalism based on an enclave industrialization that
relegated local economic oligarchies behind external economic forces that aligned with the party in government. Moreover, this modernization created a sectoral and geographic centralization of the economic forces, that are now predominately industrial and located around the capital city of Salvador. This situation hindered the emergence of political alternatives. The economy formed during the 20 years of military regime, was previous and exogenous to the political dominance of the Carlismo, and the PT later.

Before analyzing in depth the two dominant periods I will describe the process of industrialization that allowed for the alignment of the economic and political oligarchy.

**Economic-Political Transformation of Bahía**

The state of Bahía from the 19th Century to nowadays shows a transition from an uncompetitive oligarchic system to a hegemonic electoral domination. Politics in Bahía was initially controlled by the sugar oligarchy first and the cacao oligarchy later before a process of rapid industrialization modified the economic landscape, centralizing economic power geographically and sectorally. This translated into a separation of the economic and political power but allowed for the emergence of a strong electoral alliance that favored the continuation of an hegemonic political project. Before analyzing the autocratic system that emerged after the transition from the military government, we will briefly review the political and economic transformation of the state of Bahía throughout the twentieth century.

Historically, Bahía’s economy had a small number of products: cacao, tobacco, sugar, coffee, leather, skins, palm fiber, precious stones, wax, rubber and wood (Tavares 2001). The most significant production, and politically more relevant, was sugar and tobacco till the XIX
Century and cacao during the first half of the XX century. Regardless of the period, Bahía’s economic structure has always been dependent on an export oriented production, which consequently made Bahía highly dependent on the national and international markets.

During the First Republic (1890-1930), regionalization of familiocratic and tribal oligarchies, controlled politics in the absence of organized party rule. The leading political bosses, known as coroneis\(^{13}\), defined their influences along geo-economics boundaries, controlling politics in their municipalities and competing at the State level (Pang 1979:55). At the time, Bahía presented four principal political-economic areas as described in Figure 1: mining, cattle, cacao and sugar-tobacco zones. Each of these represented an autonomous economic production but also a political sphere, that was generally controlled by the most important coroneis in each area. This is the same as saying that Bahía was politically divided across economic lines, and within those limits the major economic players where the ones controlling politics.\(^{14}\)

\(^{13}\) Coronelismo is the exercise of power by a group of local bosses –coroneis- that translate their private economic dominance into political and military power. The power of a coronei is based on his economic power in most cases, or on their professional authority in the cases of some urban coroneis. The power of the coroneis was based most commonly on their control over economic exploitations, a reason why Pang divides the relevant coroneis in Cattle Raising Area, Mining Area, Sugar/Tobacco area, and Cacao Area. These coroneis represent a first and strong link between economic sectors and political power. The spheres of influence of coroneis were delimited along geo-economics boundaries, and within each municipality, one or more families emerged as the leading oligarchy (Pang 1979). According to Pang, “coronelismo is the most basic and localized form of Brazilian oligarchy. (…) Viewed in this fashion, coronelismo was the foundation of politics in the transitional phase that allowed the traditional oligarchies to sustain themselves in power’ (Pang 1979:12).

\(^{14}\) It is important to distinguish the political-economic relationship of coronelismo from the political-economic alliance of the modern autocracies. In the case of the coroneis, they are the owners of the production, they are both landowners or businessmen and politicians. Political leaders in modern Bahía receive the support of the main economic sectors but without owing the means of productions. Their alliance is based on mutual interest, which is a key difference from the coronelismo.
Political parties were no more than rubber stamps used during electoral contests and later abandoned during the rest of the period. It did not take much to create a new party as long as a political figure of prestige could congregate representatives of the society, political and economic sectors. This sort of party organization is representative of a society that was principally agricultural and conservative and where other social sectors were not represented in politics (Sampaio 1978: 18). Parties revealed the societies infrastructural conditions through its social composition. Members were the big landowners, the representatives of agriculture, cattle raising, commerce, doctors and aristocrats. In the cases of doctors and aristocrats, they were also linked with land and commerce, and guarantied the party’s prestige (Sampaio 1978: 21).  

The work by Eul Soo Pang (1979) presents a thoughtful analysis of the links between economic and political power in the Bahía of the coronéis: “The failure to develop organized parties in Bahía (…) is easily counted for by the absence of dynamic economic activities that could spur the flow of capital and manpower form region to region.
The First Republic represents the critical four decades of transition from one socioeconomic phase to another (Pang 1979, Tavares 2001, Queiros Mattoso 1992). This period shows the rearrangement of the political elites in accordance with the transition from a slave-mercantile economy to an agro exporting economy (Falcon: 21). It is also characterized by the decay of the sugar based economy and the emergence of the cacao as the main product of Bahía. This had a direct impact on the political landscape, as the new cacao elite fought their way into state’s politics and challenged the traditional metropolitan elites.

Until the mid-nineteenth century the main economic production was sugar cane, but a crisis hit this industry and relegated it after cacao. The rise of cacao empowered the growing area of Ilheus. This backland then represented the emergence of a new economic sector that competed or allied itself with traditional oligarchies in their quest for political influence.\(^\text{16}\) Something that characterized the Ilheus area was the large portions of land with no owners. This allowed hundreds of adventurers to migrate and occupy the south coastal area of the state. The migrant and the economic boom created a new socioeconomic elite (Tavares 2001, Pang 1979)

The capital city of Salvador and its adjacent area—the Reconcavo and the Northeast—has always been the economic and political center of Bahía. Ruled by the *coroneis* of the sugar and tobacco plantations, the politics and economics of Bahía were mostly influenced by the land and commercial oligarchies in this area (Queiros Mattoso 1992:55).

\[^{16}\text{By 1870, Ilheus was the main cacao producing area of Brazil, producing 1.2 million kilos that represented 1.4 percent of the provincial revenue. Twenty years later in 1890, production had increased to 3.5 million kilos, and the cacao export taxes represented 21 percent of the state total revenues. Since 1900, cacao represented an average of one-third to over one half of the state total revenues (Pang 1979:53, Sampaio 1978:33).}\]
The supremacy of an economic fraction does not immediately translate into political domination, which is defined as control of the state. In the case of Bahía, the sugar and commerce oligarchy were able to maintain control over the State even well into the period of dominance by the cacao based economy. The end of the economic power held by the sugar elite was alleviated with the exercise of politics, that is, the use of the state apparatus and its bureaucracy, that allowed them to continue their dominance over society (de Oliveria Pinheiro 1999; Queiroz Mattoso 1992; Teixeira Reis 2010). The concentration around the capital, its history of controlling governor nominations and state positions allowed the reconcavo oligarchy to restrict access to the new cacao elites emerging in the south.

Sampaio (1978) studies the evolution of cacao’s influence over the state politics and finds that in the period 1912-1923 the interests of cacao where not represented in the state legislature. This was due to the fact that cacao was in the process of establishing its bases and expanding its frontier, in addition to organizing the concentration of municipal power. The following period (1923-1930) finds several project approved by the state legislature proposing the construction of roads in the cacao area and tax exemptions for chocolate factories. Proposed by the governor, these laws show the results of pressure from the various cacao unions and organizations on the local government (Sampaio 1978:77).

With the 1930s revolution we find the oligarchic “coronelismo” in Brazil, beginning to be integrated into national politics. This transformation was slow in Bahía, as the intervention of the state, in order to succeed, needed to reinforce the coroneis’ system.\textsuperscript{17} The 1930s revolution,

\textsuperscript{17} Juracy Magalhães, a 26-year old military appointee was the key figure of this period. His strategy for gaining support from the backland coroneis drew him towards incentivizing the modernization of the cacao economy in southern Bahía (Teixeira Reis 2010:28). Through loans from the Bank of Brazil and the federal government, the cacao sector incorporated new equipment and modern plantation methods. This generated a boom in the sector,
instead of controlling them, as was its objective, incorporated them into the governing coalition, thus maintaining the local power (de Oliveira Pinheiro 1999).

*Coronelismo* began to decay after 1950. The industrialization and urbanization process changed the traditional social order, which consequently affected the power structure. The modernization under Vargas (1930-1945; 1951-1954) in the previous period had weakened traditional ties and loyalties. Now we find the formation of a dozen or so major and minor parties and the national government increasing its power which consequently eroded the influence of the *coroneis* (Pang 1979: 203). Bahía then goes through a period of economic decadence due to declining markets and prices for the State’s traditional products. This period is known as the *Bahían enigma*, as the once powerful state could not deal with the reality of its economic downfall. But, with the discovery of oil in Bahía in 1954, the scenario changed for Bahía. The National Oil Council created the Petróleo Brasileiro Company, better known as Petrobras, which began to be an active player in the Bahían economy and profoundly transforming it

**Process of Economic Modernization**

The period of economic modernization shows the transition from the uncompetitive oligarchic system controlled by the coroneis to a new economic elite allied with the hegemonic party that governs Bahía. The military regime is a political hiatus where electoral competition is defined by the national government and their control over politics in Brazil. During these years, the economy deepens its centralization (sectoral and geographic) that with the transition of the 1980s will define the new autocratic dynamics of Bahía.

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which implied more revenues for the state and obtained more support from the cacao coroneis for the federally imposed government (Magalhães 1982:83). The rural oligarchy, led by cacao coroneis, supported the federal intervention as this did not affect their local interests.
The 20 years of military government encompass the transition from the export oriented agricultural economy to the predominantly industrial economy with the predominance of Industry (lead by the petrochemical industry, followed by copper, cellulose and more recently, automobile industry). The traditional elite had to resign their cultural leadership in favor of the new modernization fueled from the national government and carried out locally by technocrats. These elites lost their political and economic position and made the modernization an exogenous transformation. (Dantas Neto 2006).

In April 1964 Brazil suffered a military coup that installed a dictatorship which lasted for more than twenty years. This bureaucratic-authoritarian regime initiated a process of economic modernization in Brazil, which was reflected in the macroeconomic policies and the developmental efforts. Bahía was one of the most benefited states. Politically, the military government implemented its military-technocratic transformation only at the national level. The military regime did not generate a major modification in the political power structure at state level, and basically the elites continued their power during the military regime. As Francis Hagopian describes, “during the dictatorship, traditional elites dominated subnational governments and occupied a crucial role in the governing coalition as mediators at lower levels of the political system” (Hagopian 1996: 14). Nonetheless, in order to obtain the governorship, the candidate needed the expressed support of the military regime (Interview Santos).

The military regime established a new economic path called “state capitalism”, where the state controlled investments, launched new industries through joint ventures with foreign enterprises and increased its domination over the private sector (Hagopian 1996:79). The national government adopted developmental policies that modified the structure in the northeast.
Through state-sponsored institutions, such as the Superintendence for the Development of the Northeast (SUDENE in its Portuguese acronym), and private investors from Sao Paulo and foreign countries, modernization began to transform Bahía and a new economic elite began to emerge.

In 1964, an executive order initiated the construction of the Industrial Center at Aratú, which marked the beginning of a new phase of oligopolistic capitalism (Sampaio 2005:27). This generated a change in the control of the economy and subsequently in the control of the government. The process of industrialization in Bahía replaced the agricultural and industrial bourgeoisie of the time, with state technocrats and CEOs from the new companies. As an author concludes, “In colonial times, during the Empire and the Republic, and even till nowadays, the main path for political, economic and social development in Brazil, as well as in the State of Bahía, has been the hegemonic power exercised by the dominant oligarchy. Initially, the oligarchies were linked to the agricultural-export sector. Nowadays the oligarchy is associated with private national and international capital” (Alconfardo 2003:379).

The tax collection data shows a clear economic transformation that made Bahía undiversified geographically and sectorally. Although complex, taxation shows what the relevant sectors of the economy are and allow us to project their relative power into the political arena. We have seen that until the 1960s Bahía was mostly dependent on agricultural exports, most importantly cacao, and operated bellow productivity potentials.\textsuperscript{18}

\textsuperscript{18} During the First Republic the states had authority over taxes on exports, on rural and urban real estate, on property transfers, and over industries and professions. In 1917 export taxes represented 50\% of the state tax collection, and by 1919 it grew up to 74\% (Sampaio 2005:22). This naturally generated a dependency on the international market, and crisis such as the 1930s and post WWI impacted Bahía economically. Exports decreased and the revenues from this sector did too. In addition to the negative external markets, Bahía suffered from climatic setbacks that destroyed agricultural and livestock production. By 1965, export taxes only represented 10\% of the total revenues while 60\% came from Sales and Consignments taxes (Sampaio 2005: 22).
Bahía began its industrial transformation when the Aratú Industrial Center was founded in 1967 and then again when the Camaçari Industrial Complex was added in 1978. The ICM (Tax on Goods) grew rapidly positioning Bahía in 1984 as the 6th State in tax collection. The ICM represented 96% of the State tax collection, most of which came from the Industrial centers. Out of all industrial production, petrochemicals represented more than 50% of the production (Sampaio 2005: 29). The concentration in few economic sectors applied to agriculture as well, were cacao represented more than 45% of the sector. Nonetheless, cacao was in clear decay, from being the most representative export from Bahía in 1970 (62.82%), it fell to 6.18% in 1995 (Alconforadó: 233). The ICMS, led by petrochemicals, still represent over 90% of the tax revenue for Bahía nowadays (Sampaio 2005:35).

The change towards a big industrial sector of intermediary goods carried out by the military government was known as the “centralized decentralization”, as the objective was to decentralized nationally (away from the state of Sao Paulo) but centralize locally in industrial poles. The result for Bahía was a manufacturing hegemony based initially on the chemical and petrochemical industries (Spinola 2003). The industrial boom of the 1970s and 1980s was incentivized by loans with subsidized interest rates, tax exemptions, fiscal incentives and public funds from development organisms. The localization of these industrial poles was artificial and responded to political interests due to the absence of local entrepreneurs and the fragility of the local market. The major industrial pole was the Camaçari Industrial Complex, which includes the Petrochemical Pole of Camaçari, one of the largest in Brazil. Created in 1978, the major partners in the construction of Camaçari were the Government of Bahía, Petrobras and the Federal Government through the Ministry of Industry and Commerce.
The petrochemical strategy was defined from outside the State of Bahía, at Petrobras’ headquarters. The Brazilian oil company had an extraordinary power over decisions, making Bahían politicians and social organization mere spectators (Spinola 2003). The company decided autonomously to establish the Petrochemical Pole in Camaçari, decision criticized by Bahían technicians (Spinola 2003). The participation of local oligarchies in the decision making was insignificant. The only real local partner was the construction company: Odebrecht, which was rapidly growing.

In the 1990s we find Ford and Monsanto setting up their plants in the Industrial Center of Camaçari. Fiscal incentives attracted large investments: Ford invested US$ 1.2 billion in a car production facility and Monsanto US$500 million in a herbicides production plant (Guerra and Teixeira, 2000). During the 1990s there were several tax incentive programs looking to attract new investments.\textsuperscript{19} These programs attracted a variety of industrial investments from outside the state, such as: textiles, footwear, electronics, chemicals, paper and cellulose. Of all these new investments, 80% were new enterprises setting up and 20% in expanding already existing companies (Pessoti 2006). Even with all this new investment and with the intention of diversifying Bahía’s production base, the largest part of the new industries were still located in the Reconcavo area, the metropolitan area of Salvador. Also, the largest part of new investment (43%) kept going to the chemical and petrochemical industries that already lead industry in

\textsuperscript{19} ProBahía, looking to diversify industry, Bahía plast to foment plastic industry, Procomex trying to help export oriented industries, Proauto giving tax incentives for car industries. In 2002 Desenvolve was created to unify and substitute all the previous programs (Pessoti and Sampaio 2009: 4).
Bahía (Pessoti and Sampaio 2009:4). Of the investment in metal-mechanical industries, almost all (98.3%) invested by Ford (Lima e Silva 2005:41).\(^\text{20}\)

From 1993 to 2004 there were 427 new investments in Bahía. Carlos Gouveia conducted a survey of a selection of these new companies enquiring as to the reasons behind their arrival. The factors that were most relevant were, firstly, tax exemptions, then their confidence in the government, the technical knowledge of the government and the economic stability (Gouveia 2006:42). This survey supports the idea that enclave companies had an interest in maintaining an alliance with the party that facilitated their business and that could guarantee its continuity.

As a consequence of the sectoral and geographic centralization we find that currently the export-oriented economy of Bahía shows that the industries located in the industrial centers represent 70% of total exports. Of that majority, half is chemical and petrochemical. The agricultural sector is marginal, with its largest sectors being soya (10%) and cacao (3%).\(^\text{21}\) The concentration is also geographical, as the metropolitan region of the City of Salvador represents 70% of the industrial production of the State. Outside the metropolitan area, the most relevant areas are the Industrial Center of Subaé located in Feria de Santana and the Industrial Center of Ilhéus (Alcoforado 2003: 230).

Going back to the hypothesis developed in the theory chapter, we expect economic concentration to favor an alliance between economic actors and the incumbent limiting the

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\(^{20}\) As several authors describe (Spinola 2001, Sampaio 2005, Alcoforado 2003), the Industrial Centers and the Petrochemical Pole generated growth but not development. These artificially located industrial areas did not generate the emergence of subsidiary industries and, in addition, they monopolized the use of regional resources for the development of other industrial segments. The Aratú Industrial Center is today known as a “companies’ cemetery” given the large number of closed industries and sub utilized areas. The companies that located in Aratú had no connection with the region, and those that were connected decided to establish themselves outside the pole. Companies would only stay in Aratú as long as the tax exception lasted, and as soon as the public financial benefits ended they closed and move out of the State (Sampaio 2001).

\(^{21}\) SEI – Superintendência de Estudos Econômicos e Sociais da Bahia
chances of the opposition to obtain the necessary resources to compete in the political arena. I described two ways in which an economy could be concentrated or undiversified: sectorally and geographically. Capitalists are commonly subdivided by sector (i.e. finance, commercial, industrialists, agricultural, construction, mining, etc.) and can be subdivided further depending on the capacity of subsectors to compete in national and international markets (Silva 2014). But also the interest aggregation could be based on geographic proximity, as economic actors from different areas of a province can compete for the allocation of resources in (O’Donnell 1978).

In the case of Bahía we have a clear geographic concentration of the economy. As mentioned above, 70% of the industrial production of Bahía is located in the surrounding area of the capital city of El Salvador (Alcoforado 2003). But if we look at internal distribution of the GDP in 2010, we see that out of a total of 417 municipalities, 46.4% of the GDP is produced in only 5. The city of Salvador accounts for 23.81% of the total state GDP. Far behind, in second place, the municipality of Camaçari represents 8.67%, with its economy based on processing industry, especially in the segment chemical and automotive; São Francisco do Conde represents 6.38%, with a strong concentration in the oil refining segment; Feira de Santana with 4.82% of the total GDP, operates as a major trading post and has the Industrial District Subaé; and finally, Candeias 2.72%, especially in production oil and natural gas.22 Two other economic indicators show the level of geographic concentration of Bahía. First, if we look at the average family income, we find that only 43 out of the 517 municipalities have an average above US$ 66.7 and that only the municipality of Salvador has an average rent of US$ 166.7. Second, if we see the average municipal tax collection only 21 have an average above US$ 6.7 and only one above US$ 16.6, Francisco del Conde (Alcoforado 2005).

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22 http://www.sei.ba.gov.br/
Given the importance of the petrochemical industry, could Bahía be a story of resource curse? Several aspects of the Bahían oil production differ from the resource curse theory. This alternative hypothesis, which emerged from the study of Middle East politics, assumes a correlation between the production of oil with the absence of democracy. “According to the rentier state versions of the resource curse, abundant and easily taxed mineral wealth provide leaders with the fiscal mechanisms to ensure that they remain in power. Because leaders of such states are able to maintain lower direct taxes on their citizens and mineral rights provide them with rents to lavish on key constituencies, they are expected to survive in office for long periods” (Goldberg, Wibbels and Mvukiyehe 2008). But the oil producers in the rentier theory are countries, and as such they have the monopoly over the taxation and all the benefits that come from the export of oil. Bahía is a subnational government, and it’s not the principal tax collector of oil revenues. In Brazil, the central government collects participações especiais (special shares) and royalties from oil production, and then redistributes a share back to the states through the automatic transfers (Afonso and Castro 2010). A good example of this central control over oil extraction is the autonomous decision for the location PETROBRAS without the Bahían government intervention.

In terms of local revenue sources, almost 60% all Bahían tax collection comes from the Circulation of Good Tax (ICMS: imposto sobre operações relativas à circulação de mercadorias e sobre prestações de serviços de transporte interestadual, intermunicipal e de comunicação) (Alcoforado 2005). This means that oil revenues are not a direct portion of the state income so it cannot generate the mechanism stablished in the rentier theory. If oil revenues come through transfers from the central government, we could argue that we are looking at the mechanism
stated by Gervasoni (2010). But as I will show in the statistical analysis in Chapter 7, the national government transfers do not show any significance impact over political competition in Brazil. In this section, we have seen how the economic transformation of Bahía had a deep impact on the political structure. The hegemonic power exercised by the dominant oligarchy gave way to a new highly industrialized and centralized economy. But we don’t see the full transformation of the political system until the end of the military regime, when the return to free electoral competition will show the deterministic impact that the industrial support had on electoral competition. The next section focuses on this new uncompetitive political system and the emergence of the hegemonic domination.

**Politics and Economics in Bahía**

“[I’ll win the election in Bahía] with a whip in one hand and money in the other”

Antonio Carlos Magalhães (1982)²³

As described at length in the theory chapter of this dissertation, we expect undiversified economies to align economic and political interests, and therefore reducing the level of electoral competition. A two steps mechanisms links the economic structure with political competition, the proxy for democratization. Firstly, we argue that the availability of political finance is what determines the success of a political campaign for an opposition party, and therefore for democratic competition. Secondly, we argue that local economic actors are the main financer of political campaigns in any given province, thus the economic structure will define the type of

²³ “[Ganho eleição na Bahía] com o chicote numa mão e o dinheiro na outra” (Gomes 2001).
political finances found at the local level. In the case of Bahía we should then expect to see the main industries inclining the balance in favor of the winning candidate.

The publicly available data on campaign finance in the state of Bahía from 2002 to 2014 lets us test these assumptions about state-economic sector alliance. We see in Graph 3.1 the first step of the mechanism operating in Bahía, that is, how the campaign funds are necessary to win a gubernatorial election. In Bahía, the amount of resources obtained for campaigning almost mirrors the percentage of votes a candidate obtained. While the influence of money on electoral results is not a novelty, it is still very noteworthy to see an almost determinacy in the case of Bahía. Every successful candidate had to be in agreement with the economic sector, which is the main contributor of campaign funds. The period covered by the graph includes the last election of what I’ll call the first domination (1985-2006) won by the Carlista Paulo Souto, and the three elections won by the PT in the second domination period (2006-2014).

Graph 3.1. Correlation between Votes for Governor and Campaign Funds, Bahía 2002-2014.

Source: Author’s calculations based on Instituto de Pesquisa Econômica Aplicada; Tribunal Superior Eleitoral.
Thus, it shows that after a big transition in the style and policy objectives of the government, we still find a structural alliance between economic and political sectors.

Following the theory, if the amount of resources available determine the level of political competition, then the source of campaign funds is key in determining the chances of a candidate winning. This is the point of the second step in the mechanism, that states that it is the economic structure that provides the main sources of political funding. Graph 2 compares the sources of funds for the campaign for governor between the incumbent’s candidate and the aggregation of all the challengers, for the period 2002-2014. The first thing that stands out from the graph is that the largest contributors and most uneven between incumbents and challengers are construction companies and heavy industry companies, both directly linked with state funds and the hegemonic sector, chemical and petrochemical. Construction companies are not only direct beneficiaries of public funds necessary to build the infrastructure needed for the industrial poles that host the heavy industry but also, in some paradigmatic cases (Odebrecht and OAS), they operate also in the petrochemical sector.

The category “challengers” represents the aggregation of the funds declared by all the other candidates. Not surprisingly, the main contributor for challengers has been the party committees. Referencing back to the theory chapter, the main sources of the incumbent are expected to come from the most important economic sectors and from the state, while the opposition should look for alternative sources. While the challengers still receive economic support from the main economic sectors, they do so in relation to their chances of winning. More common than not, challengers only get a fraction of the funding the incumbent candidate receives, and thus is supported by the National Party in order to stay competitive and obtain
votes for national positions. Nonetheless, we’ll see in the analysis of the Bahían case how challengers with a real chance of victory got support from business sectors, as in the cases of Waldir Pires (1986) and Jaques Wagner (2006).

Graph 3.2. Sources of Funds for Governor’s Campaign, Bahía 2002-2014.

Source: Author’s calculations based on Tribunal Superior Eleitoral.

The categorization used in Graph 3.2 follow the structure of the data set of Samuel (2001). Under heavy industry it includes metallurgy, paper manufacturing, petrochemicals, mining, coal, and light industry includes textiles, ceramics, pharmaceuticals, paints etc. For more detail on the categorization please see Samuel 2001.

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24 The list of categories and keywords included in Samuel 2001 are: Media, Editing, Graphics, Radio, TV, Communications, Publicity, Advertising, Marketing, Cinema, Newspapers, Magazines; Banking, Investments, Finance, Insurance, Stock Trading, Credit Companies; Construction, Engineering, Cement, Wood, Stone, Floors, Sawmills, Earth-shaping, Paving, Drilling, Geoengineering; Tourism, Hotels, Tourist agencies; Restaurants, Bars, Luncheonettes; Housing; Transport, Bus companies, ship cargo companies, trucking companies; Autos, mechanics, gas stations, tire sales, car rentals, car and truck parts, wheels; Drinks, foodstuffs, supermarkets, meatpackers, fruits, vegetables, bottlers, bakeries, canneries, distilleries; Agroindustry, sugarcane, fertilizers, chickens, seeds, grain storage, cattle, alcohol manufacturers; Heavy industry, metallurgy, paper manufacturing, petrochemicals, mining, coal; Light industry, textiles, ceramics, pharmaceuticals, paints etc.; Administration, accounting, lawyers, consultants, architects, computer systems, human resources, other services; Health, medical; Education; Commerce,
The First Period of Domination 1982-2006: the Carlismo

The period under the PFL administration lead by Antonio Carlos Magalhães (ACM) is the first and clearest example of low economic diversification. The domination was possible because of the alignment of the concentrated interests of an undiversified economy with a party that guarantied their continuity. This coordination of interests made the opposition useless for the economic sectors and restricted their access to financial support. Under the Carlismo, the economic sectors supported the PFL and close allies, and consequently further weakened the representativity of the opposition. The main economic sector did not look for an alternative because their relevant policies were well represented by the incumbent.

What allowed the Carlismo to exercise their political domination was the type of economic modernization that occurred in Bahia during the military regime. The control over the Industrial Poles and the tax exemption policies were the cornerstone of the alliance between economic sectors and the state government. Most of the modernization took place during the military regime and became a sunk cost for the new democratic governments. While the source of the domination was the previous economic policies, the consequence was the control over other aspects of the state: e.g. justice and media. These areas would also contribute to reinforcing the domination, but are a consequence of it and not a source. Politics could be seen as a zero sum game, where every aspect that is control by the incumbent is not controlled by the challenger.

While money guaranties visibility and visibility is a prerequisite to win elections, money does not guarantee victory. The citizen’s votes and can evaluate the performance of the sales, stores, wholesale, retail, import/export; Entertainment, sports products. I have added the categories of Party Committee, Individuals and Unknown.
government and be influenced by the political context. In the case of Bahía, the natural wear out of ACM and the good image of President Lula played a decisive role in the 2006 gubernatorial election. Something similar happened in 1986, when the first presidential election after twenty years of dictatorship generated a back wind that allowed Waldir Pires to defeat the Carlismo. This doesn’t affect the theory of the work, it just talks about the complexity of the electoral process. As said before, economic actors include expectations in their decision to finance a campaign. Consequently, we see that victories against the incumbent occur when the economic sectors decide to finance the opposition. Former national representative, Joaõ Almeida, commented that in 1986, the end of the military regime generated a lot of enthusiasm and campaign contributions were abundant (Interview Almeida). The theory establishes that when there’s an undiversified economy it is easier to aggregate interests and align behind a governor, which allows for the establishment of an autocratic government. This doesn’t exclude the possibility that the political context can counterbalance the interests of the economic sectors and give the opposition a window of opportunity.

Antonio Carlos became State Representative in 1954 under the wing of Juracy Magalhães, who at that time was highly connected to the Reconcavo elites and sertão coroneis (Rubim 2001:1). Juracy, once a young military inspector in the Bahía of the 1930s, was by then an experienced and influential politician. A good friend of ACM’s father, he took upon himself the responsibility to be ACM’s political godfather. Not surprisingly, ACM’s career quickly rose under the military regime. He became Mayor of Salvador from 1967 to 1970, and governor of
Bahía for two periods, 1971-1975 and 1979-1983. In the period in between governorships he was President of *Electrobras*, the largest Brazilian electric utilities company.  

In 1982, still under the military regime, Brazil held elections for governors. While the challenging PMDB won in several states (9 out of 22), Bahía was still aligned with the military regime. ACM successfully positioned João Durval (PDS) as the victorious candidate with the support of the military government. Roberto Santos, of the PMDB, was the runner up. Santos comments that he had a very successful election in Salvador, but that the Sertão was too submissive to the military government and supported the Arena-PDS candidate (Interview Santos). The PMDB was supported by the modern urban centers of Brazil, and Bahía had none (Interview da Mata). What we see here the economic sectors in Bahía still following the political line of the military regime. Only the urban middle-class and the commerce of Salvador favored the opposition.  

This was the last gubernatorial election under the Brazilian dictatorship, and thus the end of ACM’s reliance on his military contacts. While ACM grew politically during the military regime, he was still dependent on the decisions taken by the military government. When Brazil transitioned from the military government to democracy in 1984, the initial source of power had to be replaced. So far the power of ACM was mainly based on the influence of the military

\[^{25}\text{During the military period, ACM was well connected with national authorities but also dependent on the changes that occurred at that level as well as domestic conflicts within Bahía. For example, in 1974, at the end of his first mandate as governor, ACM tried to appoint Clériston Andrade as his successor, but the different factions of Arena in Bahía opposed the candidacy. None of the four sub lists of Arena had enough power to appoint a candidate, so those against ACM decided to align behind Roberto Santos, former President of the Federal University of Bahía, who was well regarded by the military government (Interview Santos). Santos was not a career politician and while he removed Carlistas from positions of power, he was unable and unwilling to consolidate his power. When João Figueiredo assumes as the new de facto President, ACM takes advantage of his friendship with Figueiredo and gets appointed governor for the second time in 1979.}\]

\[^{26}\text{ACM initially appoints Clériston Andrade for the second time as his candidate. Andrade died in a helicopter accident during the campaign and ACM appoints Durval as his new candidate.}\]
regime over Bahía. Now, in a democratic context, the question is how was ACM able to retain and increase autocratic power once the military regime ended? Now, under a national democratic government is when the hypothesis operates and the economic transformation that occurred during the 20 years of military regime explains the autocratic power of ACM.

The Autocratic Domination

Dantas Neto (2003, 2006, 2007, 2011), an author that studied ACM in detail believes that ACM maintained his political supremacy based on three pillars: His prestige, his control of extra-electoral resources of power and an aura of infallibility and omnipotence (Dantas Neto 2006). While prestige and the aura of infallibility are an outcome of successful political marketing, extra-electoral resources are dependent on the state economy. According to Dantas, these resources included: the mobilization of the power machine to pressure businessmen; media; municipal power; control of the legislative; social movement; and judiciary power.

As a way to understand how ACM constructed his political power is very illustrative to look at the first two executive orders he passed when he assumed as governor for the first time in 1971. The first executive order centralized all government publicity under the Governor’s cabinet, closing the Information Secretary and erasing any bureaucratic barrier over propaganda. The second executive order centralized all the tax collection under the Finance Secretary (Secretaría da Fazenda) and established a strict chronogram of payments (Dantas Neto 2006:403). The control over resources and communication will be a constant throughout the Carlismo domination during the democratic period.
The political machinery, the control over the media, the judiciary and legislative powers are outcomes of the electoral hegemony and the close ties the government had with the dominant business sectors. ACM was a modernizer, connected with capital, associating his political interest with those of hegemonic capitalist sectors in every period (Rubim 2001:5). He associated with civil construction in the 60s and 70s, with petrochemical capital, with telecommunications and at the end with the cultural industry of entertainment (Dantas Neto 2007: 8). ACM and his allies also became important businessmen. The ACM family holding, Bahía Participações e Investimento Ltda. included communication and construction companies. They had more than 60 radio stations, television channels and websites, all under the holding Rede Bahía de Comunicação (Amaral 2007:112).

In the theory chapter we classified sources of funding between primary and secondary, depending on their relative importance of their contribution. Among the primary sources we mentioned (i) State resources; (ii) State contractors, consultants and suppliers; and (iii) Economic sectors. Given that the first two sources are only available to the incumbent, we argued that when economic resources are aligned with the government, the opposition is unable to obtain the necessary funds to run a successful campaign. The case of Bahía exemplifies a situation where the government is able to use the state, have a close relationship with the state contractors and be benefited by the support of the business sectors.

Clear examples are Bahía’s two largest construction companies. These not only operated as state contractors but also invested in the chemical and petrochemical industrial poles.

27 Bahía Participações e Investimento Ltda. Included the following companies: Bahía Telecomunicações Ltda., Bahíasat Comunicações, Santa Helena de Informática e Comunicações Ltda., Bahía Eventos Ltda., Empresa Baiana de Jornalismo (owner of the newspaper Correio da Bahía), Gráfica Santa Helena Ltda. and Santa Helena S/A Incorporações e Construções (Rubim 2001:6). The construction company Santa Helena and the journal Correio da Bahía are the only two companies of the family holding that have ACM as a stakeholder.
Odebrecht and OAS flourished during the dictatorship, supported by powerful political friends. Over the years they obtained several public infrastructure contracts and had close ties with the political elites in Bahía. Odebrecht, founded in Bahía in 1946, had the Bahían government and federal institutions located in the northeast as their most important clients. In 1953 with the arrival of Petrobras to Bahía, Odebrecht began the construction of the infrastructure in the region. By 1973 Odebrecht was the third largest construction company in Brazil (Pedreira Campos 2012:114). Naturally, there was a close alliance between the founder of Odebrecht, Norberto Odebrecht, and ACM, whom benefited the Odebrecht Company from his role as President of Electrobras in the 70s. (Pedreira Campos 2012: 339). Since 1979 the company branched out and became international, one of the most important investments was in petrochemicals. It began investing in the Industrial Pole of Camaçari and also extended its oil portfolio. The company now dominates the petrochemical market of Brazil.

The second construction company was OAS. Born as a split-up from Odebrecht in the mid-1970s, it was founded by the son in law of ACM, César Matta Pires. While OAS stands for the surname initials of the three founders, popular humor has named it as “Obras Arranjadas pelo Sogro” meaning *works arranged by the father in law*. Since 1976 it began obtaining public contracts in Bahía and from the states were ACM had allies (Pedreira Campos 2012: 118). OAS grew together with the political career of ACM but over time it became independent. The company dominated public construction, becoming one of the top 10 construction companies in the country by 1984. It began a process of diversification during the 1980s, participated in the privatizations of the 1990s and began to work internationally in the 2000s (Pedreira Campos 2012: 119).
Both Odebrecht and OAS are two examples of Bahía’s industry. Both were involved in the industrial poles as constructors as well as in the chemical and petrochemical sector. These characteristics linked the companies with the government, as they were dependent on the state in order to obtain public contracts and be able to exploit the natural resources. As part of the alliance with the state, they operated as the most important campaign contributors, becoming essentials in the reproduction of Carlismo’s power.

The sources of campaign financing for the incumbent reflects the evolution of the economic development of Bahía and the alignment of economic and political interests. We find mainly the presence of construction and petrochemical companies as contributors, which in many cases were from the same group, as in the paradigmatic case of Odebrecht and OAS. During the late 1990s we then have the appearance of light industry companies attracted by tax exemption policies. A good example are the footwear industries that were installed in Bahía during Paulo Souto’s administration and that aligned behind him and contributed funds to his campaigns (Interview Souto).

When we look into the available data on campaign funding for Bahía, we can easily identify the importance of the support of the main economic sectors, as they represent the largest contributions to campaigns. The data presented is on both hegemonic periods (Carlismo and PT), although the data available for the period between 1985 and 2002 is limited. Nonetheless, this is enough to make a strong case about campaign contributions.

In 1990, ACM runs for governor for the first time under a national democratic regime, obtaining 50.7% of the votes, followed by Roberto Santos (PMDB) with 38.5%. Thanks to a

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28 ACM suffered some defeats at the beginning of democracy. He lost the City of Salvador to Mário Kétesz (PMDB); then in 1988 to Fernando José (PMDB) and in 1992 to Lídice da Matta (PSDB). What was worst, he lost...
Federal Police investigation we have insights into the illegal sources of funding for his campaign, commonly known as *caixa dois* (second pay-box). A bank account in the local Citibank was created under a fake name and began receiving deposits from various companies and making payments to TV Bahía, a company belonging to ACM. This account, opened about six months prior to the election, received almost 4 million dollars in deposits. The main depositor to that account was the construction company Odebrecht, and it also included deposits from several other construction companies (e.g. Engenharia e Comercio Salvador and Ergon Engenharia), insurance companies, transportation companies, individual businessman, etc. (Folha de Sao Paulo 1995). The role of Odebrecht as the main source of funding is not surprising given their close ties with ACM.

In 1986, Waldir Pires was the candidate for the PMDB and was, at the time, the national Minister of Previdencia Social for Jose Sarney’s government. To win the governorship Waldir Pires built a large political coalition, including historical oligarchic forces, like the Vianismo and the Juracisismo, leftist parties, the emergent rural oligarchy and some other small forces. Carvalho (2007) affirms that Pires was supported by former Carlistas disenchanted with ACM. This coalition was created not only as opposition to ACM, but also to the grand coalition Tancredo Neves was organizing for his presidential campaign (Amaral 2007: 96). In addition we find the social mobilization of the campaign “Diretas Já”, direct elections now, demanding direct vote for the President playing an opposition roll. Pires was also supported by TV Aratu, the local channel that re-transmitted the popular network Globo, and was owned by Senator Luís Viana Filho.

This “oligarchical break” was useful to win an election, but didn’t work to execute a gubernatorial project (Carvalho 2007:23). Moreover, the Carlismo was still electorally successful as ACM’s son, Luis Eduardo Magalhães, was the most voted candidate to become Bahía’s Representative at the national level. The first setback that Pires suffered was the creation of TV Bahía, owned by ACM, that began transmitting the Globo network, the most popular in Brazil, in detriment of TV Aratu, owned by Viana Filho (Amaral 2007:98). During the first democratic presidency of Sarney, ACM became one of the pillars that the national government used to consolidate its power. The relative power of Carlismo grew when governor Pires did not align himself with President Sarney. ACM became closer to Sarney, and during this period he controlled national communications and consequently, was able to construct a key political tool: the media of Bahía. ACM was able to maintain and increase his presence in Bahía from his federal position during the government of Sarney. On the one hand, ACM intervened through the media, giving radio and television dealerships to his allies, and pointing the media against the administration of Waldir Pires. Secondly, he controlled federal investment in Bahía, as he positioned Paulo Souto as president of SUDENE, the development agency that transformed Bahía.
For the following election and onwards, we can take a look at the official data on campaign financing that is publicly available for the period 1994-2014. For the first elections we can have a glimpse thanks to the database put together by Adam Samuels (Samuels 2001), that provides incomplete but significant information on the official contributors for the campaigns of 1994 and 1998\(^2\).

The 1994 election for governor was won by the *Carlista* Paulo Souto who at the time was the vice-governor of ACM. He obtained 49.3% in the first round and 58.6% in the second round. The runner up was the former *Carlista* governor João Durval (25.3% & 41.4%). As a former Secretary of Industry and President of the developmental agency SUDENE, Souto affirms that the industrial sectors where supporting him because they had worked together in the past and they knew him well. He also comments that Durval received economic support from the arid areas of Bahía that benefited under his administration in the early 1980s (Interview Souto). This situation shows the alignment of different economic sectors with different candidates. Souto was supported by the main economic sectors of Bahía, while Durval was supported by smaller economic sectors from other regions of Bahía. In both cases the economic sectors had future expectations of receiving benefits as they had built a relationship over time with the candidates. Durval received under the table support from some businessmen that wanted to remain unidentified by the *Carlismo*, but it was not enough to support the campaign for the second round (Interview Almeida).

Unfortunately, Samuel’s database on campaign funding only shows data for candidates Nilo Morales Coelho (PMDB) and Alvaro Martin Santos (PRN). Martin Santos, who came in

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\(^2\) After the famous impeachment of President Fernando Collor de Mello for corruption and influence peddling in 1992, it became necessary for candidates to present information on the donors to their campaign. 1994 was the first election in which we find some official data on this. The TSE has released systematic information only since 2002.
last with 3% of votes, only showed personal contributors to the funds. Morales Coelho, whom was the former Governor that assumed office in 1989 when Waldir Pires resigned, finished fourth with 8.27% of votes. His campaign was financed, half by his own car dealerships and, half by the construction company Odebrecht SA. This case is also illustrative of how some large economic actors, such as Odebrecht, usually cooperate with several candidates, but with very different sums, based on interests and expectations.

The 1998 gubernatorial election shows the peak of Carlista power. César Borges won with 70% of the votes, followed by the PT with only 15%. For this election we have public data only for the winning candidate. Looking at the campaign fund we see that 41% of the Carlismo’s funds came from construction companies, and 31% from petrochemical companies. Taking into account that holdings such as Odebrecht and OAS belong to both sectors, the predominance of the chemical and petrochemical companies becomes larger. The rest of the campaign funds came from Light Industry (12%) – most of which are industries located in the Industrial Poles created by the government-, Commerce (5%) and Others (11%). More than 72% of the official economic support came from what we consider to be the primary sources funds, and we could add the 12% that came from business benefited by the tax exemptions of the industrial poles. The government-business alignment is clear even though we cannot see the under-the-table funds that tend to be significantly larger.

The last election won by the Carlismo was in 2002, when Paulo Souto became governor for the second time. Favored by his successful previous administration and the support from ACM, Souto obtained 53.7% of the votes, followed by Jacques Wagner (PT) with 38.5%. Looking at the financial sources, Souto got more than 70% of the declared income from
construction and heavy industry such as chemical and petrochemical. Wagner got most of the support from the Party Committee (44%), Individuals (22%) and construction companies (24.77%). These numbers are consistent with our theory. The incumbent party again receives its funds from state constructors and private funds, most of which represent the main economic sectors. The opposition party receives most of its funds from secondary sources, such as the party and individuals.

It is important to notice the role of the presidential election in this case. Candidate Lula da Silva (PT) was leading the presidential race and generating support for the state branches of the PT (Interview Miranda). In many states where the PT’s candidates to governor had low chances of winning they ran with their main objective of getting Lula elected as President. Thus, seeing that the Party Committee and individuals were the main sources declared by Bahía’s PT, reflects the role of the national race on the local scenario. The support of construction companies, again, shows that business supports all candidates based on expectations of benefits and victory. In this case, due to the international nature of companies such as OAS and Odebrecht, the companies had expectations at the national level.

**Control of the Media.**

The electoral periods are crucial for maintaining the party domination, and they crystalize the alliance between the government and the economic sectors. During campaigns we emphasized the importance of funding in a successful campaign, which refers to the availability of funds to promote a given candidate. Incumbents not only depend on self-promotion during
campaign periods, but also during the four years in-between elections. One of the pillars of the Carlismo was naturally, the control of the media, which is something not surprising given the importance of media domination in political hegemony.

ACM quickly accommodated to the new conditions of competition post-dictatorship, which reflects a socialization structured around media communication (Rubim 2001:108). As ACM’s political godfather Juracy Magalhães affirmed in 1982:

“With the new times, prestige of the local chiefs began to decline. Today, with radio and television, no one controls a municipality. The means of communication has expanded and perfected so much that not even the old Colonel Antonio Honorato, if he came back to live, could maintain the prestige he once had in Casa Nova” (Magalhães 1982: 83).

No longer was Bahía’s politics going to be controlled by the alliance of coroneis. The transformation of the economy and the modernization of society required a different type of politics.

Rubim (2001) believes that ACM was a strategist in the way he understood the new political dynamics post dictatorship, and coopted the media in order to dominate communication for democratic competition (Rubim 2001:2). His professional experience as a journalist plus his role as National Minister of Communication during the first democratic government schooled ACM’s conviction that the media was a key political tool.

During his period as Minister of Communication from 1985 to 1990, ACM and President Sarney used the distribution of radio and TV permits as political payments for political support, especially within the National Constitutional Assembly that determined the length of Sarney’s periods and the government system. Nonetheless, ACM used permits to cement political support back in Bahía.
More than 10% of all the ratio and TV permits he gave as a Minister were allocated in Bahía (Rubim 2001:9). When looking at the radio and TV concessions in Bahía, we find that all the beneficiaries were members of his party or part of the government coalition. ACM distributed 114 radio stations and 6 TV channels to family and allies (Amaral 2007: 189). Out of the six TV channels, five eventually ended up in Rede Bahía de Comunicação, a holding controlled by ACM’s family. He also assigned to his main TV station, TV Bahía, 344 smaller TV permits to be able to cover the whole territory. In the 1990s he was able to keep building his empire and incorporated three cable companies: Bahía Cabo Telecomunicações (BCT), Salvadorsat and Bahíasat (Amaral 2007).

Nonetheless, the most important permit he approved was in 1987, when he managed to acquire the rights to retransmit the Rede Globo network programs for his station: TV Bahía. The Rede Globo is the most important national network and had the highest ratings in the state. Till that time, the rights to retransmit Rede Globo were owned by TV Aratu, linked to another political family, the senator Luís Viana Filho. TV Bahía then became the most watched channel in the state, concentrating at different times almost 60-70% of viewers. Many saw this strategic conquest as the way Rede Globo payed for favors received from ACM as National Minister of Communication (Rubim 2001). More specifically, as a retribution for letting the Rede Globo buy the majority of NEC, a company that provided telecommunication equipment (Carvalho 2007:24).

The objective of the media control by ACM was the overcrowding of self-promotional advertising, the persecution of adversaries, political or not, the mystification of his image and the enforcement of his alliance with the incumbent at the national level (Amaral 2007: 63). The
Correiro da Bahía newspaper, owned by ACM, worked as a think tank for the Carlismos’ editorials, and the content was then reproduced by TV Bahía and all the holding’s radio stations (Amaral 2007:200). This was even more tangible during campaign periods, where the media exalted the activities performed by the Carlista candidates and attacked the opposition.

**The Alliance with the National Government.**

Finally, a third important resource for the control of Bahían politics was the good relationship with the national government regardless of who the President was. As stated in the theory, the national support comes second to the importance of the local economic structure. It is possible to establish an autocratic government without the support of the President, but it would be impossible to do it without the support of the local economic actors. Nonetheless, having the support of the national government increases the resources controlled by the governor and also limits the secondary sources of campaign finance for the opposition, limiting the political competition.

Unlike what the existing literature says about the relationship between autocratic governors and the national arena (Gibson 2005, 2012), ACM got from the national government a lot of the political and economic support that allowed him to control Bahía. It could be said that he established a symbiotic relationship with the national government in the same way he did with the economic sectors in the state. It was mutually beneficial, as ACM’s influence reached well beyond the state borders.
ACM understood his arena to be the national, not just the local one, and that’s why he preferred to put others in the governor’s seat while he maintained his seat as senator or National Minister (Interview Souto). Regardless of party lines, ACM always sought to accommodate himself with the winning presidential candidate, a relationship that was also beneficial to the candidate, as Magalhães was a well-regarded political operator. One clear example of this situation was the support for Tancredo Neves in the presidential election of 1985, when ACM changed allegiance from the military to the newly formed democratic opposition. ACM traded his party’s votes in the Electoral College to support Neves in exchange for political capital. He was then elected National Minister of Communication and was able to position several political allies in key areas of the administration.

ACM’s alignment with the presidents was a constant. In the 1989 election, while officially supporting the candidate of his party, Aureliano Chaves, ACM informally supported the rising star and future president Fernando Collor de Melo. ACM was one of the only leaders that maintained his support for Collor till the end, even voting against the impeachment for corruption. His allegiance continued with the successor Itamar Franco (Amaral 2007: 101).

During Fernando Henrique Cardozos’s administration, the Carlismo governors Souto and Borges live through a period of prosperous relationship between local and national politics, sharing views on neoliberalism and privatizations. ACM and Cardoso became very close politically, especially through ACM’s son Eduardo, who became at that time President of the Lower House of Congress and a personal friend of Cardoso.

After the Carlismo’s golden period under the Cardozo presidency, we start to see the beginning of the Carlismo’s decadence both at the local and the national level. ACM and
Cardoso broke up at the end of the second presidency and the Carlismo was showing clear signs of wear out at the local level. The 2003 presidential elections found a victorious Lula da Silva (PT) that transformed the party system at the national level. The relationship between ACM and Lula was not good, but both acted pragmatically at the beginning. In the 2002 elections ACM formally supported Ciro Gomes, but with the inevitable victory of Lula in the horizon he did not oppose the PT. In the second round ACM gave his followers liberty of action to vote for the candidate of their choice. During the first months of Lula’s presidency he even declared a restricted support for the PT, but when the relevant appointments were filled with PT members ACM openly began opposing Lula (Amaral 2007:118).


In the 2006 election, Paulo Souto, the most successful of the Carlista candidates, ran for reelection against the PT. The PT in Bahía had its roots in union movements (especially petrochemical workers), religious communities and leftist movement (Carvalho 2007: 28). Jacques Wagner, the head of the PT, emerged to public life as a union leader in the Petrochemical Pole of Camaçari, ironically the most important source of power for the Carlismo. More recently, Wagner has held various positions in Lula’s national cabinet since 2003. This legitimated his image as the local representative of Lula’s administration.

Dantas Neto believes that several factors lead to the victory of the PT in the 2006 local elections. Firstly, the grand alliance the PT orchestrated with all the Bahían opposition. This gave the PT access to areas of Bahía were they could not find support before. The PMDB and the
PSB are examples of a broad coalition unworkable in the past, when the *Carlismo* was the undisputed hegemon. Second, a political context in which a popular President that implemented several social reforms openly supported Wagner. The emergence of Lula in the national arena, and the implementation of social policies such as Bolsa Familia, gave the PT a strong support all over the country.\footnote{One of the political pillars of the PFL was the clientelistic monopoly over social welfare in rural and poor areas. This was successfully challenged by the PT with the implementation of Bolsa Familia by Lula’s administration. At the municipal level many prefeitos, traditionally allied with the Carlismo, considered the candidature of the PT candidate as viable given Lula’s support. This generated several changes over to the opposition in order to maintain their positions and guarantee future benefits (Carvalho and Santos 2007:87). While it’s commonly believed that gubernatorial victories in the northeast are dependent on clientelism (Borges 2011, Montero 2011), Wagner’s victory of 2006 does not present a “direct cause effect over the results of the election, what leads to believe that the effect could have been decisive only as an aggregation of the Bahían electorate” (Carvalho and Santos 2007:103). That is, the positive image of the Bolsa Familia policy favored Lula and Wagner’s image, but not it’s clientelistic power. The same argument against a clientelistic explanation of the PT’s victory is supported by other authors. Montero (2011) affirms that the reelection of some leftist governors in 2010 coincided with a change in the loss of support of conservative machines in poor rural districts (Montero 2011:1). Leftist governors advanced beyond their urban constituencies thanks to the traction generated by Lula and Dilma at the national level. According to the authors this is not only due to the positive image of the PT but also due to the impact of the program Bolsa Familia. Conservative candidates, now without power or patronage were unable to sustain their hegemony in rural areas. But in the specific case of Bahía, Montero finds that Bolsa Familia did not boost the territoriality of vote shares for the PT, it just undermined the conservative vote share (Montero 2011:23). The vote share loss of the PFL in rural areas could be explained by the alignment of local Prefeitos with the state government, which controls the political machinery. Sara De Melo Fadigas (2010) looks into the implementation of the Programa Saúde Bahía in order to find a correlation between this social policy and electoral results. Saúde Bahía, implemented in between 2006 and 2010 had no impact in favor of the incumbent according to the author. She thus confirms that clientelism had no significant impact in favor of Wagner (de Melo Fadigas 2010: 14).} Thirdly, the natural wear out of the *Carlismo* that, after sixteen undisputed years in power, was unable to avoid political scandals. They had also lost their alliance with the national government (Dantas Neto 2011).

The second hegemonic period in Bahía’s contemporary political history shows the domination of the PT since 2006 until nowadays. While different in their political style and social priorities, the PT basically represents a continuation of the *Carlismo* (Interview Almeida, Lins, Dantas Neto). There are important elements of continuity between the two periods, such as the economic priorities, the alliance with the major economic sectors, the close ties with the...
national incumbent, the use of machine politics, the top-down decision making and the alliance with conservative prefeitos (Dantas Neto 2011, Durazo Herrmann 2014). More importantly, we have the continuation of a bipolar game where the incumbent dominates and excludes the opposition.

In terms of differences, the PT domination does not depend on an autocratic figure. While Wagner stands out as a political figure, there are other counterparts in the control of the local PT, like Nelson Pellegrino, Walter Pinheiro, Waldir Pires and the current governor Rui Costa. Interestingly, most of the leaders of the PT have been in the party since the 1980s and have not changed affiliations, what shows a level of adherence with the project unlike any other in Bahía (Teixeira Reis 2011: 104).

The hegemony of the PT resembles the Carlismo in two important aspects: the political machinery and the economic alliance with business sectors. On the one hand it had incorporated former Carlista leaders into the government as well as built alliances with former Carlista mayors all over Bahía. On the other hand, it had maintained the economic path of the Carlismo, which is reflected in the close ties with the chemical and petrochemical industries.

One could ask why the economic sectors, so closed to the Carlismo, now have an alliance with the PT. The answer is simple and it’s implicit in the theory. Even if the interlocutor changes what the economic sectors kept is the alliance with the incumbent. The theory presented in the dissertation is structural, so it should be true regardless of the person in the governor’s seat. Once the extraordinary circumstances of 2006 allowed for a change in the government, the political-economic alliance continue because the structure of interest did not change.
Governor Wagner’s administration continued the *governismo* strategy. He forged a large coalition of parties and incorporated a long list of former Carlistas. The clearest example is Otto Alencar, the former Health Secretary of ACM and vice-governor of the *Carlista* César Borges, who also became vice-governor under Wagner in 2011 (Durazo Hermann 2014). Wagner had coopted adversaries with investments and resources, most of whom were former *Carlistas*. This strategy was most clear in “sertão”, where he had negotiated with conservative *prefeitos* – mayors- in detriment of the local PT representatives. In the small cities of Bahía state, it is common to see the same political leaders from ACM’s time continue in power while the center-left forces, aligned ideologically with the PT, are left out (Marques 2011).

The PT made use of the political machinery of the state appropriating state funds to benefit those municipalities controlled by the PT and their allies. When looking at the investment in infrastructure made by the Urban Development Secretary of Bahía, the PT privileged municipalities run by the party. Out of the total of R$ 6,723,059, eighty three percent (83%) went to allied municipalities. During the 6 months previous to the 2010 election, the PT distributed R$ 181.5 million in voluntary transfers. This amount was six times larger than the amount distributed in the previous three years, representing 85% of the total distributed during the PT administration. Out of the 22 cities benefited by these transfers, 17 were administered by PT members or close allies (de Souza 2011).

In the legislature, a large proportion of bills submitted still originate in the executive branch. The old *Carlista* majority in the legislature has been dismantled, and the PT alliance has the absolute majority. The opposition is powerless, and fights the PT hegemony by appealing to
the courts in order to block new legislation (Durazo Hermann 2014:37). Through a process of negotiation, the PT has achieved more power in the legislature than ACM (Interview Lyra).

The PT also maintained power over the media. As Osvaldo Lyra, chief political editor for the Tribuna da Bahía newspaper commented, the PT maintains a dialog with all journals and TV channels, but still uses the allocation of public advertising to pressure the media. The media tries to keep any conflict under a low profile due to the risk of losing economic support from the government or important state contractors –e.g. Petrobras, Odebrecht-, or state-owned Banks (Interview Lyra).

The local PT maintains a discursive and good political connection with the national government similar to the Carlismo. More importantly, there’s an economic alliance where the state implements the national government’s policies aiming to enjoy their benefits (Dantas Neto 2011). This is an important factor that continues from the Carlista period, as it guaranties the economic benefits of the economic sectors in Bahía. Given the closeness of Wagner to President Lula and the strategic importance of being in good terms with the national government, it’s not surprising that the economic sectors decided to support the PT and stopped supporting former Carlistas (interview Souto). Many economic groups in the state had business with Lula, and thus became close to the local PT (Interview da Mata).

The former president of the Bahían Industrial Federation (FIEB) during the transition from Carlismo to PT, commented that the government’s relationship with the businessmen did not change from one administration to the other. Moreover, he affirms that Wagner, before becoming a candidate, supported Bahían industry by lobbying policies at the national level. This
generated trust between industry and the emerging PT, and positioned Wagner as a viable candidate for the establishment (Interview Lins).

The Lula-Wagner association is a continuation of the dynamics that Cardozo and Magalhães had the 1990s (Dantas Neto 2011). We see that reflected in the benefits obtained by the Bahían government from this good relationship, for example, in the appointment of federal judges. ACM had significant control over the federal judiciary network in Bahía, including both civil judges and the electoral court. ACM’s close relationship with presidents Sarney and Cardoso, allowed him to influence the nomination of most federal judges acting in Bahía. Therefore, the judiciary rarely overturned executive decisions or accepted malpractice accusations against the incumbent (Durazo Hermann 2014: 29). The nomination of federal judges in Bahía under the PT government maintained the partisan influence, and was used as an element of coalition continuity. All new judicial nominations were negotiated with the coalition parties of the PT, using a sort of quota system similar to the one used by the Carlismo (Durazo Hermann 2014:33)

The Continuation of the State-Economic Sectors Alliance

As mentioned before, a key moment in democratic life that shows the alignment between party and economic sectors is the election of a governor. Looking at the data on campaign funding from 2002 to 2014 we can see this alignment operating (Graph 3). When we disentangle the sources of contributions to the incumbent’s candidacy and those for the challengers, it’s clear how economic sectors play a role in the victory for governor. Both Heavy Industry and
Construction, the largest contributors, show a clear disproportion between the funding for the incumbent’s candidate versus all the rest of the candidates in Bahía. This is tangible in three of the four elections graphed below, that cover the last victory of the Carlismo and the period of PT dominance. A big exception occurs in 2006, when Heavy Industry contributed more to the challenger’s campaign. Unsurprisingly, that was the year that the PT put an end to the domination by the Carlismo and the challenger Jaques Wagner won. Moreover, all of the other sectors and sources of funding put more money on the challengers in 2006, which is consistent with the notion that businessman also contribute in accordance with their interests and expectations of victory.

Graph 3.3. Campaign Funds for Incumbent and Challengers by Sector, Bahía 2002-2014.

Source: Author’s calculations based on Tribunal Superior Eleitoral.

However, if we go back a little in time, we see that for the 2002, 2006 and 2010 gubernatorial elections the parties presented the same leading candidates, Paulo Souto and
Jaques Wagner, obtaining different results. In 2002 Souto defeated Wagner, and extended the domination of the *Carlismo* four more years. In 2006, Wagner defeated Souto and put an end to the *Carlista* dominance. In 2010 Wagner consolidated the domination of the PT and Souto reflected the decadence of the *Carlismo*.

When we compare the finances for these elections, we see a very interesting correlation that supports our theory on campaign sources. In 2002 the incumbent dominated the campaign income in all the primary sources, state constructors and economic sectors (Graph 3.4). The opposition had some private support, but only the Party Committee appears as a relevant source. In that election, Wagner was running with Lula’s presidential ticket which needed to guarantee a good election all over Brazil. As said, in cases were the national party is in need of votes, local branches can expect financial support if no other options are available.

Graph 3.4. Campaign Funds for Incumbent and Challengers by Sector, Bahía 2002.

Source: Author’s calculations based on Tribunal Superior Eleitoral.
For the 2006 election, the scenario is completely different. Wagner organized a broad coalition composed of eight parties, including the PMDB and PSDB and obtained 53% of the votes. Now, with the support of the president, the decadence of the Carlismo and the broad coalition, the PT overpassed the incumbent Souto in almost every relevant source of campaign funding (Graph 3.5). Still, the Party Committee contribution stands out as the main source for the challenger.

The advantage in the economic support could be larger if we had an estimate on the illegal funding. In a recent corruption scandal, the owner of the UTC Engenheria construction company, declared that the firm had cooperated with illegal funds to Wagner’s gubernatorial campaigns in 2006 and 2010. What is most interesting about this is that UTC did not publically declare any support for Wagner in the 2006 campaign, when Wagner ran as a challenger and won. It did publically support him in 2010, when Wagner was the incumbent, with a contribution.
of R$ 2.4 million (Folha de S.Paulo 2015). This could be explained by the fear of retaliation from the incumbent, but the desire to put money on the winning ticket is considered as the most likely motive.

Souto remembers that in 2006 there was no consensus in the positions of the different economic sectors because of the political turmoil that combined the ware-out of the *Carlismo* and the unification of the opposition behind the PT. The political alliance varied by firm. He felt that he was supported but that the national government induced the support of large oil and electricity firms in favor of Wagner. After the election, the *Carlistas* lost a lot of supporters whom then joined the PT ranks (Interview Souto).

In the two following elections, 2010 and 2014 the PT played the role of the incumbent, and they even obtain proportionally more support than the *Carlismo* did in 2002. Construction appears as the main campaign donor, but it is important to remember that the most important construction companies (Odebrecht and OAS) are also petrochemical companies, which would position them as the main economic sector in Bahía. The only source that is consistently higher for the challenger –former *Carlista* Paulo Souto- is the Party Committee funding, which, as mentioned before, is the alternative source in those cases where not enough support from economic sectors is found.

In the 2010 elections, two candidates claimed the support of President Lula and the PT’s presidential candidate Dilma: Geddel Vieria Lima (PMDB) and governor Jaques Wagner (PT). Wagner, now without the two large allies (PMDB and PSDB), won with 64% of the votes. With Wagner as the incumbent, the PT won because of the alliance with the economic sectors of Bahía (Graph 3.6).
Graph 3.6. Campaign Funds for Incumbent and Challengers by Sector, Bahía 2010.

Source: Author’s calculations based on Tribunal Superior Eleitoral.

Graph 3.7. Campaign Funds for the Incumbent and Challengers by Sector, Bahía 2014.

Source: Author’s calculations based on Tribunal Superior Eleitoral.
Paulo Souto was also candidate in 2010 but only obtained 16% of the votes. He complains that Alencar, a former Carlista governor whom was also Wagner’s’ vice-governor, betrayed him. Moreover, he affirms that Alencar had close ties with mayors all over Bahía, which allowed the PT to articulate politically in many small cities. In 2010 Souto had very little support from business, and that was reflected in the level of funds he received. The intention of the party at the time was only to obtain seats in the legislature (Interview Souto). The decadence of Carlismo and the loss of their alliance with business became clearer than ever.

In 2014 the PT maintained power and the candidate Rui Costa won the election with 54.5% of the votes, followed again by Paulo Souto (37.3%) and Lídice da Mata (6.6%). The three leading candidates for the 2014 election received different amounts and had different supports (Graph 3.7). Rui Costa received R$ 14.6 million, most of which came from construction and petrochemical companies such as Odebrecht, OAS, UTC Engenharia, Constructora Fernandes, Engepack, SVC Enegnharia and others. Paulo Souto received R$5.6 million in support from paper and cellulose companies, which had arrived in Bahía during the 1990s under his administration as governor. Finally, Lídice da Matta received support from smaller construction companies and private individuals for a total of R$ 2.5 million.31 Formally, the most important construction/petrochemical company, Odebrecht declared to have contributed to all three candidates directly and through its subsidiary Braskem, but with different amounts: Costa R$ 943 thousand, Souto R$ 300 thousand and da Mata R$ 300 thousand (Saint Clair 2014).

31 In the 2014, there was a surprising appearance which explains the unusually large participation of the food industry in the campaign finances. This anomaly is due to a beer company, Petropolis, that inaugurated a branch in Bahía during 2013. The firm decided to contribute to all candidates in different amounts: Rui Costa R$ 7 million, Souto R$ 5.5 million and Mata R$ 100 thousand. In this way, the beer company became the largest declared donor (Saint Clair 2014).
Concerning illegal contributions, there’s currently a large scale corruption case underway in the Federal courts, concerning payoffs and campaign contributions from the largest oil company, Petrobras, to several politicians. Rui Costa was the governor that had received the largest economic support from the construction companies and these too came under investigation. He declared to have received R$ 9.4 million, representing almost 30% of the total campaign funds (Aprochego 2014).

Another political scandal that has recently appeared in the national media, finds the PT in Bahía accused of creating an NGO to reallocate public funds towards the various electoral campaigns since 2006, for an amount of almost R$50 million. According to the former president of the NGO, the institution received direct funds from the state government and redirected most of it back to the party (Bonin 2014). The creation of research institutions or NGOs is a common practice that parties use to launder money for the campaigns.

All the data on electoral contributions supports the arguments presented on the alliance between the main economic sectors and the new domination of the PT. While there’s always a fear of retaliation from the incumbent, most of the contributions reflect the desire to maintain an economic relationship with the state. Both the incumbent party and the firms get benefited from this relationship and this leaves very few opportunities for the opposition to obtain funds to run a successful campaign.

Conclusion

The process of industrialization under the military regime in the late 1960s and 1970s transformed Bahía from an agricultural state to an industrialized one. But this modernization
implied a geographic and sectoral concentration of the economic structure, as well as a modification of the oligarchical structure with the replacement of the old economic elites by new enclave companies. The new economic bourgeoisie was exogenous to the local political dynamic, and thus had no political aspirations and demanded only economic returns. The coordination of economic interests that the concentration allowed favored the alignment of the dominant economic actors behind the incumbent and restricted the support to alternative parties.

The state of Bahía shows two distinctive periods of domination, firstly the Carlismo and secondly the PT. While ideologically opposed, both hegemonic parties relied on the same economic and political tools to control power and dismantle the opposition. An alignment with the dominant economic sectors located in the industrial poles and a network of state contractors maintained the political and economic status quo benefiting both parties. The outcome of this alignment was the lack of support for opposition parties, whom struggled to compete in the political arena, lacking representation and suffering the dominance of the political machinery.

We saw this alignment play a defining role in the campaign funding, where they represented the large majority of the total funds. The opposition, lacking support from the main economic sectors, were mostly dependent on party committee funding and individual dues in order to compete. The victory of the PT over the Carlismo in 2006 is explained by the political conjuncture that presented a worn-out PFL and the unification of the opposition behind the PT candidate. The secondary campaign sources increased (party committees, national support) and the local economic actors saw the possibility of a PT victory and decided to diversify their support by contributing to both campaigns. It is only in exceptionally cases that the concentrated interests of economic actors would prefer to support the opposition and not maintain the alliance.
with the incumbent. But what it’s important to highlight here is that the actions of the economic sectors are still the determinant of the competition. The funding provided by the private sector to the PT in the 2006 election was crucial for the victory.

The success of the PT did not modify the importance of an alliance between the incumbent and the major economic sectors. Wagner was able to maintain a good relationship with business as well as a tight control of the political machinery. His more open personality contrasted with his dominance of the state legislature through cooptation and negotiation, what allowed him to obtain larger majorities than the Carlistas ever had.

Bahía stands out as a clear example of subnational autocratic dominance in Latin America, and exemplifies the mechanism operating behind hegemonic parties. It also allows for a clear contrast with the state of Minas Gerais, a neighboring state that presents higher levels of democratic competition and a more diversified economy. In the next chapter we’ll see how the network of interests of diversified economies translates to the political arena and allows for more democratic competition.
CHAPTER IV

Minas Gerais

From the First Republic to the Military Regime (1889-1964)

“There are many Minas. However, only a few know the thousand faces of Gerais”.

João Guimarães Rosa

Throughout the 20th Century, Minas went from a competitive oligarchic system to a polyarchic one where competition among sectors and elites was translated to the party competition. A good summary of Minas’s economic and political diversification is Dulci’s conclusion that “Minas Gerais is not, never was and probably never will be, a unit defined in economic and cultural terms. Its great bond of union is political and administrative. Is expressed by the State, with its three powers and their agents, that are distributed in the territory and give you certain cohesion” (Dulci 2000). In this phrase Dulci points to the collegiate composition of government, party structure and even private institutions that operate at the state level and seek the representation of the whole state. What is new about the analysis we’ll be doing is the study of the connection between the economic diversification and the evolution of the political competition in Minas Gerais. The literature so far has pointed at politics as a conciliatory arena, but there’s no study on the alignments and competitions that the economic sectors and regions produce.

32 “Minas, são muitas. Porém, poucos são aqueles que conhecem as mil faces das Gerais.” João Guimarães Rosa (1908-1967). He was a Brazilian doctor, writer and diplomat.

33 Minas Gerais is located in the south-east of Brazil and with a territory of 586,528 km2 it’s the fourth largest state in the country. Minas Gerais became the center of the colonial economic power in the early XVIII Century due to the discovery of gold and precious gemstones. In 1720 Portugal defined its territory with the foundation of the Capitanía de Minas Gerais, separated from the Río de Janeiro and the São Paulo states, locating the capital in Villa Rica (Wirth 1977). It limits with São Paulo to the south, Mato Grosso do Sud to the west, to the north with Goiás, Distrito Federal and Bahía, to the east with Espírito Santo and to the south-east with Río de Janeiro.
Minas Gerais is a large state, which initially was internally disarticulated due to its different geographic regions. The heterogeneity and the competing areas of political and economic power shaped politics in Minas, and created what resembles a federal state. The opening quotation by Guimarães, *there are many Minas*, is a common reference used by the Mineiros to describe the diversity of the state. Many times Mineiros refer to their state as a “small Brazil”, arguing that they have the same geographical heterogeneity as the country. Another common expression is the “Mineiro mosaic” that was used by the elites in the literature to describe the lack of centrality in the economy of Minas (Ruiz and Caixeta 2012).

During the oligarchic period we observe that regional and economic differences were resolved through institutional arrangements. The oligarchies coexisting in Minas Gerais agreed on the fact that a unified Minas could compete with other states in Brazil was beneficial for everyone. Therefore, they institutionalized their differences. During the period from 1889 until the military dictatorship of 1964, the relationship among the different oligarchies varied. Until the 1920s elites reached a consensus and unified their actions in order to compete with other states in Brazil. But this anomaly changed in the 1930s with the emergence of intra-oligarchical rivalries, something that would increase after the Second World War with the appearance of a highly fractionalized multi-party system. Nonetheless, their resolved their differences through institutionalized competition. Since 1964, the military government would allow for controlled competition at the same time that it fostered economic modernization. This transformation changed the oligarchic nature of Minas Gerais and promoted the emergence of new economic and social actors and deepened the sectoral and geographic diversification of the state. With the return to democratic elections this transformation derives into the competitive electoral system.
that has characterized Minas Gerais during the last thirty years. In this section, I’ll briefly review how Minas Gerais transformed during the twenty century, in order to show how an increase in the geographic and sectorial diversification modified the political dynamics of Minas, turning it into a more competitive arena.

During the period 1889-1930 we will find two important characteristics: the economic heterogeneity and the use of the political arena to reach resolve differences. The popular concept of a “Mineiro politician” is not just a reference to the person’s region, but an association with the ability to accommodate and conciliate. It’s a development of the patrimonial structure of Minas and its implications for the political arena. Minas is a rich case study due to the interaction of the economic and political systems since the beginning (Martins Filho 1987), the overcoming of this heterogeneity and the subsequent empowerment of the state.

Historically, Minas Gerais was subdivided into seven zones or sub regions. Each zone developed economically in their own particular manner, creating a history of disarticulated and discontinuous growth. “Unity, although fractured along several lines, was the ideal of a political elite for whom dismemberment of the territorial unit was a possible consequence of weakness” analyzes John Wirth in his extended study of Minas Gerais (Wirth 1977). The reaction of the different elites to the heterogeneity was to coordinate efforts to strengthen Minas and create a sophisticated political system to balance regional interests. The soundest example of that was the joint effort to create a new capital in the center of the state. Belo Horizonte was founded in 1897 and became the symbol of the union of Minas’ oligarchy. As in many other episodes, political and economic objectives intertwined. Belo Horizonte was the consequence of a general
agreement on the convenience of a new political center that would symbolize the progress and incentivize regional development (Dulci 1991).

Geographic and Sectoral Diversification.

Figure 4.1. Mineiro’s Zones According to Customary Usage. 

Figure 4.1. shows the customary subdivision of Minas in seven zones. By the beginning of the First Republic in 1889, we find a disarticulated state. Minas was not a natural economic unit. The overall analysis of the state shows a more developed south with close ties to São Paulo and Rio de Janeiro and a less developed North and West connected with Bahía. It’s landlocked

34 As Wirth quotations briefly shows: “The Triangulo took shape as a modern agro-pastoral economy from 1880’s. Culturally and economically it was a new zone. The North, by contrast, followed in the traces of a seventeenth-century ranching economy, a diamond rush (over by 1830) excepted. (...) The West exported cattle south, its towns having been linked by ancient cattle trails and then by rail and highways in this century. Coffee financed the mid-nineteenth century rise of the Mata and the Sul. As for the Mata, it had been Indian land until 1830, when the coffee frontier began to move eastward through the virgin forest. The Sul also developed a coffee-based agriculture, its
geography hindered growth due to the limitation to export goods. Transportation and communication was a problem that was tackled only in the second half of the 20th Century. Nonetheless, the alliance of the different elites allowed Minas to play a key role in the national arena.

Since the beginning, the elite that controlled the government during the First Republic in Minas was a traditional elite organized into clan networks that formed zonal power groups. At the end of the Empire and the emergence of the First Republic, the semi modern and heterogeneous economic elite included coffee barons, old mining-based wealth, cattle and dairy ranchers, and small industrialists distributed in different topographical, economic and political zones (Hagopian 1996; Wirth 1977). This shows that from the beginning Minas Gerais presented high levels of geographical diversification, which was the base for the equilibrium of forces between regions.

The state’s heterogeneity of interests and the competing power of São Paulo and Rio de Janeiro at the national level made the leaders of the Minas oligarchy look for a higher degree of internal unity. The oligarchy consolidated its power by creating a hegemonic party – the Minas Republican Party (PRM) – and also eliminating competition and insubordination. In this way, a noncompetitive oligarchy consolidated its hegemony throughout the municipalities of Minas. The coroneis, the foundation of the traditional political order in the First Republic, were controlled by the state oligarchy in order to maintain unity (Hagopian 1996). The negotiations

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35 The Minas elite descended from the bandeirantes – fortune seekers - that populated the state during the gold rush during the XVII and XVIII centuries. With the obtaining of nobility titles, the bandeirantes then became local representatives of the Crown and controlled political power. As the gold mines became exhausted towards the end of the eighteenth century, the elites had to modify their economic power and so they diversified, moving into agricultural and commercial activities.
between the head of the party and the *coroneis* is known as “*compromiso coronelista*” (*coronelista* commitment). The president of the party would consider requests for appointments to the state bureaucracy or forces from the *coroneis*, and in return the local chief would mobilize their political machinery in the elections (Fleischer 1972).

Politically, the power was distributed across several geographical areas. Two-thirds of all governors came from the Sul and the Mata regions, areas controlled by the coffee elites. The Center Region, where the new capital was established, began to have a growing influence towards the turn of the century, especially when the steel industries began to develop (Fleischer 1972).

When we look at the origins of the governors and the legislators, we see the equilibrium of economic power of the different zones translated to the political arena. For example, when analyzing the First Republic, the first three governors of the period (1889-1898) came from the Center zone. For the second period (1898 to 1929) the state was dominated by governors from the coffee zones. In the third period, from 1929 until 1937, we find western governors in power, which coincides with the emergence of Vargas as president of Brazil. If we look at the legislators of the First Republic, only one-third of the entire elite came from the Sul and the Mata, compared to the two-thirds of the governors. This indicates that the coffee elite would obtain the higher rank in the state, but the other areas of Minas would be represented in the legislature. This supports the idea of a mini-federal system that would balance the heterogeneity of Minas together with the natural disparities of economic power in the seven regions (Wirth 1977).

The coffee crises of the 1920s-1930s put Minas’s economy in a deep crisis. In this period we find the collapse of the oligarchical system generated by the economic depression and a coffee production crisis. Moreover, we find the emergence of intra-oligarchical, regional rivalries
that led to the breakdown of the elite unification (Hagopian 1996). With the presidency of Getulio Vargas (1930-1945) and its “modernizing dictatorship”, the national government favored the industrializers and centralized power in detriment of the state oligarchies. This made the intra-oligarchical conflict increase. Minas’ elite divided between those in favor or against Vargas, situation which would later form the basis for the post-war parties. After 1945 the Minas elite would never be unified again (Hagopian 1996).

The party system in Minas varied throughout the economic and political periods. From 1889 to 1930, during the oligarchical consensus, there was only one party, the PRM. During the Vargas regime, from 1930 until 1945, with a small interval of four year in which the electorate divided between the PRM and the PP, there were no parties in Minas. From 1945 on, the electorate fractured into fifteen national parties (Carvalho 2010). This fractionalization into a multi-party system saw an increase in localism. Political fractions were established locally and were led by traditional families. Municipalities and regions would tend to have one or two political families competing for the control of the local government through the mobilization of supporters and clientelism.

“Postwar clientelism combined elements of traditional and modern politics. It was still “traditional” in the sense that (1) political power was based on the rule of powerful traditional families descended from the days of the empire, even if it was not a closed dictatorship of families; and (2) voters more often demonstrated loyalty to individuals than to parties. In highly personalistic campaigns, politicians from governor to local councilor competed for their positions on the basis of their ability to deliver the maximum number of votes to higher levels or state resources to lower levels –an ability enhanced by family connections- and not on the basis of their party’s program, policy proposals, or records of administrative competence in office” (Hagopian 1996).
In terms of business organization, during the First Republic we find the prevalence of corporativism, which parallels the elite unification of the time. This is not surprising giving that political and economic power was controlled by the same oligarchy. The Commercial Association created in 1901 and the Agricultural Association created in 1909 were close to the governors and the policy-making process. They pressured the government to maintain low taxes and influence public policies. But as the economy changed, and the industry grew, so did the organization of business interests. Manufactures were firstly focused on textiles in the 1870s, then food products in the 1900s and iron and steel by the 1930s (Wirth 1977).

As in politics, economic elites tried to coordinate efforts in order to increase their relative power. The “productive classes” congress of 1928 organized by the Commercial Association and the Industrial Center of Juiz de Fora is a good example of the inter-sectoral alliance. The Congress intention was to gather representatives from all economic sectors to debate political representation and topics related to taxes, transportation and credit (Delgado 1997). They also formed a Minas’s branch of the Economist Party in order to compete for seats in the Constitutional Assembly with the objective of signaling President Vargas that they were unhappy with his policies (Wirth 1977).

But as in politics, the economic transformation put an end to the elite consensus. With the expansion of the steel industries we see the emergence of a new segment in the industrial elite. Representing the largest companies and generating more complex types of organizations, this segment surpassed the textile and food industry and positioned itself in the center of state power. In 1933 we see the emergences of the FIEMG (Federation of the Industries of the State of Minas Gerais). This starts the process of industrial differentiation in the state. Over time, the FIEMG
will evolve from an organization lead by an iron and steel elite into one managed by small industrial unions. It will operate as a think tank through its Department of Economic Studies and an effective channel to mark the political agenda (Delgado 1997).

The emergence of Vargas’ technocratic regime, together with a new group of engineers formed in local Universities – Escola de Engenharia da Universidade de Minas Gerais and Escola de Minas de Ouro Preto- created the seed for the state technocracy that would lead the process of industrialization (Diniz 1980). In the 1940s we’ll see the first attempts to industrialize the state, but the war and the economic problems of Minas limited the effort.

By 1940, when looking at the occupations of the population in Minas Gerais (table 4.1), we still find a high predominance of Agricultural activities (Carvalho 2010).

Table 4.1. Gross Domestic Product by Economic Sectors, Minas Gerais 1940.

<table>
<thead>
<tr>
<th>Economic Sector</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and Cattle raising</td>
<td>82%</td>
</tr>
<tr>
<td>Commerce, transportation and communications</td>
<td>7%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>6%</td>
</tr>
<tr>
<td>Mining</td>
<td>3%</td>
</tr>
<tr>
<td>Professionals and administrative</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Carvalho (2010).

The multiparty system that emerged nationally in the post war democracy changed the party system in Minas but did not open the political participation to other levels of society. The political patronage network controlled by the traditional political elites had its base at the local level, maintaining the oligarchical political representation. The parties that competed nationally – PSD, UDN and PR- were present in Minas, but did not reflected the ideological differences of the national level. For example, the PSD was defined as a rural-based party of agrarian elites and
the UDN as a liberal party representing urban middle classes. In Minas, the leaders of these parties were drawn from the same classes. Moreover, the local coalitions did not represent the national coalitions, and the PR would join both the UDN and the PSD in different elections. The oligarchy status quo was supported by all the political parties, as they represented the local power structure (Hagopian 1996).

In the 1950s Minas shows important infrastructural advances, especially in the area of energy and transportation. This allowed for the beginning of the industrial specialization in intermediary goods. Nonetheless, the state was losing its relative position in the national industrial product index from 7.5% in 1939 to 5.8% in 1959 as well in the national GDP index from 11.5% in 1949 to 9.7% in 1959 (Diniz 1981).

At the end of the 1950s, the businessman in Minas and Brazil were worried about the political scenario of the country. The main worry was the increasing participation of popular sectors in the political process. This situation leads to the creation of political action groups such as the Brazilian Institute of Democratic Action (IBAD) and the Institute for Research and Social Studies (IPES). These institutes were formed by businessman and military, and had a conservative and anti-communist agenda (Starling 1986). In Minas, the IPES designed different lines of actions to modernize the economic structure of the state. On the one hand, the expansion of the metal mechanic industry and the focus on intermediary goods. On the other, the increase of the relative weight of foreign investment in the financing of mining companies (Starling 1986).

The IPES in Minas Gerais continued with the Minas tradition to try and coordinate different economic and regional interests. As the first president of the IPES, Josaphat Macedo,
stated: “I tried to articulate the rural class with the industry and commerce in order to form one movement that belonged to the producing classes (...). I knew it would not be a league for the defense of democracy, but that’s what I thought in the beginning, because I understood that agriculture should act, not alone, but bringing in trade and industry also for this purpose” (Starling 1986). This quote is a good example of how the political situation forced the new industrial oligarchy to ally with the traditional and conservative agrarian oligarchy. It also shows that the diverse political interests of agriculture, industry and commerce was diverse. Only under the potential threat of communism that could affect them made it possible to join forces.

In the election of 1962, the IBAD and the IPES actively participated in the election financing campaigns. The electoral machine created by the businessmen supported selected candidates through what was denominated as “direct help”, including transportation, campaign workers, printed publicity, etc. These were candidates for federal and local representatives, federal senators, and Mayors. This support had the objective of constructing a political coalition of business supporters in the legislature, something that still occurs today. But more importantly, it was a failed democratic intent that would change the type of approach business had to political power.

In 1964 Brazil suffered a military coup that marked the beginning of more than 20 years of dictatorship. This coup was lead and supported by the traditional elite of Minas Gerais. The military government removed the populist leaders from power, but did not transfer government back to the oligarchies. The idea of the new government was to impose a bureaucratic-authoritarian system where technocrats would remove politicians from policy-making.
The military attempted to transform the Brazilian states by depriving oligarchies from their formal power. “For the Minas traditional political elite in particular, whose private economic base was too heterogeneous to wield economic power and concentrated in sectors inappropriate for exercising dominance in an urbanizing and industrializing region, bureaucratic authoritarianism seriously challenged the basis on which it had organized its power” (Hagopian 1996). But the system of closed politics based on economic and state coercion lead by the local oligarchy managed to continue even under the process of modernization by the military regime (Ruiz Garcia and Caixeta Andrade 2012).

The military regime eventually restored politicians to the policymaking process and included traditional state oligarchies. During the military regime, the existing party cleavages continued to define factions through different branches of ARENA, the state sponsored party. The geographical heterogeneity also maintained its relevance, as most of the deputies elected at the state-level represented individual municipalities instead of broader regions. More than half of the federal and state deputies elected on the Arena ticket in 1970 obtained at least 30% of their votes from one municipality (Hagopian 1996).

Economically, the military government favored Minas Gerais. In the late 60s and early 70s there creation of the Instituto de Desenvolvimento Industrial (INDI) and the Companhia de Distritos Industriales (CDI), together with the Development Bank of Minas Gerais (BDMG), contributed to an aggressive industrial policy and the attraction of foreign investment (Diniz 1981). The military regime tried to decentralize the industry located in São Paulo, which favored Minas Gerais given its privileged location and political importance. During the period 1970-77, Minas Gerais received 25% of the total national investment in industry development. With the
industrial growth, the state moved from representing 6.9% of the GDP in the late 60’s to 16.5% in 1977 (Diniz 1981). The investment went to the existing area of intermediary goods that predominated in Minas Gerais due to its natural resources, as well as to the expansion of the metal-mechanic industry.

The Transition to Democracy

Ironically, in the same way Minas Gerais lead the military coup in 1964, it also lead the return to democracy in 1985. Tancredo Neves the national leader of the opposition was an important Mineiro politician. Neves was very successful in attracting traditional oligarchs disenchanted with the economic failures and unpopular agricultural policies of the military. This gave Neves’s party, the PMDB, a statewide network of local organizational support.

With the transition from the authoritarian to a democratic regime in the 1980s there was an incorporation of businessmen into politics. An example of that was the number of business representatives in the Constitutional Assembly of 1987-1988. This continued, and in 1990s there were 24 businessmen from different economic sectors elected, representing 53% of the state representatives. This proportion went through ups and downs, but never below 40%. In comparison, the representatives related with unions and popular groups oscillated between 7% and 9% (Dulci 2000).

But, at the same time that we see the modern oligarchy actively seeking political positions, we find the emergence of non-elite politicians that were formed by the military regime. “Despite the ‘invisible barriers’ which made the successful entry into politics of the youth
originated from an external circuit to the "great families" highly unlikely, it was from this social layer that the key players of the restructuring of the Brazilian political space in the years following the military regime came from” (Canedo 2008). These young politicians emerged in the leftist movement of the 70s, many of which ended either in jail or in exile waiting for the end of the military regime. In the 80s, they joined the ranks of the PMDB and then moved towards more progressive options, such as the PSDB, the PT or the PCdoB. In the case of Minas, their growth in power was slow but steady, becoming Mayors, Representatives, Senators, and in 2014 obtaining the governorship with Fernando Pimentel (PT).

The twenty years of military regime had a deep impact in the political structure of Minas Geris. Although during the first years we see the same traditional elites maintaining power (Hagopian 1996), in the long run we clearly identify the transformation of the political power. The industrialization generated four new actors: 1. The old oligarchic elite; 2. The new urban/industrial bourgeoisie; 3. The unions; and 4. The urban professionals.

The military regime had a modernizing effect and promoted the emergence of a new economic elite. On the one hand, we find the emergence of medium sized businessmen and merchants, many of which will grow in influence under the democratic government. On the other hand, we find new industry leaders, who represent new modern investment and did not include the traditional oligarchy. With industrialization also came the appearance of strong unions, that were able to mobilize workers and built alliances with the new leftist parties. The fourth actors, the urban professionals, are young leftist leaders that were formed politically and professionally in Minas’ universities, and continued their studies in exile during the military regime (Canedo 2008).
With the transition to democracy, the fragmentation of the opposition parties as well as the pro military factions generated a competitive electoral arena where no leadership or political group was capable of holding power for too long (Borges 2006). Even if the PMDB had emerged as a dominant party in the transition period, obtaining the plurality of votes in the Legislative and participating in the government coalitions between 1982 and 1990. The PMDB party, by comparison, was far away from the dominant political machine of Bahía, which dominated politics for long periods of time. The PMDB is a loose organization, composed of a federation of different political forces, from the leftist communist to the catholic right, with no one leader capable of imposing his own vision (Borges 2006).

The internal divisions of the PMDB generated fragmentation and a weakening of the party in the early 1990s. Most of the representatives of the leftist wing had already left the party to join the newly legalized left party, such as the social democratic PSDB. In a short period of time the PSDB became the main challenger of the PMDB in Minas. They obtained the Mayors seat in Belo Horizonte in 1988, the second largest caucus in the House of Representatives in 1990s and the governorship in 1994. During the 1990s, the PSDB and the PMDB competed and alternated in power. Nonetheless, the competition tended toward the center and was not ideological (Borges 2006).

In the 2000s, with the victory of PT in the national presidential elections, and the alliance between the national PT and the local PMDB, we find a domination of the local politics by Aécio Neves. This unusual situation is explained by the extraordinary informal alliance between the PT and PMDB, otherwise ideologically apart. As a consequence of the decline in power of the PSDB, it was replaced by the PT, which grew exponentially in power and influence, gaining
representation in the local and national legislature and a number of mayors all over Minas (Miranda 2003). This competition crystalized into the victory of the PT in 2014 (unthought of in the past) and positioned Minas again as a contested political arena.

Minas stands out as an example of high political competition, and therefore more democratic that several other Brazilian states. In previous academic work, Minas Gerais is classified as: a coalescent pluralism (Borges 2007), Low Dominance (Borges 2011) and Broadened Competition (Montero 2017). In this constant struggle between the PMDB, PSDB and PT we also see the constant support of the economic sectors. As detailed in the previous section, both agrarian and industrial sectors have always been close to politicians as they tried to push their agenda and influence policymaking. In addition to their intrinsic power over production, their key role in financing politics made them a desired ally for every party. Even the PT acknowledges the need to create close ties with business in order to have a chance of political success (Interview Miranda, Bias Fortes).

The Economic Sectors and their Involvement in Politics

Economically, after the process of industrialization that modernized Minas Gerais in the 1970s, the state began to present growth rates higher that the national mean. The fiscal crisis of the 1980s showed the limitations of the state intervention and forced a change. During the 1990s national and local government began a process of reformulation, focusing on privatization, decentralization and economic liberalization.
Minas Gerais is now divided into 12 ‘meso-regions’ that represent different territories based on the socio-economic dynamics. More specifically, regions are defined on the basis of: the social process as a determinant; the natural environment, as a condition; and the network of communication and locations, as a spatial articulation element (Contel, 2014). An analysis of the territories shows that the income per capita defines two distinctive groups. The north-northeast region, presenting lower levels of development, and the south-southwest as the most developed.

The heterogeneity of economic development is clear: 75% of the GDP in 2001 came from six SSW regions of the state: Central Mineira, Metropolitana de Belo Horizonte, Campo das Vertentes, Sul de Minas, Triângulo Mineiro/Alto Paranaíba e Zona da Mata. In contrast, the regions Noroeste, Jequitinhonha and Mucuri only represented 7 percent of the total GDP (Silva 2010). The most developed regions concentrate the following production sectors: textiles, steel, food industry, agroindustry, agriculture, mining, cattle and financial.

Figure 4.2. Minas Gerais by Economic Regions.

Source: Atlas do Desenvolvimento Humano.
In terms of the GDP composition (Graph 4.1), Minas Gerais maintained over the last three decades the industrial imprint that was consequence of the transformation that occurred during the military regime. The industrial sectors represent around 30% of the total GDP and the agricultural around 11%, with a natural dominance of the services (59%) that tends to be more fragmented. This shows a diversified economy with several sub-sectors with enough economic relevance to organize interests and participate in politics. As we will describe below, the two largest aggregation sectors, agriculture and industry, present different levels of internal heterogeneity that translates into the aggregation of interest in the political arena and, therefore, into the finance of political campaigns.


Source: Author’s calculations based on Instituto de Pesquisa Econômica Aplicada (IPEA).
In terms of sectorial associations, the Federation of Agriculture and Livestock of the State of Minas Gerais (FAEMG) and the Federation of Industries of the State of Minas Gerais (FIEMG) are the two largest business associations at state level. They represent the largest aggregations of economic interests and they operate as coordinators of the influence the economic sectors have over politics. While the FAEMG and the FIEMG show plenty of similarities on how they structure their relationship with government, they also differ on the interests they defend, the homogeneity of these interests and the recommendations they give to their members for political investment.

On the one hand, both organizations actively lobby for their particular interests with local mayors, the governor and state and national legislators. They are legally not allowed to directly finance campaigns, but they are able to do so through their associated firms and indirect financing, such as using their business social responsibility investment in favor of a given candidate (interview Salej). On the other hand, they differ on how homogeneous their interests are, as the agrarian sector tends to coordinate actions in congress better than the diverse industrial sector do (interview Custodio).

Both economic sectors, the agrarian and the industrial, support the campaigns of politicians running for all government positions. Their main instrument to participate in politics is through economic contributions.

As described at length in the theory, private business funds have extensively more financial power than individual contributions, thus are key to getting elected. As the two times candidate to governor Nilmario Miranda (PT) commented, the campaigns are so expensive that business contributions are the only ones that matter, since individual voters have no weight in
financing. The two examples that he provides are crystal clear. Firstly, the small number of black representatives elected for congress compared with the long list of sectorial representatives shows the economic discrepancies in society. Secondly, and more illustrative, is the performance of his party, the PT. Miranda analyzes that Lula ran for president three times as a popular leader, but he only managed to obtain 32% of the votes. The fourth time, he allied with a businessman and he won. In that election, José Alencar, the president of the FIEMG, was the vice-presidential candidate and a powerful representative of the national industry (interview Miranda).

Former FAEMG President, Viana Rodriguez, explains the association’s strategy. While they proclaim that nobody should hold a radical position against a candidate with chances of winning, during campaigns they ask their members to finance representatives and local Mayors in their regions, because they are the ones that can defend their interest and will act in the legislature when there are laws to pass (interview Viana Rodriguez). An interesting example is the sugar cane producers. While few of them are directly involved in politics, they finance representatives from every region in order to form a caucus. They usually buy bonds from a given candidate that will later represent the demands of the sector in the legislature (interview Custodio). The FAEMG also incentivizes members to participate in politics, without directly financing their campaigns. Except for ideologically defined parties, such as the PT or PCdoB, businessmen tend to join any political party, as they are ideologically pragmatic (Interview Viana Rodriguez).

There’s a lot of financing under the table, in what is known as ‘caixa 2’, or second cash box, where the contributions are not declared. Moreover, there are even untraditional methods of participation, such as vote buying and clientelism (Interview Salej).
For legislative positions, there are rarely multi-sector candidates, as usually candidates receive funding from one sector only. This is possible in the case of Representatives and Senators because they are able to get elected with a low voting threshold. The directions given by the different organizations seem to differ here. While the FAEMG incentivizes their member to finance campaigns in order to be represented politically (interview Rodriguez), the FIEMG is not so straightforward and leaves the decision to the individual businessmen (Interview Custodio). Nonetheless, there have been accusations of coordinated financing within the FIEMG in order to increase leverage (interview Salej). There have been quite a few times that FIEMG has acted in an organized and unified manner with clear preferences, but they do so in secrecy (interview Bias Fortes).

In the case of state and federal representatives, when a given sector supports the majority of the campaign expenses, these politicians are considered to be representatives of their interests either at the local legislature or the national congress. The coalitions of these legislators are known as “bancadas,” meaning caucuses, and may include politicians from different political parties. The agrarian caucus tends to be more homogeneous and usually votes together, while the industrial caucuses have more heterogeneous interests (interview Viana Rodriguez). The industry tends to divide across sub sectors, for example, the agro-industrial sector within the FIEMG have several representatives in the Minas Gerais’s legislature, while banks, financial sectors and construction companies have strong caucus at the state and national levels (Interview Bias Fortes, Custodio).

The influence of businessmen is clearer in the case of senators and representatives. While for legislative candidates business has the upper hand and might finance only those candidates
that respond to their demands, in the case of executive positions they have to balance their desires with the real chances of victory (interview Azeredo). A former president of FIEMG, Stefan Salej, commented that business always wants their friends to win, but if they do not have real chances, they support the winner (interview Salej). Same argument was made by a former president of the FAEMG, Viana Rodriguez, who pointed to the unwritten rule that businessmen should not take radical positions against a candidate that might win. Thus, they meet with every candidate in order to have a conversation (interview Rodriguez). Nonetheless, the profile of the candidate always matters, and associations might support candidates from behind the scenes (Interview Bias Fortes).

Another way of sectorial participation in politics is through direct involvement. Many times business leaders make a jump into the political arena to defend their sectoral interests. As Salej points out in his autobiography, “there’s no federation or business confederation that has not had within its leadership businessmen that exercised or held political positions. In the case of Minas, the most clear example, is the current vice-president of the Republic José Alencar, that took leave from the presidency of FIEMG to become a candidate to governor for the PMDB” (Souza Castro n/d). Salej himself, a former president of FIEMG, ran for a seat in the House of Representatives and coordinated several political campaigns. He was one of the coordinators for José Alencar’s campaign for governor of Minas Gerais in 1994 and was coordinator of corporate relations in José Serra’s campaign for President (Interview Salej).

The agrarian and the industrial caucuses rarely cooperate, as they represent different economic sectors and economic interests, and in some instances conflicts arise (interview Custodio, Viana Rodriguez). The relationship between the agricultural sector and the industrial
sector is in many times tense, as for example the industrialists are in favor of reducing the cost of agricultural raw materials. Nonetheless, there are points of agreement. As Viana Rodriguez comments, political candidates are usually classified as ‘private’ or ‘state’ candidates, rather than by specific sectors. Private candidates are those politicians that have good relationships with business associations. If a ‘private’ candidate becomes governor, he will probably appoint representatives of the economic sectors in the different secretaries of the state (interview Viana Rodriguez).

The business structure is set up in such a way that firms talk to the worker’s union and with the local governments on community issues and small infrastructure, and the state level organization deals with the governor and the secretaries on topics such as taxes, production incentives, the environment, etc. At the national level, the largest associations are the ones that negotiate with the President. A very interesting feature of this distribution of spheres is reflected by the Agenda Legislativa da Industria –Industrial Legislative Agenda.

For the last twenty years, the industrial associations at the national and subnational level have produced a yearly publication where they detail all the law projects related to the industry’s interest. In these records, they describe the type and purpose of the law project, the official position for or against it, the advance of the project and, more importantly, the name of the representative who presented it. The National Confederation of Industry publishes all the national laws, while the FIEMG publishes all relevant laws in Minas Gerais. The FIEMG lists all relevant projects on the environment; regional and sectoral development; taxation; education; workers; tourism and culture; and economy and credit (FIEMG 2012). In both yearly publications, the organizations talk about defending democracy, free market and
entrepreneurism. Also, they highlight the importance that congressmen give to the industry’s interests and the risk of not being alert (FIEMG 2012, CNI 2013).

The importance of the FAEMG and the FIEMG in Minas’ politics transcends local politics. Historically, Minas’ economic sectors have benefited from the presence of state politicians holding national positions. Having a President from Minas Gerais automatically means investment, state contracts and incentives for the economic sectors in the state. It’s not surprising then to see businessmen mobilized and aligned behind a potential Mineiro President. So is the case of Aécio Neves, who held the governorship twice (2003-2006, 2007-2010) and ran for president in 2014, losing against Dilma but positioned as the head of the opposition.

Former FIEMG president and vice-president of the CNI, Stefan Salej, points to the importance of constructing a relationship with a candidate. The possibility of having a history of mutual favors between businessmen and politicians creates confidence and trust. Aécio Neves, grandchild of former Governor and elected President Tancredo Neves, became the ‘white hope’ of Minas’s industry. They actively supported his gubernatorial campaign twice and planned his national campaign as well (interview Salej).

According to Salej, Mineiro’s businessman Robson Andrade was elected president of the CNI to support Aécio Neves’s presidential campaign from the national industrial organization. Known for implementing a model of public policy coordinated with the local businessmen –his first vice-governor was an industrial leader- Neves needed to have an alliance with a national business association. The presidency of the CNI was an ideal position to compete against the FIESP, the association that supported the other party candidate, José Serra, in the primaries of the PSDB. Supported by José Alencar, a Mineiro businessman and Lula’s vice-president,
Andrade was the first business leader to support in 2002 Lula’s (PT) candidacy for president, and at the same time, Aécio Neves of the PSDB for Governor of Minas (Souza Castro n/d). This history of contact and favors allowed Andrade to become president of the CNI and Neves to be candidate for the PSDB.

By the descriptions of the people controlling the two largest business organizations in Minas Gerais it is clear that their participation in politics, especially through political campaigns, has been very active since the return to democracy. They have not only supported candidates at every level of government, but also coordinated their efforts to obtain representation in the local and national legislatures. Their involvement has been through their economic support as well as through direct participation of their highest ranks. It is also clear that the interests of the economic sectors are not homogeneous, and there are internal lines of conflict that translate into the support of different candidates. The best example of this is how caucus operates in Congress, where the agricultural one tends to work together while industry is divided across sectorial lines. In an economic and geographically heterogeneous state such as Minas Gerais, it would not be a surprise to see how the economic forces have aligned behind competitive candidates as well as divided in cases where sectors had different interest at stake. The following sections will look into the political campaigns in Minas Gerais, pointing not only to the high electoral competition, but also to the forces behind that.

**Political Competition in Minas Gerais**

Having discussed the actions taken by economic groups to participate and influence politics in Minas Gerais, we now turn to the political competition itself. If we look at Graph 4.2
we see the close correlation between the political performance of gubernatorial candidates and the percentage of the funds they received. It is clear that those that received proportionally more funds were able to translate that difference into the political arena. Going back to the literature describing the influence of money in politics, we can assume a causal relationship between the funds obtained and the percentage of votes (Green and Krasno 1988; Jacobson 1978; Erickson and Palfrey 1998, Benoit and Marsh 2002, Samuels 2001; Denver, Hands and MacAllister 2004).

Graph 4.2. Correlation between Votes and Campaign Funds, Minas Gerais 2002-2014.

Source: Author’s calculations based on Instituto de Pesquisa Econômica Aplicada (IPEA) and Tribunal Superior Eleitoral.

Following the theory presented earlier, in a politically competitive state such as Minas, we should also expect a more competitive distribution of funds. If we look at graph 4.3 we find a competitive distribution of funds between incumbent’s candidates and the aggregation of the challengers. This implies that economic sectors are not aligned behind the incumbent as we saw in the Bahía case, but that they are open to switch sides if that is politically convenient. A
couple of particularities stand out in this graph. Firstly, we see the support of construction companies to incumbent’s candidates, what is a constant under every government, autocratic or not. Secondly, we see that industry has shown an important support for challengers. Many times, the industrial sector was divided across sub-sectorial lines. Thirdly, party committee contributions are lower than what we found in Bahía, in part because the high support of the economic sectors to both incumbent and challengers reduces the need for this type of support. Finally, we see an abnormal amount of individual support for the incumbent. The reason behind this abnormality is that many important businessmen contributed using their names instead of the name of the companies they represent.

Graph 4.3. Campaign Funds for Incumbent and Challengers by Sector, Minas Gerais 2006-2014.

![Graph 4.3. Campaign Funds for Incumbent and Challengers by Sector, Minas Gerais 2006-2014.](image)

Source: Author’s calculations based on Tribunal Superior Eleitoral.

Graph 4.3 gives us a glimpse at the competition for campaign funds in Minas Gerais in the last three elections. But when we disentangle the contributions under the political and economic context we see how the actions taken by the economic sectors were planned. It is
important then to follow the recent political history of Minas Gerais in order to understand how the political evolution paired with the variation of economic support and the alignment of the relevant economic sectors.

**Funding Political Campaigns in Minas Gerais**

In 1984 Tancredo Neves was elected governor of Minas Gerais on the PMDB ticket. Neves was a liberal, and presented a moderated opposition to the military regime. However, with the beginning of the transition, Neves and the PMDB were leading the political fight against the military and pushing for presidential elections. He led the PMDB in the presidential election of 1989, which he won but died before taking office.

Neves represented the traditional oligarchy of Minas and was considered a typical Mineiro politician: conciliatory, liberal and witty. He was president of the Development Bank (BNDES) and the Bank of Brazil under President Juscelino Kubitschek, and Secretary of Finance under governor José Bias Fortes. Both were periods of great modernization for Minas which favored his image as a developer.

In 1984 he competed for the governorship against Eliseu Resende, of the PDS. It was a great victory, as the PDS was strong at the municipal level but the governor’s election was concurrent with the rest of the subnational political positions, such as *prefeito* and * vereador*. Tancredo Neves inaugurated the new period of democratic elections in Minas Gerais as well as a new type of democratic electoral competition. Neves was one of the first politicians to hire marketing companies to assist the campaign. The gubernatorial election of 1982 in Minas Gerais
was coordinated by the agency Setembro e Propaganda and was awarded, not only with the victory, but with a prize for best political campaign (Queiroz 2006). Neves inaugurated a new way of making political campaigns that he then perfected in his presidential campaign of 1988, where he incorporated several marketing agencies to help design the message of the ‘diretas já’ movement.

We have no data on the economic support Neves received from economic sectors for that election. Based on the experience of several politicians that participated in the 1984 state elections, the support for democracy was on the rise, but business was still fearful of the national military regime (interview Costa, Azeredo, Ananias). In the case of Tancredo, the economic situation was chaotic, and it was difficult to compete against the military candidate Resende.

Some very interesting information emerged recently on the campaigns finance. As described in the theory, when the opposition is unable to obtain significant support from local businessman, other branches of their parties –either national or friendly states- try to support the party in order to obtain benefits regionally or nationally. In the case of Neves’s campaign, he received economic support from Paulo Maluf, the leader of the PSD in Sao Paulo. The objective of this support was to debilitate Resende, who at the time was competing with Maluf for the national leadership of the PSD. Ironically, Maluf would end up competing and loosing against Neves for the presidency in 1989 (Folha 2010).

In 1987 Tancredo supported the candidate Newton Cardoso, also of the PMDB, who got elected governor in the first round. Newton was a charismatic leader that represented the more conservative factions of the PMDB. He was a representative of the new elite that emerged from the industrialization process. He neither belonged to a traditional family nor represented mining
or coffee; he was the son of a notary in Brumado, where the oligarchical family Pentagna Guimarães had influence. He was adopted politically by the Guimarães and quickly became Mayor of Contagem. In his rise to the governorship, the Guimarães constituted a key political and economic support. Interestingly, the Pentagna Guimarães, owners of the bank BMG, spent decades without participating in politics until the appearance of Newton. Once he became governor, the BMG became an active participant in local and national campaigns (Malin 2007).

While Newton was embraced by the Guimarães, the rest of the old elite did not like him and did not consider him to be one of them (Interview Dulci). “Newton Cardoso was elected in the wake of resistance to Tancredo, speaking to resentful bases of the Mineiro PMDB and in the space occupied by the former ARENA, and never intended to join the consensus of the Government of Minas elites which, incidentally, always rejected him” (Horta 2010). The new industrialist elite, on the other hand, saw him as one of their own. They considered that only a new-comer like Newton had the courage to run for governor in the first election of the democratic period (interview Salej). As the governor of Pernambuco defined the situation, Newton ripped the silk gloves off the Mineiro politics (Horta 2010).

In the elections of 1990 the incumbent party, the PMDB, presented the candidacy of Ronan Tito for governor. The candidate was not supported by the Governor Cardoso and had a poor performance, ending fifth in the gubernatorial race. The electoral dispute was then divided between Helio García, former vice-Governor and founder of the small party PRS, and Helio Costa, of the PRN. In the first round, García obtained 40% of the votes and Costa 17.6%, and in the second round García made it to 51% becoming the new governor.
In addition to his political experience, Garcia was a powerful landowner, and represented the interest of the agricultural sectors. He was Secretary General of the FAEMG and former president of the Bank *Caixa Económica de Minas Gerais*. Challenger Costa comments that it was a difficult election, and that he was competing against the economic structure set up by García, especially in the rural areas. Costa was, nonetheless, supported by the presidential candidate Collor de Mello, who finally won the presidential race. It is then interesting to see how García, representing a small party but with strong sectorial support, was able to beat both the president’s as well as the governor’s favored candidate.

In the 1994 election, the two competing candidates were not directly related to governor García, and the election was again resolved in two rounds. On the one hand, Hélio Costa returned to compete for the governor seat, now for the PP. On the other hand, Eduardo Azeredo represented the PSDB. In the first round Costa obtained 48.3% almost achieving victory. But in the second round, Azeredo significantly increased his support, climbing from 27% to 58.7%. This significant change contrasted with the reduction in votes for Costa, who obtained 41% of the votes, more than 7pp less than in the first round. What explains this rare event was the participation of Governor García in the second round of the election. For the first round, García had had no involvement in the campaign, as he had a bad relationship with both candidates. But in the second round, giving in to pressure from his party, he actively supported Azeredo. He put pressure on many of the Mayors to shift their support from Costa to Azeredo, thus generating the rare transformation in votes (Interview Makaarum).

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36 Costa comments that at that time they considered blank votes as valid, thus making the proportion of his votes in the first round lower than 50%. In the following election that rule was changed, so with that amount of votes a candidate would have surpassed the 50% and obtained the governor’s seat (Interview Costa).
In that election, Alencar, the president of the FIEMG ran for governor as well, but obtained only 10% of the votes. Azeredo comments that Alencar had a lot of industrial support and that he supported his candidacy in the second round. He believes also that Costa was seen as self-sufficient, which contrasted with his own more conciliatory personality. In addition, he was supported by President Henrique Cardozo, with whom he had a good relationship (Interview Azeredo).

Costa affirms that support from the mayors for the second round was decisive. That many prefeitos had been threatened that they would lose state funds if they did not publicly support Azeredo. Nonetheless, Costa believes that financial support was key for a successful campaign. He notes that candidates that received funds from State suppliers had a significant advantage, but opposition leaders rarely receive support from them. While large companies are independent from the governor’s influence and they generally finance various candidates, they usually do so in a very unequal manner, giving a fraction of their support to those candidates whom they do not want elected. He affirms that during the campaign he had very little economic support, and that Azeredo was using air transport provided by the state and by Alencar (Interview Costa).

When looking at the data on campaign funds for the 1994 campaign we see a shift in the contributions similar to the shift in the electoral votes. While we have to be careful when using data on campaign contributions for 1994 since it was the first time parties were obliged to declare them, Minas Gerais was significantly more transparent that many other states in Brazil. Nevertheless, even though the candidates do not coordinate the submittal of their campaign

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37 The data comes from Samuel (2001) that collected official information on campaign donations. The data, while reliable, is incomplete, as parties hide most of the contributions. Over the years, and after several campaign scandals, parties have begun to publish more reliable information. See Samuel (2001) for a more detail account on the data.
budgets, we could expect some proportionality in the bias of their individual presentations, which would then allow us to compare the data with a certain degree of confidence. For the total campaign, Azeredo declared almost the double of funds than Costa (Azeredo declared US$ 13,243,813 and Costa u US$ 7,740,764). But what’s more interesting, is that until the first round on October 3, Costa received almost a million dollars more than Azeredo. In that round Costa obtained an advantage of 20 points over Azeredo. In the period in between the two rounds, Azeredo declared US$ 8,670,782, representing 65% of his total campaign funds. Most of these funds came from construction companies linked with the government, such as Andrade Gutierrez and A.R.G.. Costa, on the other hand, raised only a fraction (24%) of what Azeredo obtained in preparation for the second round. This difference translated into the surprising victory of Azeredo, and the decrease in votes for Costa. Not surprisingly, Costa complains about the incumbents’ irruption into the campaign, the contributions of state contractors and the lack of economic support he had (Interview Costa).38

The 1998 election for the first time in Brazil allowed a candidate to run for reelection for governor and for President. Governor Azeredo took the opportunity to run for reelection, and had the support of President Fernando Henrique Cardoso. But this was not enough and he lost against former President Itamar Franco. Franco was an active politician in Minas Gerais, usually as an opposition reference, and openly supported the candidacy of Helio Costa in the defeats of 1990 and 1994. In his campaign, he aligned with the FIEMG ex-president José Alencar who ran for the Senate, and Newton Cardoso39 who ran for vice-governor. This alliance gave Franco a lot of

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38 In this campaign, José Alencar, the president of the FIEMG raised almost as much as Helio Costa (US$ 7,207,556), but most of the funds (83%) were declared as coming from his own pocket. The rest of the funds came, naturally, from the industrial companies of Minas Gerais.
39 It’s interesting to note that Cardoso and Franco competed for the governorship in 1986 when Cardoso won.
economic and political support and was able to successfully challenge the incumbent. Azeredo affirms that Alencar and Newton facilitated planes and infrastructure for Franco (interview Azeredo).

Unfortunately, the information on campaign contributions is scarce for this election, and Franco did not submit a statement for the contributions he received. Azeredo’s campaign manager comments that it was a very expensive campaign, and that the two main candidates divided the support of the economic sectors (Interview Pestana). The support of President Cardoso was cold, as he was also close with Franco since he held the Ministry of Economy during Franco’s presidency and was supported by Franco during his own presidential term.

Azeredo complains that President Cardoso only visited Minas once in 1998. Moreover, he affirms that Cardoso’s presidential campaign received funding from his own campaign and that was not translated into political support (Interview Azeredo). In 2009, the Supreme Federal Tribunal received a complaint against Azeredo, accusing him of participating in illegal funding during the 1998 campaign. Known as the ‘mensalão mineiro’ – monthly allowance of Minas-, the PSDB and Azeredo are accused of using public funds and illegal loans to finance the gubernatorial and presidential campaigns (Gazeta Online 2009).

The elections went through two rounds, both won by Franco (44.3% and 57.6% respectively) and followed by Azeredo (38.3% and 42.4% respectively). Amongst the rest of the competitors, it’s worth mentioning Patrus Ananias who ran for the PT and obtained 16.1% of the votes. This represents the first relevant participation of the PT in the gubernatorial competition which will grow through every election until their victory in 2014. Ananias ran in order to support the presidential candidate Lula, who was also improving PT’s performance nationally.
He affirms that most of the support they received during the campaign was ideological and came from unions and the middle class, although there were some businessmen contributing (interview Ananias).

For the 2002 election, Franco wanted to run for reelection but Newton Cardoso, vice-governor and president of the party, was opposed to his candidacy. They had had a very difficult administration and were in open conflict which finally derived in the dismissal of most of Newton’s people from government. Newton, a powerful politician and businessman was able to block Franco’s reelection and run himself for the PMDB. As a response, Franco did not support Newton for governor, as was agreed in 1998. This conflict opened the way for support of a third candidate, Aécio Neves of the PSDB. Aécio Neves was Tancredo Neves’s grandson (elected governor in 1982 and President in 1986). Coming from a traditional family, Neves was the newest bet for the industrial sectors in Minas, that aimed to project this young and successful politician to the governorship and later the presidency.

In the 2002 election, Brazil was witnessing the growth of Lula Da Silva as a presidential candidate. A historic leader of the worker’s party PT, Lula was running for the fourth time, but this time his vice-president was José Alencar an important industrialist from Minas Gerais and former president of the FIEMG. This was a particularly curious alliance. Alencar was able to create the unusual alliance between the traditional Neves, running for governor, and Lula for President. This informal but strong alliance was popularly called “Lulecio”, mixing the names of the two candidates. Several interesting aspects emerged from this alliance.

Firstly, the election of Alencar as a vice-president had a big impact in the political and economic arena. Salej, former FIEMG president and close collaborator of Alencar, comments
that he was surprised by the decision, as Alencar had always opposed leftist parties. The decision divided the support of the regional industry. However, Alencar represented the national industry that fought against privatizations and neoliberalism in the 1990s, which worked as a common ground with Lula. Salej believes that Alencar wanted to be a politician, and this situation opened a window of opportunity for him (Interview Salej). Locally, Alencar supported Aécio Neves for governor since, same as the rest of the economic elite, Alencar wanted to invest in the candidacy of Aécio and the prospect of a future Mineiro president (Interview Salej).

Secondly, the alliance between Aécio and Lula left the PT candidate for governor, Nilmario Miranda, with very little support. Miranda comments that the strategy was to get Lula elected and that he ran for governor just to gather votes for the presidential race. Interestingly, the PT of Minas followed the strategy of the national PT, and formed a close alliance with industry. As Miranda himself affirms, Lula lost three presidential elections up until he allied with a businessman (Interview Miranda). Not surprisingly, Danuza Bias Forte was chosen for vice-governor.

Danuza was part of a very traditional oligarchic family from Minas. They came from the area of Balmaceda. The Bias Fortes have governors, national representatives and mayors in their family tree. This contrasted with the working class based PT but it also shows the need to ally with economic interest in order to successfully compete. Danuza affirms that even though they lost the elections, politically it was very successful. Many were in doubts about supporting Lula, but all these alliances provided an environment of comfort. Moreover, Nilmario Miranda himself was well perceived by the economic sectors (Interview Bias Fortes).
Nilmario ran his campaign with limited funds. The three clear supports they had came from unions, professionals and the church. There was not much economic support, as it was directed to Aécio and Lula’s campaigns (Interview Miranda). The official data submitted by the candidates shows a wide margin of support for Aécio and a handful of contributions to Miranda. Not surprisingly, almost 41% of Aécio’s support came from industrial companies, followed by banks (18.3%) and construction (15.6%). In contrast, Nilmario declared that all of the support he received for the campaign came from party transfers. This is an extreme version of the theory presented in this dissertation, where the incumbent candidate is a representative of the economic sectors and the main challenger is supported by the national party in order to obtain votes in the region but not to win the election.

A third candidate in the race was the vice-governor and former governor Newton Cardoso. Given the lack of support for the incumbent, and the clear leadership of Aécio and Miranda, he ended up with a poor campaign in every sense of the word. The campaign received very little economic support and obtained only 6.7% of the votes, far from the two leading candidates. Cardoso complained that Aécio had all the economic support and that made it impossible to compete (Terra 2002).

The 2006 election found a very powerful Aécio Neves. Now with closer ties with businessmen and the media, he ran for reelection as the clear favorite. Moreover, he maintained his unusual alliance with President Lula Da Silva and the national PT. This led several PT mayors to support Aécio’s reelection instead of Nilmario Miranda, who again was running for governor on the PT ticket. While the 2002 results were considered a political victory for Miranda, the new defeat was considered a political failure that hit the party profoundly.
(Interview Miranda). In addition, a campaign finance scandal hit the PT in Brazil and affected their popular support. The alliance with the PMDB and Newton Cardoso also wore out the local image of the PT in Minas (Interview Ananias).

The only surprise of the 2006 election was actually the lack of competition in Minas. Aécio won by 77% of the votes, against only 22% obtained by the PT. The profile of Aécio as the white hope that could lead to another Mineiro becoming president, plus his alliance with President Lula, made him an unbeatable candidate. We see that also translated into campaign contributions. Graph 4.4 clearly shows the complete dominance of Aécio over the aggregation of all the challengers. Not surprisingly, the main contributors to the incumbent were the construction companies followed by heavy industry. The challengers only got, by comparison, meager contributions from heavy industry, party committee and individuals, again, in accordance with the theory exposed in this dissertation.

It is worth noticing that Aécio’s party, the PSDB, went through a dramatic finance scandal that year. In the 2002 elections, the tucanos promoted an illegal way to gather funds for themselves and their allies. The scam consisted in overpricing state contracts and then the supplementary funds would be used to finance political campaigns. For this purpose, they used the Furnas Centrais Elétricas Company that signed fictitious contracts with over a hundred companies and then transferred the money to the PSDB. When information of this fraud became public, Aécio was pointed out as one of the main beneficiaries (Jornali 9, 2015).
In the 2010 election, Vice-governor Antonio Anastasia, selected by Aécio Neves, ran for governor. The main challenger was the two times runner up Helio Costa. Anastasia was a bureaucrat with low political ambitions, which made him an ideal candidate to keep Aécio as a powerful player. As was the case with Aécio eight years before, Anastasia had an agreement with presidential candidate Dilma Rouseff, of the PT. The alliance known as Lulecio changed to Dilmasia, but maintained the same dynamics. Costa, of the PMDB, had some support from the PT in the same way Miranda had it in the last two elections. Costa was the National Minister of Communication in Lula’s cabinet which gave him some strong political capital. The result of the election maintained the status quo, and Antonio Anastasia defeated Costa by 62.2% against 34.18%.

When looking at the campaign funds, we see a deviation from what we have seen so far both in Minas Gerais and Bahía. On the one hand we find that the Incumbent candidate had more
contributions than the challengers, which is the essential argument of this theory. In addition, he had the full support of the banking sector and the construction companies. On the other hand, we find the main economic sectors also supporting the opposition and an unusual amount of individuals supporting the incumbent’s campaign. Firstly, in the case of the industry, one could argue that the industry was supporting the PT’s campaign for presidential candidate Dilma, and that translated into the campaign funds for the Costa-Ananias ticket. Secondly, when looking at the individual contributions, we find that almost 33% came from only three individuals: former governor Aécio Neves, the owner of a construction company, Carlos César de Lima, and the businesswoman Rosemarie Klien Vega. Thus, this anomaly is more a disguise for business contributions rather than an explosion of civic participation. This, in retrospect, also modifies the notion that the challenger received more support from industry than the incumbent.

Graph 4.5. Campaign Funds for Incumbent and Challengers by Sector, Minas Gerais 2010.

Source: Author’s calculations based on Tribunal Superior Eleitoral.
The 2006 and 2010 elections appear to be an exception to the traditional competition found in Minas Gerais since the return to democracy. What explains this period of political dominance by the PSDB under Aécio Neves is the combination of the alignment of the industrial sectors behind a potential mineiro president and the alliance with the PT at the national level, which also kept the local PT opposition controlled. This combination ended for the 2014 election when Aécio ran for president against Dilma Rouseff (PT). This, on the one hand divided the support of the industrial sector between those in favor of the former governor and those supporting the incumbent president. Also, it broke the local alliance between the PSDB and the PT.

The Incumbent candidate for governor was Pimenta da Veiga of the PSDB and the main challenger was Fernando Pimentel of the PT. The election was close and ended with a victory for the challenger: 53% to 42%. Pimentel was a ‘promising’ politician for the PT. He was able to combine a history of political activism against the military regime and a past as Mayor of Belo Horizonte with a close relationship with several economic sectors, due to his having been National Minister for Development, Industry and Commerce from 2011 until 2014 (interview Dulci).

Olavo Machado, president of the FIEMG, supported Pimentel for governor and Dilma for President, while Robson Andrade, president of the CNI supported da Veiga and Aécio (Interview Miranda, Salej). This shows that the political divisions reached into the industrial lines, which also translated into the economic supports. As former gubernatorial candidate Nilmario Miranda commented, the FIEMG supported Pimentel, as well as all the businessmen that were benefited during the PT presidencies of Lula and Dilma, like the energy companies, commerce and
agroindustry. Others, like agriculture, had theirs support divided, as they preferred the PSDB in Minas and the PT nationally (Interview Miranda).

With the intense political stakes for this election, it’s not surprising that the most expensive campaign for governor in Brazil in 2014 was Pimentel’s, with US$ 20 million, and Pimenta da Vega was sixth with US$ 16 million (Coissi 2014). When we look at the distribution of campaign funds between the incumbent and the challengers we see the close parity in economic support from the different sectors, and even a dominance of the opposition. Clearly we see two projects competing as the PT and the PSDB where contending nationally between Aécio and Dilma and locally between Pimentel and da Vega. Both projects had control over state resources and had real chances of victory. According to our theory, this should translate into similar supports, and it’s exactly what happened. Construction, usually dependent on the government was the primary supporter of both campaigns. The industry also contributed almost in equal amounts to both campaigns, same with banking, services and individuals.

In a competition where the national parties were very interested in obtaining a good performance in Minas Gerais, it is expected that a lot of money be put into the local campaign. Thus, we would expect to see a large portion of the funds coming from party transfers. What is surprising then is the lack of “party transfers” in the graph. This was a consequence of a recent resolution that forced parties to report the original source of the funds in the case of party contributions. Therefore, we have to dig into the data base and identify all those contributions that were received from party transfers. With this done, we find that almost 83% of the incumbent funds came from intra-party transferences, and 73% in the case of the challengers. Also, most of these transfers originally came from construction companies.
Conclusion

The objective of the present chapter was to describe the close relationship between the economic sectors and the political changes in Minas Gerais. The synergy started a long time before the democratic period under study, nonetheless, even during the early stages of development, politics and economy were closely related.

Most importantly, we saw that the transformation of the economic structure as a consequence of the modernization plan started during the military regime had a deep impact in the political arena of Minas Gerais. While some authors argued that the traditional oligarchies were able to survive unaffected (Hagopian 1996), this was not the case. The economic
transformation put traditional oligarchies behind new political actors, such as the new industrialists, the unions and the urban professionals. These new groups have played an important role both in politics as well as economics, and have even displaced the traditional family oligarchies from the controls of the state (interview Miranda, Dulci 2000).

The modernization process generated even more diversification in a State that was originally very heterogeneous, both economically and geographically. This diversification had a direct impact on the political competition. We have seen throughout the gubernatorial elections of the democratic period how support from the different economic sectors was a defining variable for a successful campaign. Also, we have seen how parties adapted their candidates and their tickets in order to obtain economic support from potential contributors.

During the interview held with Former governor Eduardo Azeredo, he commented that the difference in politics between the states of Bahía and Minas Gerais was due to the different levels of economic diversification. In his political view, he thought that economic diversification generated a diversified population and thus a more diversified political scenario. Economic diversification also implied more and different ideas, consequently dividing leadership (interview Azeredo).

In a nutshell, Minas Gerais stands as a good example to flesh out the mechanisms enunciated in the theory, as well as to give sense to the cold numbers presented in the statistical chapter. It also presents many similarities with the Mendoza case in Argentina. Together they provide a strong basis to support the analysis of this political mechanism, minimizing any local particularities that may exist, and strongly reflecting the political dynamics of interests that emerge from a diversified economic structure.
History and Geography of Mendoza

The province of Mendoza exemplifies the transition from an oligarchic system to a polyarchic economy where economic competition translated to the electoral arena. Mendoza went through different periods of economic transformations that changed the landscape of political competition. In the late 19th Century the modernization of the wine industry favored a strong oligarchic elite that controlled both the economy and politics. But this modernization also created a stratum of small wine producers and workers that, with the adoption of free suffrage laws, favored the emergence of a grassroots party that challenged the oligarchic domination. With the process of industrialization generated from the 1930s onwards, the new blue collar workers found in the Peronist party a way to represent their interest. The geographic and sectorial diversification that Mendoza generated throughout the 20th Century explains the emergence and continuation of the three party system that characterizes the province. In this section, I’ll briefly describe the different moments of economic transformation and their impact on the socio-political landscape and the emergence of the three main parties: the PD, UCR and PJ.

Mendoza has historically been a strategic point on the trade routes of the domestic market and for international trade across the Andes to Chile and the Pacific. During the colonial period

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40 The province of Mendoza is located in the Center-West of Argentina, in the region called Cuyo. To the West, the mountain range of the Andes separates it from the neighboring country of Chile, to the North it borders with the province of San Juan and to the East with San Luis. Towards the South East we find the province of La Pampa and
it was an enclave in the circulation of silver towards the Atlantic routes. At that time, agriculture was a secondary activity, dedicated primarily to domestic consumption and sometimes exported in some special cases (Bragoni 2010). During the first half of the 19th century, the economic engine of the region was cattle grazing. Agriculture was a subsidiary activity that produced alfalfa for livestock and some cereal to trade with the eastern provinces. In this period, the viniculture maintained colonial production characteristics, aimed exclusively at the local market. The mercantile economy, oriented towards an exclusive market, made the province vulnerable to any changes in the demand (Richard-Jorba 2008).

The cattle boom began to diminish in the second half of the 19th century, when the Chilean economy reoriented its markets, shrinking demand and affecting the entire sector. At the same time the economy began to show a greater demand for wine, especially from the Pampa region. In this way, certain sectors of the elite moved from cattle to producing wine, which generated the first modernization of industry.

It is this elite that established the oligarchical domination in the province based on their control of the hegemonic economic production. Politically, this new leadership would maintain political control of the province and through that control they would encourage the development of a capitalist agroindustry (Richard-Jorba 2008). Between 1850 and 1880 Mendoza begins to transform its commercial economy, in a context where Argentina was showing advances in the formation of the national State and the consolidation of the local governments. During this period we also find the formation of regional economies, that operated in the domestic market and complemented the pampean production that was export-oriented. The transformation was to the South West the province of Neuquén. The most significant production activities are currently oil, tourism, the metalmechanic industry and agriculture, being this last one the most dynamic sector of the provincial economy.
not simply a matter of retraction and reorientation of demands, but also part of the national strategy of development and centralization of power.

The process of modernization of the wine industry was fostered by the creole oligarchy that was in charge of the provincial executive power, along with local financial institutions and national investors. In the words of Richard - Jorba, “there would be a symbiotic relationship between politicians and businessmen, which generated a hierarchical economic structure” (Richard-Jorba; 2008). We can say that the ruling elite modernized the economy at the same time that it modernized itself.

As from 1870, we begin to see the implantation of a series of actions that allowed for the consolidation of this capitalist regional economy. First, the national policies fomenting railway investments and immigration became important national state incentives that allowed for the growth of the internal market. The measures taken by the local businessmen and politicians gave the legal and financial framework to consolidate immigration in the region. Second, water and land laws allowed for the transformation of the geographical space and the social structure. With the latter, the State encouraged the fractionalization and commodification of the lands that could not otherwise be transformed at an accelerated pace. This was the first seed for geographic diversification in Mendoza.

The European immigrants of the 1860s and 1870s were able to access land, and with that the political power began to change. The immigrants were mostly farmers, some of whom will become owners of major wineries as well. While the big wine producers would still behave as the ruling elite, they will incorporate the successful immigrants into their ranks. This is a distinctive feature of the Mendoza’s oligarchy.
Those that immigrated during the 1980s had access to plots of land not larger than 12 acres, but concentrated about 67.3% of the wine production (Richard Jorba 2007). At the end of the decade, when the economic model was showing signs of growing fast, it became necessary to incorporate labor, which was scarce in the province. New immigrants came to the province to work on piecework. The fragmentation of the land and the emergence of hundreds of small farms created a network of small wine producers that will give the Mendoza society high levels of associativity and, consequently, democratization.

Practically all the agriculture and wine growing was based on irrigation, and as the surface area under exploitation grew it became necessary to regulate the use of the water. The water law was then sanctioned in 1884, regulating the distribution of water through the State irrigation system. This infrastructure was an effort to increase the productivity of the arable land. This also implicitly installed a power system tied to the water distribution. Consequently local associations to regulate the use of water were created, which was the beginning of the small producers associations that are still politically quite relevant today (Mateu 2007). This is one of the earliest examples of how geographic proximity derivate in shared economic interests in Mendoza.

Another large incentive to the local economy was the tax exemptions and credits granted by the Provincial Bank (created in 1886) and the National Mortgage Bank. Tax collection was resumed nonetheless in 1890, since the high profit of the sector could not justify the need for fiscal incentives. The tax collected from wine production became 60% of the state income and gave the local government autonomy from the national government (Branchetta et.al. 2011).
The provincial government assumed a very active role in the development of the new economic model, without which there would not have been such an accelerated growth. Between 1883 and 1989 44,000 acres of export quality grapes were planted. In 1887 there were 204 small wineries and by 1899 this number rose to 1084 establishments also increasing in capacity. By 1914 the sector represented 71.6% of the gross domestic product (Mateu 2007; Richard – Jorba 2007). Table 5.1 shows the rapid growth of wine industry establishments in Mendoza from 1884 until 1914 and also shows that throughout that thirty year period more than one thousand new establishments were added.

Table 5.1. Growth of the Wine Industry Establishments, Mendoza 1984-1914.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Establishments</th>
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<td>1907</td>
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<td>1181</td>
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<td>1051</td>
</tr>
<tr>
<td>1914</td>
<td>1398</td>
</tr>
</tbody>
</table>


The political and economic power of the sector was made possible by the positions that their representatives had in the state apparatus and the financial system. That implied that even if the large wine makers did not represent the majority of the production, they nonetheless maintained their leadership due to their political connections (Mateu 2007). What we do see is the formation of a new agro-industrial bourgeoisie in which European immigration had a great impact on its conformation. Its linkages with the Creole elite and the alliances woven with the
political power would include them within the circle of traditional families of Mendoza, adapting to their protocols and traditions (Mellado 2010).

From 1874 until 1916 we have almost 40 years of political stability under the control of the Liberal Party. Figures such as Francisco and Emilio Civit, Elías Villanueva and Tiburcio Benegas would control the political power as well as maintain a close and familiar relationship with the agricultural bourgeois of the province. The personal alliances woven into the network of economic and political interests legitimated and supported the economically liberal governments and limited the emergence of alternative political movements (Richad-Jorba 2008).

Emilio Civit was elected Governor with the Liberal Party in 1907. This is the last direct representative of the bourgeois business oligarchy, in power since 1874. The arrival of Hipólito Yrigoyen, from the popular Unión Cívica Radical (UCR), to the National Presidency in 1916, together with the expansion of democracy with the compulsory vote for all males, changed the political scenario. The UCR in Mendoza had its window of opportunity and with a successful campaign, José N. Lencinas (UCR) was elected Governor with 18,300 votes against 12,695 of the Liberal Party (Brachetta et al. 2011). This marked the appearance of one of the three parties that are relevant nowadays in Mendoza.

This is the first government with grassroots support in the province, due to the UCR strategy in Mendoza that consolidated the role of local neighborhood committees. The lencinismo differentiated the business elites from the political elites, and this would be a founding cornerstone characterizing the UCR. It also empowers the wide range of small producers and shows how the decentralized nature of wine production allows for the existence of a multiplicity of interests that might support the elected government (Garzón Rogé 2010).
This Government carried out social policies that favored the small wine producers and workers, such as retirement for provincial public employees; the regulation of the 8 hour workday and child labor controls; the minimum wage; and the formation of cooperatives of small producers. An arbitrary water policy, used as an element of intervention in the dissident municipalities coupled with the intervention of the Compañía Vitivinícola de Mendoza added to the discomfort of the oligarchy (Brachetta et.al., 2011; Caroglio 2011). These measures generated the open opposition of the conservative sectors of Mendoza and the big winemakers.

The unexpected death of the Governor in 1920 left a vacuum of power that was occupied by his son, Carlos Washington Lencinas. From this moment on, we find several breakdowns within the UCR in the midst of administrative, bureaucratic and financial chaos that generated a climate of institutional instability. During the decade of 1920 the province was intervened by the national government three times and the candidacy of Lencinas prohibited. It was a period marked by strong political confrontations that would end with the death of the leader of the UCR in 1929, opening a new period for the party as well as for Mendoza.

National interventions show the hard confrontation between the local and national leadership of the UCR. During these interventions there was an intense persecution of the lencinistas. Throughout this decade and the next the UCR was marked by the popularity and/or the political alliances that the different factions could achieve to compete electorally. In this chaotic situation, the conservative sectors concluded that the only way of restoring order to the country and the province was to correct the transformations caused by the expansion of democracy.
In 1930 a coup overthrows President Yrigoyen and Mendoza remains under the intervention of José María Rosa, one of the leaders of the old Liberal Party. Along with some more conservative sectors, they took over the government administration and presented themselves as the Partido Demócrata Nacional (PD) in order to compete in the 1931 elections. This is the birth of the second of the three parties that has characterized Mendoza until nowadays. Another characteristic that would be repeated over time is the close relationship between authoritarian governments and the PD.

The PD was the only party that was considered able to provide institutional and material progress to the province, based on the effectiveness of the Liberal governments in the late 19th century. However, part of the explanation behind the hegemony that the PD had between 1931 and 1943 was their control of the election apparatus through fraudulent strategies. Even in this context, there were two districts in the province that they could not control, Godoy Cruz and the Capital City, which were socialist bastions. The fact that these areas concentrated many of the largest wine industries such as Arizu, Tomba and Escorihuela meant that they concentrated also the majority of blue collar workers as well (Bragoni; 2006).

The administrations of Ricardo Videla (1932-35), Guillermo Cano (1935-38), Rodolfo Coraminas Segura (1938-1941) and Adolfo Vicchi (1941-43) made large investments in public works and wine production (Bragoni; 2006). These investments allowed the province to overcome the difficulties generated as the aftermath of the 1930 crisis. In addition, the absorption of public debt by the National government stabilized the provincial economy. During these years we find the strengthening of the wine sector with the creation of the Regulatory Board in 1935 that concentrated the production of wine among the integrated winemakers. The following year,
the strengthening of agro-industrial profile of the province was institutionalized with the national harvest festival, which will became a highly politicized arena and a platform to pressure politicians (Garzón Roge 2010).

On June 4, 1943 the PD was surprised by the coup that ended the period known as the “infamous decade”, due to the levels of electoral fraud. The new military regime abolished political parties and ordered the intervention of the province. Governor Vicchi, who represented conservative and clerical sectors, had high expectations about the new authoritarian government. However, as time went by and the new de-facto government was showing policies that affected the interests of the wine industry, many PD supporters began to leave the government (Garzón Roge 2010).

The national government evolved into the emergence of Peronism under the Partido Justicialista (PJ) in 1946, which modified the political landscape of Mendoza. Several former UCR leader and those politicians closer to worker unions began to fill the ranks of the local Peronism (Alvarez 2003). The PJ is the third historical party that has characterized politics in Mendoza in the last thirty years. It initially competed head to head against the PD, but after the military regime, the competition is between the PJ and the UCR.

Some important gestures towards the small wine producers and working-class sectors of the province generated adhesions to the PJ, such as the hiring of workers that had been previously dismissed by the Provincial government and the dissolution of the Regulatory Board of Wines (Bragoni 2006).

Under the banner of social justice, political sovereignty and economic independence, the new Peronist government was formed by former political and labor leaders who did not belong
to the traditional circles, and this is the distinctive feature of the three Peronist Governments of Faustino Picallo, Blas Brísoli and Horacio Evans (Caroglio 2011; Bragoni 2006). During these administrations there were changes in the agricultural and wine-growing policy. Peronism provided access to land ownership for those wine contractors that rented land and promoted collective agreements for the establishment of minimum wages for the wine sector in 1947. The State also set the prices of grapes and wine, causing the reaction of large corporations of winemakers and wine producers. At the same time, there was a commitment by the national government to expand the road network, invest in the construction of hydraulic power plants in the south and oil exploitation through the state owned company YPF (Bragoni 2006).

Between 1949 and 1951 the polarization between Peronists and anti-Peronists grew, especially after the reform of the provincial Constitution to mirror the national Constitution and offer the possibility of re-election of the President and the Governor.

The unrest in the province increased with the authoritarian and centralist nature of the political regime, which intervened several municipalities, compulsive affiliations and an excessive Peronist liturgy. The political conflicts in the country lead to a new coup d’état in 1955. The coup aimed at de-peronise the political culture in the country and close any electoral comeback of Perón into power.

With the reopening of democracy in 1958 we find, on the one hand the proscription of Peronism. On the other hand, we have a UCR divided between those sectors of the party that wanted an alliance with the prohibited Peronism and the faction that was openly anti-Peronist. In addition, we find the PD also supporting the anti-Peronist agenda. Even though the Peronist leaders were not able to run for office, the alliance with the faction of the UCR lead by Ernesto
Uleschi earned him the election with 53.89% of the votes, relegating the PD to third place with 14% (Mellado; 2008).

Following the national process of import substitution, Mendoza begins to diversify its economy into a variety of industrial activities. This first period of industrial diversification (1930-1952) was based on food canning (fruit and tomatoes); olive oil and sider; the industrialization of grape sub products, such as alcohol; and the beginning of the cement and chemical industries. Since the beginning of the canning industry it grew continuously till, after only five years, it surpassed the wine industry in terms of the number of industrial companies as well as the level of technology it required (Martin 1992).

The second period of growth and diversification (1953-1963) increased the industrial production related to food and beverages, merging it into the economic structure of the province and acquiring a growth path that followed the demands of the market. The production of chemicals and cement also increased their share of the GDP. The chemical industry grew from less than 2% of the GDP to a peak of 6.21% by 1964. Other industrial sectors were clothing, woods and cork, furniture, leather and precious stones. We also find the appearance of iron and steel industry that would grow more over time. Between the production of iron and machinery, these sectors represented almost 20% of the GDP by 1964. Table 5.2 shows the evolution of the GDP in Mendoza over time. We can see the path of diversification with the emergence of several new economic sectors and a decrease in the share of the wine production.
Table 5.2. Composition of the GDP by sectors, Mendoza 1914-1974.

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Food and beverages</td>
<td>7.38</td>
<td>13.4</td>
<td>10.85</td>
<td>10.96</td>
<td>12.43</td>
<td>7.96</td>
<td>0.58</td>
</tr>
<tr>
<td>Wine production</td>
<td>76.61</td>
<td>29.34</td>
<td>51.69</td>
<td>41</td>
<td>37.05</td>
<td>41.59</td>
<td>-35.02</td>
</tr>
<tr>
<td>Food canning</td>
<td>0.25</td>
<td>4.24</td>
<td>8.33</td>
<td>10.49</td>
<td>11.19</td>
<td>19.47</td>
<td>19.22</td>
</tr>
<tr>
<td>Textiles</td>
<td>2.97</td>
<td>3.11</td>
<td>3.02</td>
<td>1.92</td>
<td>1.68</td>
<td>1.29</td>
<td>-1.68</td>
</tr>
<tr>
<td>Wood</td>
<td>0</td>
<td>5.62</td>
<td>4.84</td>
<td>3.88</td>
<td>2.69</td>
<td>3.25</td>
<td>3.25</td>
</tr>
<tr>
<td>Paper and prints</td>
<td>1.16</td>
<td>6.27</td>
<td>1.67</td>
<td>2.04</td>
<td>2.48</td>
<td>2.44</td>
<td>1.28</td>
</tr>
<tr>
<td>Stones, glass and ceramics</td>
<td>0</td>
<td>1.28</td>
<td>3.79</td>
<td>8.3</td>
<td>7.02</td>
<td>6.91</td>
<td>6.91</td>
</tr>
<tr>
<td>Chemicals</td>
<td>0.43</td>
<td>1.63</td>
<td>4.47</td>
<td>4.08</td>
<td>6.21</td>
<td>3.99</td>
<td>3.56</td>
</tr>
<tr>
<td>Iron and Steel</td>
<td>1.6</td>
<td>2.24</td>
<td>2.09</td>
<td>3.3</td>
<td>9.83</td>
<td>5.72</td>
<td>4.12</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>0</td>
<td>8.38</td>
<td>4.16</td>
<td>10</td>
<td>8.5</td>
<td>6.92</td>
<td>6.92</td>
</tr>
<tr>
<td>Others</td>
<td>9.6</td>
<td>24.49</td>
<td>5.09</td>
<td>4.03</td>
<td>0.92</td>
<td>0.46</td>
<td>-9.14</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>


With the diversification of the economy and the growth of different sectors of the economy, we find the emergence of a new bourgeoisie. This new economic elite is not limited to wine production even though wine remains to be the main economic sector (Martin 1992).

In the 1960s, with the Peronism still proscribed, the PD was able to win three elections in a row: 1961, 1962 and 1966 (Mellado; 2002). During this period the Democratic Party coexisted with successive military interventions, still acting as the representative of the national conservatism in Mendoza. This practice continued after every coup that occurred in the country between 1930 and 1976, as the PD presented itself as the guarantor of the institutional order.

The “Argentine Revolution” coup of 1966 put military representatives in the cabinet seats and completed the administration with PD and UCR members. The military president Levingston named Gabrielli as the provinces’ inspector—it was his third administration- in order to gain political support. But the failure of the military government, which was affected by popular uprisings all over the country—one in Mendoza in 1972- forced the call for elections in 1973.
This time Peronism participated in the elections under the *Frente Justicialista de Liberación Popular* (FREJULI) that included several factions of the PJ. Alberto Martínez Baca won the election with 71% of the votes thanks to the support of both the FREJULI and the UCR (Olguín 2011). But after the assumption of the FREJULI, Baca was pressured by both left and right of the political spectrum. Internal disputes within the Peronism directly affected the administration, causing a delay in the recovery of the economy. Much of the criticism against the government was promoted by other factions of the PJ, which lead president Isabel Perón to intervene the province once again (Olguín 2012).

In the short period from 1974-1976, the PD formed the Popular Federalist Force, in partnership with 15 small conservative parties, with the objective of defending their federal interests. Through this organization they supported the military coup of 1976 with the expectation of assuming control of the provincial administration once again.

This intention was reinforced when in 1981 the Government of Viola opened up to "civil participation" of conservative parties (Mellado 2008). Their long history of supporting military governments and the lack of renewal of the party leaders generated a decrease in citizen’s support for the PD. This was clear with the transition to democracy in 1983 after seven years of a violent military regime. The label of being a collaborationist almost led the party to disappear. At the same time, the exodus of voters favored the UCR, which became the new anti-peronist alternative.
Interest Diversification and Political Funding

In Mendoza there’s an intimate crossover between business sectors and policy. It is the economic diversification of the province plus the particularities of specific sectors (i.e. vitiviniculture) that generates a diversity of interests. The heterogeneity of Mendoza could be explained both by the differentiation of sectoral activities as well as by its geographical diversity. On the one hand we have the diversification of industries and agricultural sectors. From the heavy metal-mechanic industry, the chemical and petrochemical sector and the processed food industry, the province diversified the nature of its industrial production during the second half of the 20th century.

As some authors have described it, the heterogeneity of the industrial bourgeoisie of Mendoza creates diversity of interests that compete for the influence over politics (Martin 1992, Chavez 2003). These interests, in some cases contradictory, are the source of different types of political and economic actions. For example, in agriculture we have a diversification in the type of crop produced (i.e. grapes, garlic, apples, peaches, etc.) and also a geographic diversification due to the multiplicity of small producers. The geographic dispersion of the producers as well as its large number makes association key to support their economic interests.

Geographically, agriculture and especially the wine industry develop in irrigated oases of Central, North and South of the province. They represent up to 3% of the total surface of the territory, and there we find the majority of the population concentrated. The remaining 97% of the surface corresponds to the dry land where we find oil enclaves, mining and subsistence agriculture. This does not imply a political imbalance between the different areas of the province,
as the 18 municipalities that form it have similar political and economic weight (Mellado 2012). The municipalities represent the interest of their local production. It is common to see Mayors participating in the primaries for governor with the support of local businessman, as they both seek to participate in provincial politics.

The intendentes or Mayors of the 18 municipalities of Mendoza represent in many cases local economic groups, which allow them to negotiate with the governor and have an important role during the party primaries. During the governorship of Jose Octavio Bordón (1987-1991) Mendoza decentralized politically and Mayors grew in power. Both the budget redistributions of the 80s as well as the social plan distributions of the 90s consolidated the importance of Mayors. “While the 18 municipalities are spaces with certain economic, demographic and political peculiarities, the availability of large population clusters or large tracts of territory contribute to build effective political machines” (Mellado 2012).

Political finance in Argentina is a very sensitive topic, and there’s almost no information on the amount of resources and donors that can be trusted. This is even more problematic at the provincial level, where the pressure to disclose the parties’ accounts is weaker (Freille 2015). Political finance in Mendoza is unregulated. Only in the mist of the political crisis of Argentina in 2001 the Mendoza legislature passed the Law N° 7005 regulating political campaigns. The law was very lax in the limits it puts on political financing, basically putting a cap on the total amount of finance of 20 cent for every voter. But in the same way that it was approved it was derogated less than a year after. It is unclear until today the reason for both actions (Cueto 2003).

What seems to be a tendency in Mendoza’s politics is the creation of NGOs in order to channel funds that could not be collected directly by the parties, such as funds coming from other
governments and international institutions or, naturally, under the table money from companies. Due to the legal hole in the control of NGOs, they do not have to declare the source of the funds nor disclose who the donors are.

During the internal reforms of the PJ in the 1980s, Jose Octavio Bordón created the Fundación Indeco, latter called Andina. This institution became a powerful think tank that established the bases that would later be used to define the government program. It also operated as a way to obtain funds from the private sector (Mellado 2011). Not surprisingly, after their defeat in 1987, the UCR followed the steps of the PJ and during the governorship of Rodolfo Gabrielli, the UCR created the Fundación Ciudad, which reflected the changes occurring inside the party. The malleability of foundations as NGOs allowed parties to receive economic support without the legal controls the political parties had.

Some of the most relevant foundations that were created by politicians are the Libertador Foundation created by governor Lafalla; Fundación Para el Estudio del Desarrollo Social y Laboral, created in 1996 by a group of union leaders; Fundamérica created in 1987 by the then National Chief of Staff Jose Luiz Manzano; Fundación de Estudios y Programas para America Latina created by national senator Eduardo Bauza; and Fundación Nuevo Milenio of governor Rodolfo Gabrielli, among several others (Perez 2001).

The New Democratic Period: Mendoza 1983-2011

The return to democracy found a modified political structure in Mendoza. The PD as the natural opposition to the Peronism (PJ) was no longer the case. The support that the PD gave to
the military junta severely weakened the support of the voters, and allowed the *Radicalismo* (UCR) to fill this gap. The national scenario had Raúl Alfonsín (UCR) and Ítalo Luder (PJ) competing for the presidency, which also generated momentum for the UCR in Mendoza.

The governmental election of 1982 presented a scenario with three distinctive proposals. The PD recurred to the traditional argument of government efficiency, the support of federalism and the conservative flags that characterized the party. The PJ also used its historical flags of social justice and support for popular movements and unions. The UCR, unlike its competitors, aligned behind the popular image of presidential candidate Raúl Alfonsín with the idea of breaking with the political past (Bragoni 2010).

More interestingly, the UCR candidate, Santiago Llaver, put the focus on the wine industry. He built his campaign and political discourse around winemaking, claiming it as a symbol of local production. This caused a strong impact on the public opinion, especially among small wine producers, as he accused the big winemakers of committing vinous fraud (Mellado 2011).

As the vice-governor candidate Jose Genoud affirmed, the support of the wine industry was key to modify the history of defeats of the UCR. Genoud said: “The centerpiece of the campaign was the wine issue because Llaver knew it well (...) against wine fraud because viticulture, while not the most important activity of Mendoza's economy at least at that time, is the symbol ... is the symbol ... is the symbol of agriculture, the working man, the good country man, and the product of the people recognized nationally (...) [LLaver] made tough statements on the big wineries, and while it seemed very hard, very aggressive, the small winemaker loved
it. That’s why we won so easily in the wine areas and had a great electoral result” (Genoud, quoted in Mellado 2011).

Llaver was a historical figure in the UCR, originally from the East of Mendoza. He had close ties with organizations that defended wine, fruit and horticultural interests, appearing several time in the public media defending them (Mellado 2002). This personal characteristic was very important in a context of a sectorial crisis of the wine industry. The structure of the industry was based on the production of large volumes of cheap wine for domestic consumption was reaching an end.

In this way, Llaver managed to win the elections of 1983 with a large support from the City Capital of Mendoza, although the total difference in votes with the PJ was not large, 300.140 against 229.673 (Mellado 2011).

Table 5.3. Election for Governor, Mendoza 1983.

<table>
<thead>
<tr>
<th>Party</th>
<th>% Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Union Civica Radical</td>
<td>47.08</td>
</tr>
<tr>
<td>Justicialista</td>
<td>36.03</td>
</tr>
<tr>
<td>Democrata de Mendoza</td>
<td>13.03</td>
</tr>
<tr>
<td>Movimiento de Integracion y Des</td>
<td>2.25</td>
</tr>
<tr>
<td>Comunista</td>
<td>1.42</td>
</tr>
<tr>
<td>Frente de Izquierda Popular</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on Atlas Electoral de Andy Tow.

The support for the UCR continued in the legislative elections of 1985 where they maintained their number of seat, but that was the limit. By 1987 the conception of the state and the provincial economy linked with old production processes and taxation contrasted with the demand for modernization of several agricultural sectors (Bragoni 2010). Both the agricultural
and metal-mechanic sectors were demanding an export oriented policy and Llaver was a representative of an old developmental tradition and was unequipped to do so (Bunel et.al. 1995).

While the wine producers were an important support for Llaver’s 1983 victory, this relationship broke down during the administration as the sectoral crises grew. Llaver underwent a strong confrontation with the sector as he continued to criticize the concentration of power by big wine companies. In various public events, he confronted the industry, showing that his Government was not willing to give in to pressures (Mellado; 2011). In 1986, during the traditional dinner held by the wine producers during the festivities of the grape harvest, the President of the wine association delivered an incendiary speech against the governor, which was reproduced through the media and is considered today as the breaking point in the relationship with the sector (interview Baglini). The reaction of Llaver made things worse, as he not only disregarded the criticism but also tried to disarticulate the wine corporative pressure, accusing large producers of controlling the production chain (Mellado 2011).

The breakdown in the relationship of Llaver with a symbolic economic sector such as the wine industry also reflects the lack of coordination with the demands of open market and modernization that the Mendoza economy was demanding. This provided the opportunity the young new leaders of the PJ were waiting for so as to launch their careers, and was the burden the UCR had to deal with in the 1987 gubernatorial election (interview Bordón, Baglini).

The defeat of 1983 had a tremendous impact in the local PJ, as the party was not used to losing to the UCR nationally nor locally, and both things happened at the same time. The failure of the traditional strategies used in the 1983 election created the need to modernize, not only the
candidates, but also the way the PJ behaved politically. This allowed for the restructuration of the party in both fronts. In the case of Mendoza, we see the emergence of the internal faction named Orange List, led by José Bordón, Arturo Lafalla and Rodolfo Gabrielli, all of whom will eventually reach the governor’s seat. The new figures of the PJ were not trained in workers’ unions as was traditional, but in private companies during the authoritarian regime. Bordón worked for the powerful iron and steel company SOCMA, which gave him several political and economic influences.

José Octavio Bordón became the leader of the renovation. He obtained a seat in the 1983 National Congress were he implemented a local agenda. He was able to pass the Fractionalization in Origin Law that had a tremendous effect for the wine industry. This law forced all the fractionalization (bottling) of wine to occur in Mendoza instead of neighboring provinces as was happening at the time. The strategy of benefiting the local economy was well received by the economic sectors. This contrasted with the conflicts that the Llaver administration was having with the agricultural sectors. It also gave Bordón a sense of belonging, as he was born in Buenos Aires.

Former governor Arturo Lafalla comments that the Fractionalization Law was a milestone in the transformation of the PJ and Bordón’s image. Not only did it have an economic impact, but also a huge symbolic one. In his view, Bordón appeared as the young and modern politician versus the old Llaver, who publicly said that the best policy for the wine industry was to put big winemakers in jail (interview Lafalla).

Raúl Baglini, the UCR candidate in 1987, blames the conflicts with the agricultural sectors for his defeat. The public dispute Llaver was having with important businessmen made it
difficult for him to represent an alternative within his party. Meanwhile, Bordón was putting the focus on the regional development and the inclusion of Mendoza in the world economy.

Baglini comments that he tried to compete with Bordón’s strategy by making an arrangement with the wine producers of San Juan that would have kept the wine prices high. When he presented the plan to Llaver the governor decided not to move on it because he thought it might affect the small wine producers and favor only the big companies, which was Baglini’s objective (interview Baglini).

In a context were the economic sectors were critics of the administration that was coming to an end, Baglini decided to avoid the topic and focus on his role in the National Congress (Mellado 2011). Baglini believes that at that point he lost the chances of gaining economic support for his campaign. As an example, he mentions that he received a check from a large wine maker for his campaign, but when he found out that the same person wrote a check ten times bigger to Bordón, he decided to give it back. Something similar happened with the support of the oil sector, which was clearly supporting Bordón’s campaign (interview Baglini).

It was a very expensive campaign, and required a large effort from both candidates to raise enough money to tour around the province (interview Bordón). As it was mentioned, Bordón created the Fundación Andina where he channeled most of the funds he would latter use in the campaign as well as formed the political teams that would latter take over the administration (Mellado 2011).

The new young politicians of the PJ were professionals formed in the private world, unlike the previous generations formed by the unions (Bragoni 2010). The PJ strategy was to
dialog with every sector, and unlike the past, be also open to all the citizenship and not just the traditional blue collar supporters (Mellado 2011).

The second half of the decade showed the modernization of the economy and politics simultaneously. In the economy, there was a conjunction of interests between the agricultural and industrial sectors, as both sought to modernize production and open up to international markets. This change in the economic strategy of the productive sectors was understood by the younger Peronists, who knew how to take advantage of it. The UCR, still under the leadership of Llaver, failed to change in time and were stuck in an obsolete economic logic. The PJ understood the productive sectors as key and added them to the policy, and this had its correlation in the victory of Bordón over Baglini (interview Baglini, Bordón, Lafalla).

Table 5.4. Election for Governor, Mendoza 1987.

<table>
<thead>
<tr>
<th>Party</th>
<th>% Votes</th>
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<tbody>
<tr>
<td>Justicialista</td>
<td>46.65</td>
</tr>
<tr>
<td>Union Cívica Radical</td>
<td>36.95</td>
</tr>
<tr>
<td>Democrata de Mendoza</td>
<td>13.71</td>
</tr>
<tr>
<td>Others</td>
<td>2.69</td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on Atlas Electoral de Andy Tow.

The political program that Bordón presented was known as the Green Book. One of the important aspects of the book was that it was written with the help of representatives from the main economic sectors. For example, Eduardo Sancho, the President of the small wine producers’ cooperatives, was consulted by Bordón on his opinion on the privatization of the state owned wine company GIOL. Without actually having met, Bordón was very receptive to
Sancho’s ideas and incorporated many of them into his government program. When the PJ won, to the surprised of Sancho, he was invited to join the government and carry out the privatization of GIOL. Naturally, this privatization gave Bordón the support of the producer’s cooperatives (interview Sancho).

Bordón began a transformation process oriented towards an export based economy by leading trade missions which promoted local products abroad. The top of the line wine reached the European and Asian markets. The producers of cheap wines began to produce wort (grape concentrate) which had an export market (United, States and Brazil, among others). The iron and steel and metal mechanic industry exported to the rest of South America and the preserved fruit and vegetables to North and South America (Bunel et.al. 1995).

With the success of his policies, Bordón marks the beginning of more than a decade of PJ administrations, with three consecutive governors: Bordón, Gabrielli and Lafalla. This period started with an alliance between the productive sectors and Bordón and ends with the productive sector crisis with Lafalla. In the middle we find a close collaboration between the economic and the political actors where important businessmen were invited to participate directly or indirectly in the decision making, which strengthened the link between business and politics and allowed for the continuity of the PJ administration.

Bordón had a good relationship with all the economic sectors in Mendoza, not just the wine industry. As he affirms, “with the big businessmen of Mendoza we had a working and discussion table where we debated policies. In this matter [Ernesto] Pérez Cuesta had a very important role, (…) he was very generous. Ernesto was a real business leader and we had a very good dialog. I believe that he became enthused with our policies after 1983, with all our
renovation. Clearly, our idea for transforming the wine industry made many traditional businessmen feel attracted to our proposals for decentralization” (cited by Mellado 2011). Ernesto Pérez Cuesta was the owner of a chain of supermarkets, and became the President of the Commercial and Industrial Union of Mendoza and the provincial Trade Exchange Organization. During Bordón’s administration he was appointed Secretary of Public Works and Services.

In the election of 1991, the incumbent candidate Rodolfo Gabrielli was able to win the election due to the effective administration carried out by Bordón, especially within a context of hiper-inflation that Argentina was going through. Gabrielli was the Minister of Economy during Bordón’s administration, a position that is usually considered as important as the governor himself. He was the natural continuation for the economic policies in place and was able to reconcile the support of the traditional PJ, the economic sectors and the conservative voters. Gabrielli represented the renovation of the PJ in many ways, as he not only had the same young-professional aura of his colleagues, but also carried the surname of a former governor from the Democratic Party. This generated the support of PD enthusiasts and broadened the vote scope for the PJ.

We see in the results of Table 5.5 a clear support for the PJ with 54% of the votes, followed by the UCR with 33%. It is rare for a governor to obtain more than 50% of the votes in Mendoza, but comparing this vote count with the previous one, both the UCR and specially the PD lost votes (6%) to the PJ. Part of the explanation behind Gabrielli’s exceptional results is because many conservatives supported Gabrielli due to his family links with the PD.
Table 5.5. Election for Governor, Mendoza 1991.

<table>
<thead>
<tr>
<th>Party</th>
<th>% Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Justicialista</td>
<td>54.13</td>
</tr>
<tr>
<td>Union Civica Radical</td>
<td>33.49</td>
</tr>
<tr>
<td>Democrata de Mendoza</td>
<td>7.76</td>
</tr>
<tr>
<td>Others</td>
<td>4.16</td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on Atlas Electoral de Andy Tow.

The neoliberal policies that began in the 1990s, during President Menem’s administration, benefited the province of Mendoza. Governor Gabrielli supported the presidency of Menem, as it favored the modernization strategies followed by his administration. It stimulated the local economy and opened up the borders for foreign investment in the agricultural sector. The opening up of the local market to external markets modified the old model to a new strategy of export oriented production.

Also, the access to external financial markets had a deep impact on the wine industry. On the one hand it reduced the participation of wine production to less than 10% of the GDP (Bragoni 2010). On the other hand, it generated a change in the internal balance of power in the sector.

In the 1990s, international groups such as Allied Domecq (English) and Pernod Richard (French) bought wine companies in Mendoza and then allied, becoming the largest wine producers in Argentina. This is a story that replicated in many of the largest and most traditional family wineries, which were becoming obsolete in context of this economic opening. Winneries like Arizu (Balbino family), Armando, Calise, Filippini, Gabrielli y Baldini, Gargantini, Giol, Pavlovsky, Passera and Tomba disappeared. Others, like Balbi, Escorihuela, Lemos, Norton,
Rutini, Tirasso and Tittarelli were bought out. Only a few traditional families maintained control of their wineries and invested in modernization in order to be able to compete with foreign investment, like Arizu (Leoncio family), Cabrini, Goyenechea, Lopez Hnos., Gonzalez and Bianchi (Richard-Jorba 2008).

At the same time that big wine companies were being bought by foreign investors, we find the strengthening of the Federation of Wine Cooperatives of Argentina (FeCoVita). Created in 1980, it’s a second level federation that nucleates cooperatives of small wine producers. Currently, it has a total membership of about 5,000 producers, representing about 30% of the wine producers registered in the province of Mendoza. About 80% of the farms that participate in FeCovita are small producers (less than 24 acres), and the other 20% are medium producers (between 24 and 75 acres) (Lautada et.al. 2011).

This transformation changed the internal structure of the wine industry as well as the political interaction it had with the government. As we have described, the wine industry historically presented traditional families that could influence government through personal and family contacts with the policymakers. Now most of those traditional and oligarchic families had disappeared and were replaced by international companies that named CEOs to run the local branches. The key characteristic is that the CEOs have no intention to participate in politics, as their role is purely economic, and may rotate over time.

Many complain that these CEOs know little about the wine industry, as they come from random industries such as food or car production, and this complicates the long term planning (interview Onofri). When there is a political or economic conflict, instead of protesting and mobilizing, CEOs moderate expectations and adjust their production. This is a very different way
to react than what traditional wine owners had been doing before (interview Onofri, Gutierrez). As Martin (1992) analyzes, “the main criterion of distinction between managers and the industrial bourgeoisie is the property of the industrial capital, and the consequent probabilities of life and actions arising from such possession or not, in the bosom of the companies that perform their activities as in the rest of the social and industrial capital” (Martin 1992).

As former governor Arturo Laffalla comments, the owners of the companies are no longer real people, but companies controlled by CEOs, and these have less power and influence, as economic decisions are taken elsewhere. According to him, this transformation affected local politics (interview Lafalla). This process of gerentismo shifted the power of representation from the large traditional wineries to the association of small producers such as FeCoVita, where the owners are local citizens with interests in local politics.

Institutions such as Union Vitivinícola Argentina (UVA) do not have the political influence they once had. At the beginning of the democratic period the annual meeting of the fuerzas vivas, that is, the meeting of the big wine producers, was a highly politicized event. Governor Llaver held a historical debate in the 1986 meeting that, as many say, consequently made the UCR lose the 1987 election (interview Baglini, de la Rosa). Nowadays, this meeting has no real political relevance, as the big wineries have depoliticized significantly. Politicians go to COVIAR, the public-private institution that unifies wine producers, but not to UVA (interview de la Rosa). As Baglini, gubernatorial candidate in 1987, recognizes, if the names that existed 20 years ago were present today, the speeches of the fuerzas vivas would be much more aggressive (interview Baglini).
Going back to the political scenario, by the end of Gabrielli’s administration, we find the conjunction of the local and national political arenas. President Carlos Menem (PJ) was running for reelection and his main challenger was Bordón, who consequently had to break away from the PJ in order to compete for the presidency. This had a direct impact in Mendoza’s PJ, were Bordón was the undisputed leader. His strategy of trying to differentiate the local PJ from the national *menemismo* not only generated an internal party conflict but also led to economic consequences as the provision of federal transfers and several national industrial promotion policies were then blocked (Bragoni 2010).

The departure of Bordón from the PJ left Arturo Lafalla, one of Bordón’s closest allies, to then lead the PJ 1995 election, sharing the national ticket with Carlos Menem and not with Bordóns ticket. Following the strategy of the modern PJ, Lafalla was enthusiastically supported by a group of powerful businessmen that would later join the ranks of the new administration.

Lafalla comments that he had a good relationship with all economic sectors. He organized a working group with the presidents of some of the large Mendoza companies, amongst others: Peñaflor, Las Leñas, Cartelone and IMPSA. He also had good ties with the wine industry but, as he was against economic concentration within the wine sector, he allied with those export oriented producers such as COVIAR. But he remarked that he had friends among every level of the wine chain (interview Lafalla). As the economic consultant Esteban Onofri confirms, he held weekly meeting with the governor to talk about the wine sector (interview Onofri).

There is an anecdote that describes the very good relationship between businessmen and Lafalla. In 1995 the Dean of the Mendoza University visited IMPSA, the well-known metal
mechanical company that belonged to Enrique Pescarmona, and one of the largest companies in Mendoza and the country. After they concluded talking about the donations that Pescarmona was going to give to the University, he asked the Dean to stay on for a couple of extra minutes. Pescarmona then offered him the post of Minister of Industry for the Lafalla government, because IMPSA wanted to build a dam in Potrerillo to provide the factory with needed energy. What surprised the Dean and his colleague was that the offering from Pescarmona came before he had even talked to the elected governor (Interview Marin).

The 1995 election was a new success for the PJ model of policymaking. Lafalla obtained a clear victory of over 20 points. Nonetheless, the PJ was far from obtaining a 50% majority of the votes. The remaining 65% percent of the electorate was divided among three alternatives. This is indicating a high level of political competition in Mendoza and the importance that minority parties have.

<table>
<thead>
<tr>
<th>Party</th>
<th>% Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Justicialista</td>
<td>43</td>
</tr>
<tr>
<td>Union Cívica Radical</td>
<td>20.46</td>
</tr>
<tr>
<td>Democrata de Mendoza</td>
<td>17.88</td>
</tr>
<tr>
<td>Alianza Frente País Solidario</td>
<td>16.48</td>
</tr>
<tr>
<td>Others</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on Atlas Electoral de Andy Tow.

Even though Lafalla’s election showed the dominance of the PJ, his administration will close twelve years of Peronism in Mendoza. He will also mark the end of the close ties between businessmen and the PJ. Several factors explain the breakup. First of all, the consequences of the failed privatizations of state companies and the bankruptcy of the Bank of Mendoza. As Mellado
put it, “if the cross-relationships between politicians and businessmen under justicialista administrations were achieved through recruitment of the latter to cover technical and administrative positions, one of the events that displays the close relationship between these two was the privatization of the state owned provincial banks, the Bank of Mendoza and the BPS (Social Prevision Bank)” Mellado (2001). But the peak of this relationship also precipitated the dismantling of the economic system.

By 1995, the Bank of Mendoza was posting a large deficit which was impacting the provincial budget by about 5 to 6 million dollars per month. In view of this situation, some of the largest businessmen in Mendoza, who had ties with the PJ, formed a group to acquire the Bank. Among them we find Ernesto Pérez Cuesta –former Secretary of Bordón-, Enrique Pescarmona –owner of the largest metal mechanic company in the province-, Roberto Pierrini –owner of one of the largest insurance companies in the country-, and Héctor López –owner of a successful supermarket chain-. They set up the Magna Company, and joint ventured with Raul Moneta, a banker who was also a savvy politician with close ties with President Menem, to bid for the acquisition of the Bank of Mendoza and the BPS (Social Prevision Bank). They were successful and the acquisition was seen at the moment as the best strategy to keep the public funds guarded by local interests. However, after only three years the banks went bankrupt. This generated a political crisis that would end with the defeat of the PJ in the following elections of 1999 (Mellado 2011). As Lafalla admits: “Once the elections were over, I made a thorough analysis of the administration and the causes of the electoral defeat. I arrived at the conclusion that the fall of the Bank was probably the breaking point, in addition to the wear out from 12 years of the PJ
in the provincial government. I also admit that I was one of the responsible for the defeat” (Lafalla 2010).

The bad experience with the Magna group generated a breakdown in the relationship between the leading businessmen of Mendoza and the PJ, which then opened the door for the return of the UCR into power. In the meantime, the UCR was trying to reorganize itself after the bad ending of Llaver’s administration and the succession of defeats in the gubernatorial race. In a similar way to what the PJ went through during the 1980s, the UCR began a process of renovating their ranks throughout the 1990s (Mellado 2011).

Another factor that explains the breakdown of the relationship between businessmen and the PJ was the general failure of the neo-liberal policies of the 90s and the economic recession they generated. The general dissatisfaction with the economic policies of the PJ and the rebirth of the UCR in its alliance with the FREPASO created a new political wave that also included Mendoza.

This would naturally translate into economic support for the opposition parties. As the former gubernatorial candidate for the PD Gustavo Gutierrez remembers, when they were doing well in the polls for the 1999 election, businessmen were approaching them as if they were blood brothers (interview Gutierrez).

The elections of 1999 presented a political scenario favorable to the UCR. On the one hand, the Lafalla administration was ending in the midst of an economic and political crisis. In bad terms with the main companies of Mendoza, the PJ was losing key supporters. In addition, the national PJ was debilitated as the neoliberal policies were generating a recession and a rise in unemployment. In the national arena, an Alliance between the UCR and the FREPASO was
ahead in the polls, and was raising supports. This political context gave impulse to the candidacy of Roberto Iglesias (UCR) in Mendoza.

Initially, the PD was leading the polls for governor, presenting young new candidates such as Gustavo Gutierrez. A long time had passed since the collaboration of the PD with the military regimes, and the new generation was able to capitalize a sort of melancholic remembrance of the efficient administrations of the PD in the past. Moreover, they were perceived as a balance in power between the PJ and the UCR. Not only were the citizens supportive of the PD, but also the economic sectors were approaching them (interview Gutierrez).

The problem with the PD was that it did not have a presidential candidate as it was only a provincial party, and in an election heavily marked by the presidential succession after almost ten years of Menem administration, the alignment of the local and national programs was important (interview Baglini). The UCR, led by Iglesias, was able to capitalize the impulse of De la Rua running for President and came up with its own alliance, sharing the gubernatorial ticket with Horacio González Gaviola, also from the FREPASO.

The results in Table 5.6 show the close victory of the UCR with a little more than 5% over the PD and almost 9% over the PJ. The PD had its best election since the resumption of democracy in 1982 and the PJ had its worst. This clearly reflects the political state of both the province and the nation. The PJ lacked political and economic support, while the PD had been approached by economic sectors and at the same time had renewed its ranks. This translated into a very successful campaign for the PD, only limited by their lack of national candidate for
President. The overall election showed a close competition of three parties, something rare at the local level in Argentina, but which is characteristic for Mendoza.

Table 5.7. Election for Governor, Mendoza 1999.

<table>
<thead>
<tr>
<th>Party</th>
<th>% Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alianza (UCR)</td>
<td>37.94</td>
</tr>
<tr>
<td>Democrata de Mendoza</td>
<td>32.17</td>
</tr>
<tr>
<td>Justicialista</td>
<td>28.8</td>
</tr>
<tr>
<td>Otros</td>
<td>1.09</td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on Atlas Electoral de Andy Tow.

The Iglesias administration was successful, especially in the context of the big economic and political crises that caused the resignation of President De la Rua and the failure of the convertibility economic plan that had managed to keep inflation under control during the previous decade. The political crises of 2001 then marked the political agenda for every provincial government in the country. The fragmentation of the national political parties and the citizen’s demand for a deep political change in the political system, also impacted locally.

With the resignation of President De la Rua in 2001, the national UCR fell into their deepest crisis since its foundation 110 years ago. This created a fragmentation in the national arena and the emergence of satellite parties, both in the UCR and the PJ. The local UCR decided not to follow the directives of the national committee in order to avoid falling into the abyss as well. They rejected the national primary elections and the support of the Presidential candidate Leopoldo Moreau in 2003. Instead, they supported Ricardo Lopez Murphy, a conservative whom was also supported by the PD.
While the UCR presented a united front with Julio Cobos as candidate, the PJ continued to be fragmented. This affected the chances of the PJ candidate Guillermo Amstutz for the 2003 gubernatorial election. To illustrate some of the problems that the PJ was going through, an anecdote told off the record by one of the union leaders from Mendoza, tells of how, in the midst of a new potential defeat of the PJ, the party was not receiving enough economic support from the economic sectors. Facing this potential defeat, several union leaders joined together to raise money for Amstutz’s campaign. They then called the candidate for a meeting where they delivered a briefcase full of the money they had managed to collect (Interview Anonymous1).

The need to win the support of the economic sectors was reflected in the activities of all the candidates. Surprisingly, all the candidates presented their proposed programs for a debate in a pre-colloquium organized by IDEA -Institute for Business Development of Argentina- held in the Economic Federation of Mendoza. But the economic forces of the province continued to support the incumbent party and put their resources behind the candidacy of Julio Cobos (interview Baglini, Gutierrez, Onofri). Cobos represented the continuation of the UCR administration and had a positive background, as he was the Dean of the Universidad Tecnológica Nacional of Mendoza, a post he held since 1997.

Table 5.8 shows the electoral results for 2003. It depicts the consolidation of the UCR administration that obtained almost 5% more votes than in the previous elections. While the PJ recovered from their 1999 defeat and collected almost 36% of the vote, they were still unable to regain the governorship. But what calls for attention in the results from this election is the reduced support for the PD and the emergence of a multiplicity of small parties. This is a consequence of the severe political crisis Argentina was going through at the time, which
favored the appearance of ephemeral anti-system parties. What is in contrast with the rest of the country is the continuation in power of the UCR, which was collapsing everywhere else.

Table 5.8. Election for Governor, Mendoza 2003.

<table>
<thead>
<tr>
<th>Party</th>
<th>% Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Union Civica Radical</td>
<td>42.89</td>
</tr>
<tr>
<td>Justicialista</td>
<td>35.71</td>
</tr>
<tr>
<td>Democrata de Mendoza</td>
<td>9.44</td>
</tr>
<tr>
<td>Afirmacion por una Republica</td>
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</tr>
<tr>
<td>Igualitaria</td>
<td>4.41</td>
</tr>
<tr>
<td>Others</td>
<td>7.55</td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on Atlas Electoral de Andy Tow.

It is important to point out a particularity of Mendoza: the provincial constitution forbids the governor’s reelection. Currently, only a few other provinces in Argentina maintain the same restriction (Entre Ríos, Mendoza and Santa Fe). When democracy was reinstated in 1983 all provinces had this restriction. As local governments were able to obtain majorities in the legislature, they began to force constitutional amendments and so many provinces began to allow the reelection of governors (Almaraz 2010, Cardarello 2012). What is important to notice is that constitutional amendments are not the cause for power concentration but a consequence of it. Only when governors are able to form a majority they can get reelected, not the other way around.

Mendoza stands as a good example of how governor’s reelection is a consequence of political dominance. Since 1983 there has been 69 attempts to reform the Constitution of Mendoza, but only five were successful and none of these planned to modify the reelection limitation. The only five successful modifications of the constitutions were: 1. The direct
election of the governor during Llaver’s administration; 2. The direct election of mayors, during Bordón’s administration; 3 the declaration of the inalienable and exclusive property of hydrocarbon deposits and any other natural sources of energy for the state under Bordón’s administration; 4. The creation of the Judicial Council, under Lafalla’s administration; and 5. The prohibition of the indexation of judicial salaries based on inflation, under Cobos’ administration (Diez 2011).

Mendoza was not exempt from reform attempts seeking the reelection of governors and the consolidation of the power of some political leaders. Governors like Llaver, Cobos, Jaque and Perez tried to modify the constitution to allow reelection, but the political context blocked all of the attempts. In order to obtain the necessary majority to modify the constitution, the incumbent has to negotiate with two other parties, since the political arena is mostly divided between the PJ, the UCR and the PD. In this scenario, the role of the PD is critic, as they play the role of counterbalancing and limiting any political domination. Therefore, the lack of reform of Mendoza’s constitution is in a large part a result of the party system (Pirolo 2014).

With the victory of Nestor Kirchner (PJ) for President in 2003 and Cobos for Governor, the UCR decided to support the national incumbent. This was a bold action that ended with the expulsion of Cobos from the national UCR. Kirchner was a PJ leader that was trying to build alliances across the political board due to the fragmentation of the political scenario. This generated the connection with some UCR governors that were in need of economic support from the national government. The close ties between Cobos and Kirchner crystalized in 2007, when Cobos ran as vice-president of Cristina Fernandez de Kirchner.
The alliance with the national PJ generated a fragmentation in the Mendoza’s UCR that added on to the party’s national crisis. This favored the return of the PJ to the governorship. According to Raúl Baglini, the UCR was debilitated due to the internal fragmentation (interview Baglini), and this allowed PJ’s candidate, Celso Jaque, to obtain the support of the northern areas of Mendoza that had historically leaned towards the UCR (LPO 2011).

The electoral results of 2007 show how the fragmentation of the UCR generated the emergence of the Party *Concertación Ciudadana* that was led by governor Cobos in alliances with President Kirchner’s supporters. The UCR, without the participation of the incumbent, obtained its worst electoral results in their history and couldn’t even reach 10% of the voters. Mendoza again showed a clear winner but with a majority of voters that supporting alternative parties, which reflects a vibrant political competition.

One could argue that the two factions of the UCR, together obtained more votes than the PJ, so if it was not for the internal conflicts, the UCR would have competed head to head for the governorship. Nonetheless, 2007 marked the end of the UCR administration and the beginning of a new PJ government. This started a new cycle with two PJ Governors, Jaque and Perez.

Table 5.9. Election for Governor, Mendoza 2007.

<table>
<thead>
<tr>
<th>Party</th>
<th>% Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partido Justicialista</td>
<td>37.88</td>
</tr>
<tr>
<td>Concertacion Ciudadana</td>
<td>29.97</td>
</tr>
<tr>
<td>Democrata de Mendoza</td>
<td>11.31</td>
</tr>
<tr>
<td>Union Civica Radical</td>
<td>9.89</td>
</tr>
<tr>
<td>Coalicion Civica</td>
<td>5.04</td>
</tr>
<tr>
<td>Otros</td>
<td>5.9</td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on Atlas Electoral de Andy Tow.
The government of Celso Jaque quickly looked for a political partnership with the neighboring governor or San Juan, Jose Luis Gioja, and with the presidential couple, Nestor and Cristina Kirchner. This alliance, not only gave him the political support of highly positioned Peronist leaders, but also the trust of the economic sectors. On the one hand, the wine industry benefited with the close alliance with San Juan, another wine making province interested in controlling grape prices. On the other hand, industrial sectors were interested in obtaining fiscal support from the national executive in the form of the industrial promotion policy that historically had benefited provinces such as San Luis, and negatively affecting Mendoza.

The interest of Mendoza to participate in the industrial promotion policy, which had benefited La Rioja, Catamarca, San Juan and San Luis since the late 1970s is historical. Several open conflicts between the governors and the presidents occurred, regardless of the political color of the governments. Governor Lafalla and President Menem, both PJ, negotiated over the possibility of including Mendoza in the renewal of the industrial benefits, but Menem vetoed it and Lafalla then went to court claiming that the renewal of the benefits was unconstitutional. Almost ten years later, as Governor Cobos and President Kirchner were on very good terms, Cobos decided to put on hold the legal actions taken by Lafalla. In exchange he received several promises for large investments in the province and even got a place in the reelection ticket as vice president of Cristina Kirchner. Nevertheless, Mendoza still remained excluded from the industrial promotion policy. When Celso Jaque became governor he made publicly announced the national support for incorporating Mendoza into the industrial promotion policy. Jaque had agreed to renounce the provincial claims in the Supreme Court and then went on to make a public statement confirming that the President had signed an executive order to finally include
Mendoza in the industrial promotion policy and praised Cristina Kirchner for the historic moment. Nothing ever happened, and Jaque suffered strong criticisms from the industrial sectors. The topic has been off the public agenda in Mendoza since then.

But regardless of the failure in obtaining industrial promotion status from the national government, important businessmen from Mendoza, aligned behind Jaque, were being benefited by contracts with the national government for projects located in other provinces. The clearest example is Omar Alvarez, who was the local partner of Electroingenieria, one of the construction companies benefited by the Kirchners. Alvarez was growing in power since the first government of the Kirchners in 2003, and by 2011 he created a multimedia company that included several TV stations in the province (channel 12 in Mendoza, channel 4 in Malargüe and San Rafael and channel 13 in Valle de Uco), in addition to several radio stations and cable companies (Icarde 2011). This allowed Alvarez to compete politically with other businessmen that voiced their political interests through their own media, such as Daniel Vila (Grupo Uno multimedia) and Sigfrido Alonso (channel 9) (Icarde 2011).

Jaque wisely built strategic relationships and not only had an alliance with Alvarez, but also with the rival economic group of Villa and Manzano, two very powerful businessmen that have historically influenced politics since 1983. In 2008, Jaque gave Vila and Manzano seven of the twelve available provincial areas for oil exploitation. This guaranteed him both economic and media support from the powerful Grupo Uno (Amato 2012).

In 2011 the PJ candidate Francisco Perez, one of incumbent Jaque’s main Ministers, won the election for governor. The candidacy was supported by President Kirchner as well as by oil companies operating in Mendoza (interview Maradona). Table 5.10 shows a typical distribution
of votes in Mendoza, with the winner obtaining less than half the votes, and the majority of the votes divided among many opposition parties. While the Perez administration exceeds the years covered by the dissertation, it’s worth mentioning that it ended with a victory for the UCR in 2015. Current governor Alfredo Cornejo won with 46% of the votes, showing the constant turnover of parties in Mendoza and the difficulty of obtaining clear majorities in the province.

Table 5.10. Election for Governor, Mendoza 2011.

<table>
<thead>
<tr>
<th>Party</th>
<th>% Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frente Para la Victoria (Justicialista)</td>
<td>42.76</td>
</tr>
<tr>
<td>Union Civica Radical</td>
<td>34.38</td>
</tr>
<tr>
<td>Democrata de Mendoza</td>
<td>15.94</td>
</tr>
<tr>
<td>Otros</td>
<td>8.09</td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on Atlas Electoral de Andy Tow.

Conclusion

Mendoza presents a level of political competition higher than most of the Argentine provinces and, throughout its history, we have seen a constant renovation of the parties and elites in power. As we will detail in the statistical analysis, Mendoza ranks third in the country with a Political Competition Index of 1.97, which is consistent with previous analyses of the province (Chavez 2003, Guiñazú 2003, Giraudy 2010, Gervasoni 2010).

As has been already argued, the high level of political competition is based on the variety of interests that are represented by the parties. First, we have the PD that was originally linked with conservative groups, most of them coming from the old bourgeoisie of Mendoza. That
conservatism favored its close relationship with all of the military regimes that had intervened the province at one time or another. While its anti-democratic history affected its performance during the first elections of the new democratic period, the PD has come to represent institutional strength and political moderation, which allows it to play a balancing role in the competition between the UCR and the PJ. This is a key characteristic of Mendoza, as only few provinces were able to maintain old conservative parties (Garcia 2007).

Secondly, we have the UCR, which appeared as the renovation of politics in the early 20th century channeling the support of the popular sectors. Throughout a century it has obtain the majority of the electoral support and has organized strategic alliances with economic sectors and competing parties in order to run the province. Now the local UCR has survived the destruction of the national party and stands as the most important challenger of the PJ in Mendoza. A hundred years after its first gubernatorial victory, the UCR won once again in 2015 putting an end to two consecutive PJ administrations.

Finally, the PJ emerged from the diversification of the economic structure, as it represented the blue collar workers that appeared along with industrialization. In the last thirty years, the PJ has been able to modernize its ranks accordingly with the new economic era, and thus has been in power longer than the UCR. Nonetheless, we tend to find the UCR wining the midterm elections during PJ administrations and vice versa, what shows the dynamic behavior of the electorate and the constant competition of the party system.

As the theory of this thesis has described, it is the economic diversification of the province that explains the variety of interests in play, and which are later translated into the political arena. During the domination of the wine production sector until the first decades of the
20th century we had a dominance of the wine oligarchy. But this domination still had a distribution of power due to the nature of the wine production. The large number of individual wine makers distributed the production across a wide variety of actors. Even though the wine elite had the electorate control, small producers were still influential groups. As former governor Jose Octavio Bordón comments, the water associations, formed to manage the use of water for the growing of the vines created high levels of associativism that could naturally translate into political activism. This, in his view, explains the democratic strength of Mendoza (interview Bordón). When voter rights increased citizenship, this civic strength modified the scenario and elected a UCR governor.

The process of modernization and diversification of the second half of the twenty century, added to the already diversified wine industry, a large number of new sectors. The growth of industrial production such as food and beverages, wood, gems, chemicals, oil, cement and iron and steel have created a multiplicity of interests. As Martin (1992) argues, “we consider this heterogeneity of the industrial bourgeoisie of Mendoza the base of a potential diversification of interests and, therefore, a diversity of social, economic and political projects” (Martin 1992).

As former governor Arturo Lafalla believes, the diversification of Mendoza is democratizing. The variation of economic interests permeates into politics and the lack of concentration allows for divergence and debate. That’s why he worries about the potential concentration of some economic sectors in Mendoza, due to the participation of large multinational companies might reduce the number of political voices (interview Lafalla).

Table 5.11 describes the current distribution of workers and companies across economic sectors, and shows the level of diversification Lafalla and Bordón talk about.
Table 5.11. Number of Workers and Industries by Sector, Mendoza 2003.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Workers</th>
<th></th>
<th>Industry Companies</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>%</td>
<td>Number</td>
<td>%</td>
</tr>
<tr>
<td>Food, beverages and tobacco</td>
<td>11262</td>
<td>39</td>
<td>523</td>
<td>26.2</td>
</tr>
<tr>
<td>Fuels, chemicals and plastics</td>
<td>2250</td>
<td>8</td>
<td>110</td>
<td>5.5</td>
</tr>
<tr>
<td>Wine production</td>
<td>6420</td>
<td>22</td>
<td>388</td>
<td>19.4</td>
</tr>
<tr>
<td>Manufacture of furniture and mattresses</td>
<td>503</td>
<td>2</td>
<td>79</td>
<td>4</td>
</tr>
<tr>
<td>Wood, paper and printing</td>
<td>2584</td>
<td>9</td>
<td>241</td>
<td>12.1</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>2534</td>
<td>9</td>
<td>165</td>
<td>8.3</td>
</tr>
<tr>
<td>Mining</td>
<td>2783</td>
<td>10</td>
<td>306</td>
<td>15.3</td>
</tr>
<tr>
<td>Textiles and leather</td>
<td>381</td>
<td>1</td>
<td>25</td>
<td>1.3</td>
</tr>
<tr>
<td>Vehicles</td>
<td>222</td>
<td>1</td>
<td>30</td>
<td>1.5</td>
</tr>
<tr>
<td>Others</td>
<td>237</td>
<td>1</td>
<td>130</td>
<td>6.5</td>
</tr>
</tbody>
</table>

Source: DEIE y Facultad de Ciencias Económicas, UNCuYo.

When looking at the alliances the PJ governors had with important businessmen, we see diversification playing a direct role in politics. That alliance favored a successful decade of PJ governors, but also marked its end when the bankruptcy of the Bank of Mendoza detonated a crisis. Moreover, when asked about how that political support translated into the electoral competition we find that funding was scarce for those candidates not supported by economic sectors (interview Baglini, Gutierrez, Lafalla, Roitman, de la Rosa).

The personal experience of the politicians and economic actors interviewed for this research expressed how important economic support from production sectors is for the democratic competition in Mendoza. In the next chapter we will see what happens when there’s an alliance between a hegemonic economic sector and the government, and how that affects the chances that opposition parties have to compete in the political arena. The case of San Luis stands as another example of how Mendoza structure is the main explanatory variable of its democratic development.
CHAPTER VI

San Luis

San Luis\(^4\) stands out as an archetypical subnational autocratic government. Since 1983 until nowadays, it has been ruled by either Adolfo or Alberto Rodriguez Saá, brothers from one of the notable local families, whom have been in power for 9 successive gubernatorial periods. The economic development of this province has always been rather difficult, with a slow growth rate, and generally dependent on the central government. This situation is quite clear when one looks at the high level of migration of the population. People had to leave the province in search of jobs and economic opportunities. The process of economic modernization that transformed San Luis into an industrialized province has created a new economic elite that has consequently aligned behind the government of the Saá. By establishing a technocratic bureaucracy and maintaining a balanced budget, the brothers were able to capitalize on the benefits that the industrial promotion policy, approved during the last military dictatorship, provided for San Luis. The autocratic government of the Rodriguez Saá has had several episodes of abuse of power and persecution of the opposition, while maintaining a tight control of their political allies. Moreover, the freedom of expression has been severely affected, as the media is owned and controlled by the government.

The political control of the Rodriguez Saá is exercised through the control of the media —most of which they personally own-, the creation of a symbolism linked to their persona, and

\(^4\) The province of San Luis is located in the region of Cuyo, Argentina. It borders with Mendoza to the West and Córdoba to the East. To the North we find the provinces of La Rioja and San Juan, and to the South the province of La Pampa. Geographically, San Luis is characterized by a semi-arid land with mild weather. The capital city, named like the province, was founded by the Captaincy General of Chile as a resting post on the route that links the Pacific with the Atlantic Ocean.
more importantly, the control of the resources for political participation. On the one hand, the opposition has been unable to receive support from the manufacturing sector, the main economic sector in San Luis. Only marginal sectors as cattle ranching and urban commerce has expressed support for them due to their conflicts with the government. On the other hand, the Rodriguez Saás control the political careers within the incumbent party, as well as through the centralization of the resources. They centralize the campaign contributions of the manufacturing sector and then finance the campaigns of the people that support the regime.

The industrial promotion policy has created a profound economic concentration. San Luis is economically undiversified in terms of sectorial as well as geographic concentration. This transformation began towards the end of the military regime and contrasts notoriously with the previous history of San Luis. Historically, this has been a poor province with a peripheral economy linked to the neighboring provinces of Mendoza, Córdoba and La Pampa. I'll present a short summary of the political and economic history of San Luis before turning to the transforming process started by the industrial promotion policy.

The province of San Luis shows a transition from an oligarchic system to a hegemonic domination with an uncompetitive party system. During the twentieth century, the province shows a backward economy and a political elite dependent on the actions of the national government. The political power in San Luis has historically been represented by a closed elite that controlled the economy and the power of the state. This elite built alliances with other provinces –i.e. Mendoza and Córdoba- and with the national government. On the one hand, its dependency on the national government made the province extremely vulnerable to the national political and economic crises. On the other hand, these alliances contributed to the elites’
permanence in power, as was the case with the distribution of new lands by President Julio A. Roca at the end of the 19th Century. After the military campaigns that conquered independent indigenous societies’ lands between 1879 and 1883, the national government sold these lands at cheap prices to local elites whom had backed the military campaigns. This process concentrated the land in the hands of the elites which marked the distribution of political power. The large majority of the population lived in the rural areas (80%), a percentage that only started changing at the turn of the century (Samper 2006).

The emergence of the mendocismo during the last decades of the 19th century illustrates the oligarchic politics in San Luis. The Mendoza Brothers, two savvy political leaders, controlled the political successions. The ruling elites came to agreement on a single candidate for the governorship and, sometimes, did not even bother to call for elections. Between 1878 and 1904, the mendocismo was allied with the different factions under the national conservative party PAN (Partido Autónomo Nacional). This alliance brought benefits through investments such as the railroad in 1882, which improved the economic context and created new cities along its way, the most important being Villa Mercedes (Mendez 1994). This exemplifies the close dependence of the political and economic elite with the national government.42

The mendocismo lasted until 1904, when a new coup, this time perpetrated by the new party UP (Unión Provincial), removed the governor. They banned kinship to 4th degree of consanguinity and the 2nd degree of affinity between the outgoing and the incoming governor.

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42 The mendocismo went through some important economic and political conflicts. For example, the droughts of the 1880s severely affected cattle rising and forced the government to ask for an international loan. The government could not afford a debt of this magnitude, generating an internal cleavage among the ruling elites (Samper 2006). This conflict evolved into the “bloody revolution” of 1893, a rebellion organized by part of the elites whom supported the newly formed UCR (Unión Cívica Radical). The rebels then agreed with the mendocistas to name Teofilo Saá as the governor. Nonetheless, the national government intervened and brought the mendocinistas back into power. It also took responsibility for San Luis’s public debt with the Parisiaense, Bemberg and Cía Bank (Samper J. 2006).
The objective of this amendment was to limit the concentration of power in one family with the case of the Mendoza brothers in mind. The irony behind this amendment was that it was promoted by Adolfo Rodriguez Saá, Adolfo and Alberto Rodriguez Saá’s great uncle. The Saá brothers later managed to remove this clause by again amending the provincial constitution eighty years later, perpetuating their family’s control over San Luis government for the coming thirty years. The 1904 constitutional reform also instituted secret balloting and an organized electoral roll. But the governmental elections continued to be indirect, and the representatives continued to be renewed by only one third per election, making it quite difficult for parties to reach majorities (Mendez 1994).

By 1917, the UCR finally came into power with Carlos Alric as governor with the support of President Hipolito Yrigoyen. Following a five year hiatus with the UCR in power, the conservative-oligarchical Partido Liberal (PL) dominated the political scenario. Big landowners supported this party and imposed a conservative rule until 1930.

Historians argue that, along with the national economy and politics, San Luis became stagnant between 1914 and 1947 (Samper J. 2006). The agro-export model followed by Argentina weakened national and provincial industries, with the big landowners controlling the political scene. San Luis’s budget depended on the revenues provided by cattle ranchers, which were extremely vulnerable to international market and prices changes. In 1913, San Luis had a deficit of 45.16% (Samper J. 2006). Any important investment on infrastructure depended on the national governments financial support. The provincial governments showed no interest in changing this structural limitation. The 1929 crises had a strong impact on San Luis, especially due to the United Kingdom’s decision to stopped buying cattle products from Argentina.
In addition to these economic problems, the military coup that deposed President Yrigoyen in 1930 brought back electoral fraud, the concentration of political power in few hands and repressive policies against labor. The UCR tried to gain San Luis’s power in 1930, but after they failed they decided to abstain from elections.

Following the military coup of 1843 and the emergence of Juan Domingo Perón in the national scene, San Luis ended the conservative and fraudulent period. Some members of the UCR in San Luis supported Perón and formed the Junta Renovadora, which gained the governorship in 1946. The governor Zavala Ortiz promoted the industrialization of the province and an educational reform. As in the past, San Luis relied on the national budget for growth.

The first two Peronist administrations invested in the provinces’ infrastructure and economy. They constructed new electric power stations, the inter-provincial route 7, and promoted the meat refrigerating industry. The number of provincial industries grew from 180 in 1935 to 1558 in 1963, and the number of labor workers from 1588 to 7427 respectively (Mendez 1994). Nonetheless, most of the investment was financed by the national government. The province continued facing deficit. In addition, most of the new industries were actually small family owned companies with a small number of workers. Hence, San Luis’s economy continued to be marginal (Samper J. 2006). After the Peronist administration, San Luis began a turbulent political and economic period, with constant changes in the governorship that followed closely the national turmoil.

In 1955, the military coup known as the Revolución Libertadora deposed Peron, but also intervened San Luis four times. After 1962, a series of liberal governments continued investing

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43 He also amended the constitution twice. These amendments included the protection of elemental human rights and electoral changes. The 1947 reform also stipulated that the Governor could only be reelected for a two year period, and that representatives would be elected every four years (Samper J. 2006).
in infrastructure, but privatized many public companies. The provincial economy continued its stagnant pattern, highly dependent on cattle ranching and farming. In 1973, the Peronists returned to power after an unprecedented competitive election. The PJ won by 40,205 votes, followed by the conservatives with 27,141 votes, the UCR with 10,096 votes, the centrist left with 3,608 votes and the Movimiento de Integración y Desarrollo (MID) with 8,295 votes (Samper J. 2006).

Governor Elias Ader reactivated many developmental projects. These investments left San Luis with budget deficits that, according to the governor, were “necessary” for development (Samper J. 2006). But what was key during this period was that the national government of Isabel Perón then approved the first stage of the industrial promotion policy that would transform San Luis. But Ader’s term was cut short, as in 1976 Argentina suffered a new military coup. San Luis was put under the control of the Air Force, and Governor Ader was kidnapped, tortured and imprisoned until 1981. The military government ruled with technocrats and remained distant from the provincial politicians. In contrast to Mendoza, the military made few investments in infrastructure; nonetheless, they developed the legislation that would transform the nature of the province. By extending the industrial promotion policy and allowing the government of San Luis to rule over national tax breaks, the provincial economic structure would change the political structure as well.
The Economic Transformation: Industrial Promotion in San Luis

Up until the 1980s, San Luis’ main economic sectors were cattle raising, agriculture and to a lesser extent mining. As the province is located in the periphery of the pampas, it built a competitive advantage for intensive cattle breeding. The share of manufacture in the GDP was low, reaching 16.9% in 1968, but it was mostly based on handcraft industries aimed at the internal market (Guiñazú 2003).

It is in this agricultural context that an Industrial Promotion Policy was implemented. The rapid growth of the manufacturing sector in the center of the province modified the economic and the demographic structure of San Luis. But what’s more important, it generated a geographic and sectorally centralized growth that favored the political domination of the Rodriguez Saás’. The concentration of economic power and its alliance with the dominant party changed the political landscape. San Luis will no longer be dependent on the national government; moreover, it developed such a level of autonomy that on many occasions it’s considered a rouge province. This independence came together with the emergence of an autocratic government that ended the limited party competition that San Luis had presented until then.

An industrial promotion policy is a stimulus for companies to invest in the development of industries in a given territory. The stimulus is composed mainly by a package of tax exemptions, reducing costs and increasing the competitiveness of the area. Credits with low interest rates and investments in infrastructure are also part of the stimulus package. The ultimate objective of the industrial promotion policy is to attract new investments to a
geographical area and to increase the level of investment in existing industries. In Argentina, the first industrial promotion policies appeared in 1944 when the military government tried to address the dramatic disparities between the pampas and the rest of the country (Sawers and Massacane 2001: 106). In the late 1940s and early 1950s, President Juan Domingo Perón promoted the building of modern factories in the interior of the country, a task that continued during the military government that followed Perón. Several other industrial promotion policies were approved in the following decades, with the shared characteristic that the federal tax exemptions were approved by the national government. It is interesting to point out that most of the industrial promotion policies in Argentina were initiated by military governments, as it suggests that addressing regional inequities was not the first motivation. Some authors affirm that industrial promotion in the interior had more to do with the military’s preoccupation with defending the territory against the threat of neighboring countries than with promoting industrial development (Sawers and Massacane 2001, Schvarzer 1987).

The origins of the industrial promotion policy in San Luis can be traced to the Decreto 893 (Executive Order) of 1974. The widow of Perón, Maria Estela Martinez de Perón (Isabelita), enacted the “Historical Reparations Act”, that provided special regimes for industries settling in Catamarca, San Luis and La Rioja (Sawer and Massacane 2001). It was called the “Historical Reparation Act” because the three provinces benefiting from it had provided men to the Independence Army that fought against the Spaniards back in the early 1810s and consequently suffered a serious socio-economic setback. Therefore, the historical reparation sought to remedy a disadvantage that had occurred more than 150 years ago. In 1979, the military government extended the benefits to a fourth province, San Juan (Decreto 1879). One year later a key
structural change was introduced into the industrial promotion scheme. The military government delegated the power to approve exemptions to federal taxes for industrial investment projects of less than $1 million pesos to the government of La Rioja, as part of Ley 22.021 (Schvarzer 1987). This was the first time in history that a local government had direct power over federal resources. In 1982 the military government extended this benefit to San Luis and Catamarca (Ley 22.973), and in 1983 it was extended to San Juan (Ley 22.973). Thus, by the end of the military government in 1983, San Luis was benefiting from an industrial promotion policy that gave it control over federal tax breaks.

In 1984, under the new democratic government, the industrial promotion policy was fully applied in the four favored provinces. With few exceptions, the subsidies generated no apparent social or economic benefit to the country. Most promoted projects approved by the provinces involved only a single stage in the production process of an enterprise whose other activities were mostly in Buenos Aires and Mendoza. The industrial promotion policies presented several problems. Initially, they were supposed to simulate widespread industry development, but except for San Luis, that did not happen. Many of the “new investments” were set up for the sole purpose of collecting the subsidy rather than promoting industrial development. The main subsidy was the exemption from the value-added tax. As long as any part of the production took place in these provinces, the final product was tax-free. This generated what was known as “industries with wheels,” since many factories would install warehouse where products were sent from Buenos Aires, “inspected,” and then returned to Buenos Aires (Schvarzer 1987). The outcome was an inefficient pattern of industrial location, as the locations of factories were chosen merely to take advantage of the subsidies (Sawers and Massacane 2001). Industrial
promotion generated a fragmentation of the production process since the industries that were located in the favored provinces had a tight relation with others located in big industrial centers. Industries did not use local materials and just incorporated labor for processes related with assembling products for the internal market (Schvarzer 1987, Eaton 2003).

The expansion of the tax benefits to the four provinces generated interest among businesses, as the exemption on the value-added tax (21%) represented an important percentage of the products’ cost and, more importantly, allowed them to sell the product at the same market prices as industries not included the promotion plan. Out of the universe of the industrial companies in Argentina, the most important ones were those that took advantage of the industrial promotion by moving some of their facilities to San Luis. These industries were not just small establishments that speculated with the opportunity of tax exceptions, but the largest companies in the country (Schvarzer 1987). The number of investment projects approved in the four provinces after the transition to democracy increased from 121 in 1983 to 600 in 1986. This shows not only the interest of businesses in establishing part of their production chain in the benefited area, but also the facility in the approval of projects (Schvarzer 1987). The driving force behind this increase was the province of San Luis, which had the highest number of investments of the four. On the other hand, the costs for the country increased with the same speed. As Sawers and Massacane summarized, “Industrial promotion as practiced in Argentina failed to stimulate authentic and sustainable industrialization in the interior, (…) it encouraged rent-seeking, corruption, and tax evasion, lowered the efficiency of the economy by favoring inefficient locational patterns, and, of course, exacerbated the budget deficit and with a
consequent boost to inflation” (Sawers and Massacane 2001). This situation also sparked conflict with the national government, which was worried about the fiscal imbalance.

President Raúl Alfonsín, from the Union Cívica Radical (UCR), did not have the political power to restrict the benefits given by the industrial promotion plan. Moreover, from 1984 and 1988, both the Senate and the House of Deputies were dominated by the opposition, which was the Peronist party and its allies, whose electoral base was disproportionately located in the interior (Sawers and Massacane 2001). The costs of industrial promotion grew exponentially in the mid-1980s, generating alarm in the government of Raul Alfonsín. The costs tripled between 1985 and 1987 for the four provinces (Sawers and Massacane 2001). The International Monetary Fund became aware of the problem, and pushed the Alfonsín government to do something about it as early as 1985. In 1986, the government tried to enforce more effectively the ceiling that the law imposed on each province’s total subsidies. This provoked a reaction on the part of political leaders, businesses, and labor leaders from the four benefited provinces (Sawers and Massacane 2001). As a reaction to the national intent to restrict these benefits, there were labor mobilizations in La Rioja and a meeting among the four governors, one of which was future President Carlos Menem. Local business organizations and unions also mobilized to support the industrial policy (Schvarzer 1987). Only in 1988 did Congress finally legislate a major redirection of the industrial promotion plan. A new law -Ley 23.658- aimed to make public the amounts of these subsidies and the identity of firms receiving the benefits. Another provision of the law required that the tax subsidy that each project was to receive could not be more than the expected fiscal cost established when the project was initially approved. Moreover, the power to approve tax exceptions that was originally delegated to the provinces by the military government
was now transferred to the President, giving him the ultimate authority over industrial promotion (Sawers and Massacane 2001).

In the 1990s, under President Menem’s administration, the government consolidated the industrial promotion. Menem was the former governor of La Rioja, so he had a personal interest in the continuation of the promotion plan. During his first term he articulated a number of intricate regulations that postponed the finalization date for the fiscal exemptions. By his second term in office, he reactivated the industrial projects in the four provinces through the decree 804/96 therefore putting an end to the period of unstable legal status (Guiñazú 2003).

Table 6.1. Number of Industries by Sector and Geographic Area, San Luis 2006.

<table>
<thead>
<tr>
<th>Sector</th>
<th>East</th>
<th>Center</th>
<th>West</th>
<th>South</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>1</td>
<td>31</td>
<td>1</td>
<td>0</td>
<td>33</td>
</tr>
<tr>
<td>Auto parts</td>
<td>0</td>
<td>10</td>
<td>3</td>
<td>0</td>
<td>13</td>
</tr>
<tr>
<td>Clothing</td>
<td>0</td>
<td>28</td>
<td>7</td>
<td>1</td>
<td>36</td>
</tr>
<tr>
<td>Construction</td>
<td>0</td>
<td>8</td>
<td>0</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Cosmetics</td>
<td>1</td>
<td>6</td>
<td>1</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Leather</td>
<td>0</td>
<td>6</td>
<td>3</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>Appliances</td>
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<td>0</td>
<td>18</td>
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<td>0</td>
<td>7</td>
<td>0</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Electrical</td>
<td>0</td>
<td>9</td>
<td>2</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>products</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Wood</td>
<td>3</td>
<td>73</td>
<td>9</td>
<td>1</td>
<td>86</td>
</tr>
<tr>
<td>Iron and Steel</td>
<td>2</td>
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<td>4</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Mining</td>
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<td>2</td>
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<td>Paper</td>
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<td>15</td>
<td>0</td>
<td>67</td>
</tr>
<tr>
<td>Plastics</td>
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<td>50</td>
<td>6</td>
<td>0</td>
<td>56</td>
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<tr>
<td>Chemical</td>
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<td>48</td>
<td>5</td>
<td>0</td>
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<td>9</td>
<td>375</td>
<td>59</td>
<td>2</td>
<td>445</td>
</tr>
</tbody>
</table>

Source: Bussetti (2009).
In the case of San Luis, the process of industrialization reinforced the regional inequalities by concentrating the new jobs to the populated areas (Bussetti 2009). Table 6.1 shows the distribution of the industries across the four areas of the province by 1998. By this time the industrial promotion had been in existence for more than fifteen years in San Luis, so what we have is a consolidated new structure. The most important fact of the table is that 85% of the new industries were located in the Center of the province. In this region we have the two largest cities, San Luis and Villa Mercedes, and the road system that connects the pampas to the East to Chile in the West.

If we look at the first period of industrial promotion from 1980 until 1991, we have a population growth of 26.7%, that it’s almost the double of the national average (14.7%). For the period 1991-2001 the average was even higher, 28.4%, showing that the population growth changed the nature of San Luis. Internally, the distribution of the population was highly unequal. While the municipalities further away from the industrial parks lost 20% of their population, the Capital City almost doubled the number of residents, and the adjacent municipality of Pedernera increased its population by 70%. So, as a consequence, twenty years after the beginning of the industrial promotion policy, more than two thirds of the population in San Luis was living the center of the province (Bussetti 2009). In sum, the municipalities of Capital and Pedernera concentrated 68% of the population and 85% of the new industries, generated a highly undiversified geographic distribution.

The rapid external and internal migration also affected the level of urbanization of the province. The process of industrialization allowed San Luis to catch up with the average level of urbanization in Argentina. Table 6.2 shows that in the 1947 the average level of urbanization in
Argentina was 62.2% while San Luis had an average of 39.1%. In the 1980s the level jumped from 70% to 81%, positioning San Luis close to the national average of 83%. Nowadays the urbanization rate in San Luis is 89% and the country average 92% (INDEC 2015).


<table>
<thead>
<tr>
<th>Year</th>
<th>Argentina</th>
<th>San Luis</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>62.2</td>
<td>39.1</td>
</tr>
<tr>
<td>1960</td>
<td>72.0</td>
<td>51.8</td>
</tr>
<tr>
<td>1970</td>
<td>79.0</td>
<td>57.3</td>
</tr>
<tr>
<td>1980</td>
<td>83.0</td>
<td>70.0</td>
</tr>
<tr>
<td>1991</td>
<td>87.2</td>
<td>81.1</td>
</tr>
</tbody>
</table>

Source: Dirección de Estadística y Censos San Luis – INDEC.

But the most interesting transformation is the one shown in Graph 6.1. below. The industrial Promotion generated a clear impact on the geographic diversification, as we have seen above. A similar impact is observed in the sectoral diversification. The Graph shows how San Luis had, by 1980, a low level of development with a series of equally important sectors. But starting around 1984, we find an impressive growth of the manufacturing industry and an overall growth of the economy. Only three years later, the GDP almost quadrupled and the hegemony of manufacturing is undeniable. This graph summarizes the impact the industrial promotion had on San Luis, the transformation the province went through, and the level of hegemony of the manufacturing sector.
Having described the economic transformation process that San Luis went through since the return to democracy in Argentina, we will now go over the transformation that the geographic and sectoral concentration had on the construction of political power and the decrease in political competition. Most importantly we will link the undiversified economic development with the emergence of the Rodriguez Saás autocratic government.

Source: Dirección de Estadística y Censos San Luis – INDEC.
As Maria Clelia Guíñazú affirms, “at the level of extra-party social allies, the Peronist government drew electoral and political support from the upper strata’s business linked sectors and from significant sections of the non-Peronist middle classes” (Guíñazú 2003).

**The Transition from the Authoritarian Regime to the Autocratic Government**

With the transition to democracy there were three political forces that could compete in the gubernatorial election. These were the PJ, the UCR and the MID. The PJ was in the middle of a turmoil after the death of Adre in July of 1981, which triggered an internal competition between different factions of the Peronism. Firstly, we find Llorente Ruíz who was leading the orthodox, conservative wing of the Peronism – the Blue and White List-. The left wing was led by Gaston Monez Ruiz –Orange List-. And finally, a third group that was led by the trade unionist Orlando Britos –White List-. Britos and Llorente Ruíz struck up an alliance and their merged list was called White-Blue and white. They also managed to incorporate all those Peronists that had rejected the previous leadership by Adre. It is in this alliance that we find the Rodriguez Saá brothers. They were able to climb towards control of the PJ apparatus very quickly, given that neither Britos –due to his union affiliations - nor Llorente Ruiz - afflicted by cancer - were able to gather enough support. The Saá brothers were the Parties’ attorneys, and were building their internal legitimacy and power in the party due to their position, and especially due to the close friendship both held with the supervisor for the elections Antonio Sergnese, whom was also a party member (Samper
2006). The 1983 election shows a vibrant internal competition in the PJ, something that would be unheard of today.

Adolfo Rodriguez Saá became a gubernatorial candidate in the PJ primaries and won by less than 3,000 votes. Monez Ruiz, the contender, denounced fraudulent practices during the primary elections, affirming that his list had won in all the provincial departments except for Ayacucho. Sergnese - supervisor of elections and a friend of the Saá's - only conceded their claim in the cases of two of the departments, computing only 1,000 more votes in their favor (Samper & Samper; 2008).

The gubernatorial elections of 1983 were also quite close. Adolfo Rodríguez Saá was elected by a small difference of 3,286 votes, and the PJ obtained the governorship over the UCR for 40.48% against 37.27%. The MID lead by Alberto Domeniconi obtained 14.69%. This situation where there were three parties competing for the governor’s seat will become a rarity in the future. The next four periods will show victories of Adolfo Rodriguez Saá (ARS) with over 50% of the votes and his brother Alberto obtaining 90% of the votes in an almost uncontested election in 2003.

Table 6.3. Election for Governor, San Luis 1983.

<table>
<thead>
<tr>
<th>Party</th>
<th>% Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Justicialista</td>
<td>40.48</td>
</tr>
<tr>
<td>Union Civica Radical</td>
<td>37.27</td>
</tr>
<tr>
<td>Movimiento de Integracion y Desarrollo</td>
<td>14.69</td>
</tr>
<tr>
<td>Alianza Federal</td>
<td>7.56</td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on Atlas Electoral de Andy Tow.

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Starting from the 1983 election, the political history of San Luis is the history of the concentration of hegemonic power in hands of the Saá brothers and the conformation of a neopatrimonialist State. Thanks to the industrial promotion law, San Luis achieved economic stability and allowed the Rodriguez Saás to legitimize their autocratic practices (Trocello; 2008).

The system of political alliances established by the Rodriguez Saás coopted the internal opposition. Adolfo distributed seats in his cabinets and appointments in the National Congress to Orlando and Oscar Britos and former members of the Orange List (Samper & Samper; 2008). Some internal factions of the PJ tried to impeach Adolfo accusing him of fraud, but their attempt felt short because of the lack of evidence. In this way, by 1985, Adolfo would achieve cohesion and internal hegemony in the PJ.

On the contrary, the urban middle class became more and more identified with the UCR since the policies presented by the administration during its early years did not benefit them. They also supported the positive image of the UCR President, Raúl Alfonsín. This situation was clearly reflected in the midterm elections of 1985, in which the voters rejected the actions taken by the government. The UCR won with 48% of the votes against 45.5% for the PJ. The seats at stake in the provincial legislature were distributed according to the Sáenz Peña law, where 2/3 of the seats went to the majority and 1/3 to the minority. This created a tie between representatives in the house, with 15 for the PJ and 15 seats for the opposition. The results concerned ARS, who was trying to reform the constitution in order to amend it and obtain the possibility to be reelected.

Threatened by the new legislature, Adolfo implemented an undemocratic maneuver that while it caused national and provincial outrage, it allowed him to reform the Constitution
allowing for unlimited re-election. His maneuver was to annul the elections in the city of San Luis and then call for new elections in that department. This resulted in political chaos. The UCR refused to participate in the legislature and met with the national government to demand an intervention. The legislature in San Luis continued to operate only with PJ representatives, and when the UCR decided to rejoin, they were evicted by the Police (Interview Agúndez).

The President was on the verge of intervening the province, but ended up negotiating with Alberto Rodriguez Saá. The annulment of the elections was reversed and the UCR representative from the City of San Luis was incorporated to the legislature, but the presidency of the legislature was given to a Peronist and thus any tie in the voting would be resolved by the PJ. Also, they came to an agreement on the constitutional reform it was agreed to address a mechanism to prevent future ties in the legislative voting and also to discuss the possibility of reelection. In exchange, President Alfonsín received the support of San Luis in the National Congress (Samper; 2006).

To elect the Constitutional Assembly the Saenz Pena law was abandoned and instead a system of double simultaneous voting was used. This favored the incumbent party that obtained 33 constituents while the opposition obtained 27, 2 of which were from conservative forces. Thus, the PJ had quorum and could begin to operate with a simple majority. Among the most important reforms made, we have the indefinite re-election, the creation of the position of Vice-Governor, the creation of the Senate (elected through single-member districts, which favored the PJ) and the repeal of the kinship prohibition. In addition, the power to dictate executive orders by the Governor was created with a peculiar mechanism. If an executive order
is not debated in the legislature within 30 days of it being sanctioned, it will be considered promulgated as originally proposed (Samper J.; 2006).

Adolfo ran for re-election in 1987. Still having to negotiate internally in the PJ, he offered the two incumbent Senate seats to Monez Ruiz and Britos. However, shortly afterwards he betrayed them and presented his own list. These two leaders reacted by forming a new party, the Frente Renovador, which competed in the elections independently seeking to break the Peronist vote and give the UCR a chance at defeating ARS. However this did not happen. The incumbent party managed to win the re-election by more than 52% of the votes, leaving the UCR far behind with 32% of the votes and the Frente Renovador in 3rd place with 7%. Once all votes were computed, ARS proceeded to purge the party of all those who had supported the Frente Renovador. This practice was repeated in 1996 and 2004, although with different mechanisms (Samper & Samper 2008).

### Table 6.4 Election for Governor, San Luis 1987.

<table>
<thead>
<tr>
<th>Party</th>
<th>% Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Justicialista</td>
<td>52.13</td>
</tr>
<tr>
<td>Union Cívica Radical</td>
<td>32.87</td>
</tr>
<tr>
<td>Frente Renovador</td>
<td>7.24</td>
</tr>
<tr>
<td>Union de Centro Democrático</td>
<td>6.84</td>
</tr>
<tr>
<td>Others</td>
<td>0.92</td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on Atlas Electoral de Andy Tow.

The election of 1987 represents the disappearance of the conservative MID as the third party in San Luis. In the transition from the authoritarian government the conservative parties were unable to regain their historical role as the second political force in the province. Most of
the supporters began to join the ranks of the PJ as ARS promoted the type of development policies they had been proclaiming (Guiñazú 2003).

According to Aostri, the radicalism is the opposite of the PJ in many ways. It is inefficient in their attempts to prosecute the abuse of power by Adolfo, it has constant internal fractionalization and is unable to present itself as a good alternative in order to win the citizenships support (Aostri 2004). On the one hand, the UCR based its criticism of the Peronist Government with a constant moralist complaint about the illicit enrichment and corruption. But they could not criticize the economic transformation of San Luis. This is an irony of the political system in the province. Even though the economic benefits of the industrial promotion empower ARS, the opposition is also a fervent defender of this policy because it developed San Luis.\textsuperscript{44} The defense of the industrial relocation was a “provincial cause” associated to the construction of an “us” versus “them” scenario, which is the base of the symbolic power that the PJ and ARS have in San Luis (Trocello 2008).

On the other hand, there were several factions of the UCR, like the Renovación y Cambio list led by Agúndez, the Coordinadora led by Bonino, Lorenzo and Ceballos, the Linea Nacional y Linea Federal, represented by Cangianao in the City of San Luis and Zavala in the city of Villa Mercedes. In the primaries these lists formed alliances without a differential political content, just with the sole purpose of dividing up the positions in the State. The hegemony of ARS and the internal conflict of the UCR limited severely the chances of the opposition. Only national political momentum could be strong enough to unify the opposition and challenge the PJ. A good

\textsuperscript{44} In April 1988 when the possibility to end to the industrial promotion was debated, all of the political actors in San Luis stood up to support ARS. A muti-sectorial commission was organized between unions, business associations, local NGOs and political parties. The UCR argued that those against the industrial promotion policy represented the interests of the port city and those of the richest provinces, the MID thought it was an unfortunate attack on regional development (Guinazu 2003).
example of that is the 1999 election when the legitimacy of the PJ domination teetered in San Luis.

At the economic level the industrial promotion law was of utmost importance for the ARS project. The attraction for the companies consisted in tax exemptions on the production and export of goods for 15 years (Bussetti 2009). During the first ten years, the province increased its industrial production by a 556% (Samper J. 2006), and between 1985 - 1999 more than 400 national and international firms settled in San Luis and were awarded with the benefits of the industrial promotion (Astori 2004).

The provincial project was to reduce the cost of the bureaucracy by shrinking the number of state workers and free up resources to improve the productive. If we look at table 6.5 we can see the evolution of the employed population between 1980 and 1991. The most important insights are the decrease in 33.4% of the public sector workers, the increase in private sector workers by 17%, and the increase in employers (34.2%). This is a reflection of ARS strategy to reduce the size of the state and increase private activities.


<table>
<thead>
<tr>
<th>Sector</th>
<th>1980</th>
<th>1991</th>
<th>Variation %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers/Employees</td>
<td>73.5</td>
<td>68.6</td>
<td>-6.7</td>
</tr>
<tr>
<td>Public Sector</td>
<td>33.2</td>
<td>22.1</td>
<td>-33.4</td>
</tr>
<tr>
<td>Private Sector</td>
<td>34.8</td>
<td>40.8</td>
<td>17.2</td>
</tr>
<tr>
<td>Domestic Services</td>
<td>5.5</td>
<td>5.7</td>
<td>3.6</td>
</tr>
<tr>
<td>Self-employees</td>
<td>18.9</td>
<td>20.7</td>
<td>9.5</td>
</tr>
<tr>
<td>Employers</td>
<td>3.8</td>
<td>5.1</td>
<td>34.2</td>
</tr>
<tr>
<td>Family dependents</td>
<td>3.8</td>
<td>5.6</td>
<td>47.4</td>
</tr>
</tbody>
</table>

The State needed industrial infrastructure, but also workers, and thus began promoting the immigration of workers and professionals from all areas. These were attracted by the growth generated by the industrial promotion and inserted themselves in the emerging political logic (Astori 2004). The internal and external immigration, relocated in the center of the province, required a contention strategy. Housing plans were fundamental to pursue this policy of promoting development. It implied an indirect transfer to the population of over 5,000 million dollars, and also meant solving the housing deficit (Astori 2004). The easy access to affordable housing is considered as one of the most successful aspects of the ARS administration and is, until today, one of the symbolic pillars of the PJ in San Luis (Guiñazú 2003).

The government implemented the "Plan Mil", which funded a public infrastructure works plan for an annual 100 million dollars, thanks to the fiscal surplus the province obtained. The political objective was to improve the competitive profile of the province in order to make it attractive for new companies. This financial reserve started in 1989 by means of the increase in national automatic transfers and the benefits of the industrial promotion, and by 1999 reached almost 1500 million dollars (Astori 2004). One of the largest investments was made in the energy infrastructure and roads, which represented five times the national average (Astori 2004).

The overall evaluation of the results that the industrial promotion had in San Luis is a mix. For some analysts, the industrial promotion was implemented without a long-term consideration, without thinking which industries were functional to the province or its resources. There was no follow up of these companies over time so as to see that they could continue working in the province once the incentives ended, which resulted in the departure of most of them and the constant renewal of companies (Samper 2006). On the contrary, others
believe that the dynamics of the industrial promotion produced direct and indirect investments that transformed the productive face of the province, and also created jobs and enabled the province to overcome negative economic cycles such as the 2001 crises (Aostri 2004).

Another side effect brought about by this model was the decrease in the agricultural production. The decrease in the number of agricultural holdings, the modification of the plots and their morphology lead to the transformation of several activities. The environmental impact of the industrial plan tends to be dismissed although it was significant. The industrial and demographic pressure in certain regions meant the increase of landfills polluted by the industrial waste disposal systems. Furthermore, the dense network of roads, building infrastructure and the expansion of electricity networks also modified the environments heavily and favored some regions over the others (Bussetti 2009).

When the industrial poles were created, the resources of the state were redirected to the new industries and most of the traditional sectors were left behind. It is not surprising then to see the Argentine Rural Society (SRA) of San Luis supporting the UCR and joining every protest against the Rodriguez Saá. They actively participated in the popular assemblies of the 1990s, and the multi-sectoral protests of 2004 (interview Verges).

The agricultural/industrial cleavage in San Luis is very acute in political terms, but following the theory presented in this research, the geographic diversification also plays an important role in politics. There are three agricultural zones in San Luis: East, West and South. The first area specializes in crop farming and since the 1980s it has had a sustained growth. The second zone, the West, is a dry area based on cattle rearing, and has experienced low growth. The South area is based on crop farming highly dependent on irrigation systems, but has
presented an exponential growth during ARS governments due to the irrigation investments and
the underground water study done by the government.

Each zone has its own Rural Society with different members, interests and relationships
with the government. The West area was the least benefited by the government, and has become
the most belligerent of all three. The nature of their production makes each acre less productive
than cultivated farms, so they constantly demand tax reductions (interview Pagano). The
government made infrastructure investment in the south that benefited farming. But they also
benefited from the industrial promotion, as they were able to link their production with the food
and food processing industries located in the industrial poles. Naturally, a conflict arose between
the three SRA. The West SRA claimed that they were paying taxes to finance investments in
other areas of the province, and thus demanded a revaluation of the price of land in order to base
taxes on the type of production. The former president of the West SRA comments that
politically, they tend to support the UCR, while the Southern SRA is aligned with the
government (interview Pagano).

The case of the SRA of West San Luis has an inter-capitalist competition determined by
the sector and by geography. It competes with the manufacturing sector for the resources of the
state but also with other agricultural associations of the province. In both cases their interest is in
the allocation of the limited resources of the provincial government. As is expected by the
theory, their reaction is to compete in the electoral arena by financing alternative parties. That is
reflected in their close alliance with the UCR. Since their economic power is comparatively very
limited, they are unable to compete successfully and that inequity is seen in the poor results the
UCR obtains as well.
Returning to the political scenario, the election of 1991 gave Adolfo Rodriguez Saá his third consecutive period as Governor of San Luis. As shown in Table 6.6, the PJ obtained a new majoritarian victory with almost 52% of the votes, leaving the UCR far behind with 37% followed by a multiplicity of small parties. This period had the novelty that it was under the Presidency of Carlos Menem, former governor of La Rioja and a political competitor of ARS. Their relationship was cold but pragmatic.


<table>
<thead>
<tr>
<th>Party</th>
<th>% Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Justicialista</td>
<td>51.78</td>
</tr>
<tr>
<td>Union Civica Radical</td>
<td>36.95</td>
</tr>
<tr>
<td>Frente Político y Social</td>
<td>6.59</td>
</tr>
<tr>
<td>Others</td>
<td>4.68</td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on Atlas Electoral de Andy Tow.

In the national PJ primaries for the presidential election of 1989, ARS decided to play an autonomous role and did not support any candidate, moreover, he asked the Peronist in San Luis to refrain from participating. Only when Menem was elected to be the PJ’s candidate did ARS make a public call for his “unconditional support”. Nonetheless, the ARS idea for the San Luis PJ to be an autonomous branch from the national committee continued throughout the decade. By 1993 every provincial PJ experienced some form of intervention by the national party, except for San Luis, Mendoza and La Pampa (Guiñazú 2003).

But the good and cold relationship ended in 1993 when Menem began his search for a constitutional amendment that would allow him to run for a second term. Alberto Rodriguez Saá was president of the Peronist bloc in the Upper Chamber of the National Congress. He made
several public statements against the reelection proposed by Menem, and at the time of the voting he rejected the proposal. Afterwards, he resigned his Senate seat.\footnote{Two anecdotes of that period paint the relationship between Menem and ARS. Hours after the Senate vote for the constitutional reform ARS was kidnapped while he was in a Motel with a mistress. The kidnappers tied ARS himself, that this was a payback from Menem due to the lack of support for his reelection (Guinazu 2003, Samper and Samper 2008, interview Agundez). Following the motel scandal, ARS met with Menem, who asked him to control his brother Alberto in the Senate. ARS would latter have a plebiscite so that the people could vote in favor or not of supporting the reelection, and the YES vote won. Alberto, feeling betrayed, renounced to his Senate seat and dissappeared into ostracism for several years (Samper and Samper 2008).}

When President Menem was able to modify the National Constitution and obtain the possibility of reelection, Adolfo decided to run in the ballot as a presidential candidate too. The success of the formula, plus the now consolidated control of the economic and political apparatus in San Luis gave the governor in the 1995 election an absolute victory with more than 70% of the votes even though he lost the presidential race. Meanwhile, at the provincial level, the UCR obtained their worst results during the democratic era, with 17% of the votes. These results confirmed the hegemonic domination of Adolfo Rodríguez Saá, that after three periods he kept increasing his support and reducing the political competition.

<table>
<thead>
<tr>
<th>Party</th>
<th>% Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Justicialista</td>
<td>71.62</td>
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<tr>
<td>Union Cívica Radical</td>
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<tr>
<td>Frente País Solidario</td>
<td>10.51</td>
</tr>
<tr>
<td>Alianza Frente Grande</td>
<td>0.87</td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on Atlas Electoral de Andy Tow.

In Adolfo’s fourth period (1995-1999) the government tried to reduce the breach between the investments in the industrial areas and those made in the urban areas. They implemented the triennial plan 1996-1999 with large investments in connectivity like: improving and enlarging
the electric network and building a mainline transformer station that gave San Luis independence from the province of Córdoba, the extension of the gas pipeline that crossed the province from East to West, and the multiplication of paved routes and highways. All of these public works brought political and economic benefits to allied municipalities and their leaders (Samper 2006; Bussetti 2009).

Another innovation for this period was the privatization of state owned companies. The privatization of the energy company SESLEP, producer and distributor of electrical power, was finally concessioned for 90 years to the Excel Group. Also, the Provincial Bank was privatized, after it was tendered twice. The first time was unsuccessful due to the amount of bad credits accumulated by the entity. For the second bidding round, the province assumed all the bad debt and the Bank was finally taken over by a tourism company, Exprinter S.A. (Samper J.; 2006).

During 1996 and 1997 Adolfo Rodríguez Saá went out to discipline and modified the functioning of the judiciary. He enacted a series of laws that economically and functionally affected lawyers and judges. The conflict that broke out as a result of these reforms was widely covered by a large media campaign that sought to capitalize it symbolically in favor of Rodriguez Saá. The beginning of the confrontation was a wage reduction in the Legislative and Judicial powers, which violated the constitutional principle of intangibility of the Judges -Art. 192 of the Criminal Code- (Trocello; 2008). Facing complaints and legal demands the government then decided to transfer the Lawyers Provincial Register to the Provincial Superior Court of Justice -weakening the role of the professional’s organization- and which also forced that all law suits were to be filed in the capital’s jurisdiction, which was controlled by the Government. New judges began to be appointed by agreement between the Executive and the
Legislative (with a PJ majority), the execution of suits filed against the provincial government were suspended, the intangibility of provincial property was established, and a ban on the establishment of injunctions against the State was implemented (Trocello 2008). This shielded the government against any threats from the judicial system and thus began a process of cooptation of the judges.

New actions were taken by ARS. He established the economic autarky of the judicial power, which consequently brought a decrease in the budget and a limitation of its funds. He modified the election, permanence and rotation of the board appointments in the Bar Association and then it was dissolved. A new lawyers association was then created with a cap in the number of members. The permanence of judges was now re-evaluated every four years by the Government. In this way ARS managed to control the collegiate organs and the judicial corporation, disciplining them individually. The justice appointments began to be simple loyalty awards that ensured the impunity of the Government.

What allowed ARS to take such measurements against the judicial power was the lack of a strong opposition, the majority in the legislative and the control of the media. The government had control over the public agenda. The Diario de la República newspaper carried out a smear campaign against the judges of the Supreme Court, claiming journalistic censorship attempts. A march against the Court was organized, and was joined by the vice-governor, legislators and mayors of the PJ (Trocello 2008). In 1997, three members of the Court resigned, and were replaced by judges proposed by the Governor. The political impact of all these measures was the domination of Justice by the Executive and the legitimation of any measure taken by the Government, regardless of its constitutionality (Trocello 2008).
The 1999 gubernatorial race was the closest the opposition has been from a victory against the Rodriguez Saá's and they still fell short by almost 10 points. Nationally the end of Menem’s two terms generated a general consensus that the PJ administrations needed a renewal. The UCR and the FREPASO joined forces and created the party known as Alianza. This alliance was replicated in several provinces including San Luis. The gubernatorial formula was formed by Walter Ceballos (UCR) and Juan José Laborda Ibarra (FREPASO) and initially they were able to gain a lot of support. The provincial alliance was supported economically by the national party and was able to obtain airtime on national television. Moreover, Laborda Ibarra got economic support for companies that had left San Luis at the end of their 15 years of fiscal exemption with the promise of a renewal (Interview Agúndez, Laborda Ibarra). For the first time since 1983 the campaign received proportionally more funds from the private sectors than from the national UCR (Interview Quevedo).

However, internal disputes made the alliance tremble. The UCR had two different candidates in the second largest city of San Luis, Villa Mercedes, that that reduced significantly the number of votes needed to realistically compete with ARS (interview Laborda Ibarra, Agúndez). That, and the political apparatus controlled by the PJ generated a new victory of ARS with over 54% of the votes. The Alianza was able to polarize the election and obtain almost 45% of the electorate, but that was not enough to stop ARS from obtaining his fifth gubernatorial victory in a row.

<table>
<thead>
<tr>
<th>Party</th>
<th>% Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alianza Frente Justicialista</td>
<td>54.32</td>
</tr>
<tr>
<td>Alianza para el trabajo, la justicia y la Educacion</td>
<td>44.99</td>
</tr>
<tr>
<td>Movimiento por la Dignidad y la Independencia</td>
<td>0.69</td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on Atlas Electoral de Andy Tow.

In 2001, the resignation of President De la Rua (UCR) in the middle of a nationwide political turmoil had an unexpected turn for San Luis. The leaders of the national PJ, among which were the Rodriguez Saá brothers, decided to appoint Adolfo as President. But his term was extraordinary short, as he resigned after one week as president. This had a permanent effect in ARS’s strategy, as he decided to run for national positions in every election since then. While the results he obtains at the national level are poor it helps him consolidate power locally. He obtained 14% in the presidential election of 2003 and 1.65% in the 2015 election. In the meantime, ARS has now taken the seat in the Senate his brother Adolfo used to have. From then on, Adolfo would run the national elections and his brother Alberto would do the local elections.

After ARS was appointed President for one week, the administration continued under his vice-governor Alicia Leme, but nothing changed in the province since Leme was merely a representative for the Rodriguez Saá brothers. During this time ARS worked on his national projections as his week in power positioned him as one of the potential presidential candidates for 2003. As time went by and as many candidates were joining the national race, the advantage ARS had initially disappeared. With the electoral defeat in 2003 and the victory of Nestor Kirchner, ARS then ran for a seat as a national representative. Locally, his brother Alberto had prepared his candidacy for the governor’s seat. It’s not surprising that by joining forces and
presenting a unified ballot with a Rodriguez Saá for Governor and a Rodriguez Saá for President, they razed the local competition with 90% of the votes.

While this election was not contested in the ballots, it was contested in the Supreme Court. Since ARS was running for President in an ad hoc election called by the provisional President Eduardo Duhalde, Governor Leme decided to have the gubernatorial elections of 2003 earlier. In this way, Adolfo and Alberto would campaign together and join forces in order to increase ARS chances for the presidency. The UCR and other allies decided to impeach this move and presented the case to the National Supreme Court. Three days before the election, the Supreme Court came to a mixed rule by allowing the election of Governor, Vice-Governor and Mayors, but prohibiting the election of National and Local representatives (Colonna 2003). The UCR decided not to participate in the election, which gave Alberto Rodriguez Saá the governorship for the first time by a large majority of the votes.


<table>
<thead>
<tr>
<th>Party</th>
<th>% Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frente Movimiento Popular (Justicialista)</td>
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</tr>
<tr>
<td>Movimiento por la Patria y la Familia</td>
<td>5.54</td>
</tr>
<tr>
<td>Lealtad Sanluisena</td>
<td>3.39</td>
</tr>
<tr>
<td>Alianza Izquierda Unida</td>
<td>0.99</td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on Atlas Electoral de Andy Tow.

Alberto needed to generate his own legitimacy so he campaigned under the lemma: “nobody without a job”. Although he continued with the logic of uptake by alliances, absorption of political forces and concentration of power, he modified the economic strategy. While he maintained the economic policy of no government borrowing, there was a break with the
"protection capitalism", and he started transferring risks to private economic sectors (Aostri 2004).

To achieve his promise of full employment in a province with 18% unemployment - structural unemployment at 7% and a seasonal underemployment fluctuating between 5% and 7% - he launched a social inclusion plan. He created the Community Safety program as a way to absorb the unemployed, but it was poorly planned and with very little training for the personnel, so it ended up creating more conflict with the middle class sectors (Aostri 2004).

With the aim of improving the Governments image, he promoted the law No. 5382, adopted in 2003, which made it mandatory to ratify every existing law and established a deadline for April 30th 2004. At the expiration date, those laws not ratified would automatically repeal. That occurred with 5,300 laws, among which there were some of the laws imposed on Justice (Samper 2006; Trocello 2008).

Soon, Alberto added other controversial measures for the traditional society of San Luis: He modified the freedom of cults’ law, which sought to remove religious orders from the educational institutes for minors and adults, and implemented a reform in education. The measure changed the traditional power of the Church with the community. The claims of the Catholic Church were followed by the society.

As for the second conflict, it reached its peak between February and March of 2004, following the implementation of the Decree 219 whereby the Executive branch intervened around seventy schools across the Province naming "Standardizing directors" (Funes 2006). Self-organized teachers and parents associations protested against the educational reforms. Additionally old claims for the public education system, such as the formation of Education
Councils and the establishment of charter schools were added to the protests (Funes 2006; Samper 2006)

Facing this situation and due to the inaction of the official teaching union A.M.P.P.yA., parents and teachers took to the streets, cut roads and took over some schools. In the heat of the conflict a new leadership emerged, not aligned with the A.M.P.P.yA. union, and the figure of Graciela Murua, who directed the negotiations with the Government after the brutal repression suffered in April 2004. This struggle echoed nationally, forcing Adolfo to return to the province to control the problem (Funes 2006).

At the beginning, the multi-sectorial protest was led by parents and teachers from the educational system. But later on other sectors like commerce, agriculture, unions and opposition parties joined in, making a total of about 60 institutions protesting. The UCR was the first political party to participate and contributed with logistics and infrastructure, like stocking the tires that would later be burnt (Interview Cacace). But as the political participants admit, in order for a movement to survive, it has to have independent economic support. The government cut the economic and institutional support to all the participating institutions and the ware-out and lack of results finally killed the protest (Interview Laborda Ibarra, Pagano).

ARS took note of the civic effervescence against his government and made a new strategic move. He presented a project in the legislature proposing to limit the number of gubernatorial reelectons. Adolfo made several public statements affirming that the unlimited reelection was a “political jail” and that after five consecutive terms he realized that one consecutive reelection was enough for a governor (Rosemberg 2006).
In 2006 the provincial Legislature approved a Constitutional Amendment that eliminated the unlimited reelection, and established that the Governor and the Vice-governor could be reelected for a consecutive term only once, but could run again after a gubernatorial period. The opposition rejected the reform, affirming that it was a new strategy of ARS to maintain power and that a kindship clause was not included in the reform. That way, Adolfo and Alberto could continue to take turns in office without breaking the Constitutional norm.

The constitutional reform was put to vote along with the elections of 2007 and the opposition once again refused to participate. The UCR and the Frente Para la Victoria – supported by President Kirchner- denounced irregularities in the elections and did not compete. Again, Adolfo had an overwhelming victory with more than 86% of the votes, followed by the Socialist Party with less than 10 percent and Movimiento por la Dignidad y la Independencia with less than 4 percent.

Table 6.10. Election for Governor, San Luis 2007.

<table>
<thead>
<tr>
<th>Party</th>
<th>% Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>FREJULI (Justicialista)</td>
<td>86.26</td>
</tr>
<tr>
<td>Socialista Popular</td>
<td>9.77</td>
</tr>
<tr>
<td>Movimiento por la Dignidad y la Independencia</td>
<td>3.97</td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on Atlas Electoral de Andy Tow.

The relationship between the Rodriguez Saá brothers and the presidential couple, Nestor and Cristina Kirchner was cold. While Nestor was the Governor that proposed Adolfo as President in 2001, they later competed against each other in the 2003 presidential election. Kirchner, in the same way that Menem did in the 1990s, tried to coopt the national PJ while ARS tried to keep the provincial PJ in San Luis independent. The President launched the party Frente
*para la Victoria* (FPV) that worked as an alternative to the PJ in those provinces not aligned with the national executive. The leader of the FPV in San Luis was Daniel Persico. He was elected Mayor of San Luis in 2003 in the middle of a judicial scandal. The Mayor at the time, Carlos Ponce, was elected with the support of ARS, but quickly betrayed the PJ by aligning with the FPV. The municipality called for election on November 9th, but the governor called for municipal elections on November 23rd. Two elections occurred and two Mayors are elected, Daniel Persico (FPV) and Maria Angelica Torrontegui (PJ). In an absurd scenario with two self-proclaimed Mayors, the Supreme Court ruled in favor of Pérsico and thus the opposition was able to have a victory in San Luis.

In 2007 Persico was going to run for Governor, but he backed out at the last minute. In 2011 the FPV decided to participate in the gubernatorial race again, but this time in alliance with the UCR. According to several of the participants from this alliance (interview Cacace, Verges), the FPV and the UCR solved their differences in order to present a united front against the Rodriguez Saás. Alejandro Cacace (UCR) and Alfonso Verges (FPV) agreed to have Jose Riccardo, Dean of the National University of San Luis run as the candidate for the alliance. Verges would run for Mayor and Ponce for a National Representative seat. With that agreement made, they went to Buenos Aires in order to have the explicit acceptance of President Cristina Kirchner. While they were given an unofficial support during the negotiation, they found a different response when they arrived at the Presidential Palace. The Ministry of Interior began to include some impossible demands, quite unacceptable to the UCR, in order to confirm the alliance, such as having Cristina Kirchner in the ballot instead of the UCR Presidential candidate. Unexpectedly, the alliance failed. It was not until later that day, when Adolfo Rodriguez Saá
announced publicly that Claudio Poggi was going to be the incumbent’s candidate that they realized that Cristina Kirchner had made a deal with ARS (Interview Cacace, Verges).

As Table 6.11 shows, the breakdown of the UCR-FPV alliance permitted a new easy victory of the PJ with 57.6% of the votes against 25.4% of the FPV. But what is most salient in this election is that, for the first time since 1983, the candidate for Governor was not a Rodriguez Saá but an appointee. Poggi was the Alberto’s Chief of Cabinet, and had worked as Minister of Economy in 2001-2003, and has shifted between being a National Representative, Minister of Tourism and Minister of Public Infrastructure several times in the 2004-2009 period.

Table 6.11. Election for Governor, San Luis 2011.

<table>
<thead>
<tr>
<th>Party</th>
<th>% Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alianza Compromiso Federal (Justicialista)</td>
<td>57.66</td>
</tr>
<tr>
<td>Alianza Frente para la Victoria</td>
<td>25.47</td>
</tr>
<tr>
<td>Alianza Frente Unidos por San Luis</td>
<td>16.83</td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on Atlas Electoral de Andy Tow.

Poggi’s period as Governor exceeds the period studied in this work, but we can still make an analysis of his election. As Laborda Ibarra affirms, Poggi is nothing more than an oxygenation of the regime, a facelift. Adolfo from his seat in the Upper House and Alberto from his radio program have controlled Poggi’s administration (Invertivew Laborda Ibarra). While there have been some episodes that looked like internal conflicts in the provincial PJ and a potential alliance between the governor and President Kirchner, these are dismissed by the opposition as fictional (interview Agúndez, Cacace, Laborda Ibarra). The Poggi administration maintained a good relationship with the national government and allowed the Rodriguez Saás’ to reorganize in view of starting a new period in direct control of San Luis. In 2015 Adolfo ran for
President obtaining only 1.6% of the national votes, and Alberto ran for governor obtaining a new victory with 56% of the votes followed by the UCR (29%) and the FPV (14%). The autocratic domination continues and there’s no clear end in the horizon.

**Political Finance**

The Rodriguez Saá brothers have always considered campaign finance as fundamental for their construction of power. They know that, by controlling the access to campaign funds, they are able to control both internal and external opposition. Their strategy to limit campaign funds not only impacts opposition parties but also incumbent’s candidates that compete for any political position. The objective is to limit the independence of politicians and be able to maintain control over their careers (Interview Sopeña). As a former mayor of San Luis and gubernatorial candidate affirms, the economic independence generates political independence (interview Verges).

The access of candidates to campaign funds in San Luis is defined by the economic and political alliance that was created as a result of the industrial development. Looking at the finance sources for political parties more broadly, we have primary sources of campaign funds and secondary sources of campaign funds. Among the primary sources we find: 1. State resources; 2. State contractors, consultants and suppliers; and 3. Economic sectors. Among secondary sources we have: 1. Individuals, 2. Branches of the party; and 3. The National Government.
The primary sources in the case of San Luis are almost fully limited to the use of the incumbent’s party. State resources, contractors are naturally limited to the incumbent, as it occurs in every province. As Guiñazú affirms, “industrialization from above favored the articulation of fluid and stable ties between the governing elite and the managerial staff of the newly settled firms, the state contractors, and the business class that emerged under the stimulus of public and private investment” (Guiñazú 2003).

It is the economic sectors that may balance the amount of political funding, but in the case of San Luis, the close alliance between them and the State, restricts this option for the opposition. Only marginal sectors that have been negatively affected by the industrial development, such as cattle raising or urban middle class organizations, such as the Commerce Association of the City of San Luis, stand as sources of support for the opposition (Interview Agúndez). But these actors are marginal and have no weight in comparison with the resources the rest of the economy pours into campaigns.

Compared to the primary sources, the secondary options can mobilize fewer resources and thus are less relevant. Nonetheless, sometimes these are the only sources of funding opposition parties may have. We have among them the dues and donations from party members, contributions from officeholders and funds generated by the party (Zovatto 2005, Scarrow 2007). In the case of San Luis even the secondary sources benefit the incumbent, as the PJ requires mandatory contributions from party members that work in the State and the UCR, for example, has very little contributions from this source. The opposition relies on other branches of the party and transfers from the national government. In the first case, given than San Luis is not a relevant constituency, they are not prioritized by the national parties, and usually receive only
enough funding to pay for the ballots (Interview Agúndez). As the current president of the provincial UCR comments, the National UCR Committee may pay for the printing of the ballots, and the National Government transfers the amount that by law every party receives based on the number of votes obtained in the previous elections. These two sources represent a similar amount to what they are able to collect from the private sector (Interview Cacace).

This reality only changed in two elections, 1983 and 1999. In the first case we are talking about the first election after the return to democracy, and this implied that the economic-political alliance was not formed yet and there was a democratic effervescence among the voters. As members of the UCR comment, back in 1983 there was a lot of access to funding given the political context (Interview Cacace). The UCR was supported by the middle class merchants, the MID by the agricultural sectors and the PJ by the Unions, in addition to the resources they received from the national candidates (interview Samper).

The PJ and the UCR were in equal conditions to compete in the first elections, but that changed not only because the PJ won and controlled the public funds, but also because the economic sectors began to take distance from the opposition. Carlos Agúndez, gubernatorial candidate in 1987 for the UCR, comments that they traditionally received funds from commerce and some support from the agricultural sector. But in his 1987 elections he had difficulties funding the campaign. Those businessmen that still wanted to contribute would go to his house at night, parking their cars a couple of blocks down the road in order to go unseen (interview Agúndez). This example paints the scenario that San Luis presented in the following elections.

The second exception to the rule was the election held in 1999. Following the Alliance the UCR built nationally with the candidacy of Fernando de la Rua (UCR) and Chacho Alvarez
(FREPASO), San Luis presented the alliance between UCR and FREPASO as well. The popular demand for a political change nationally gave a window of opportunity for the opposition in San Luis to promote a political change locally. They were doing well in the polls and this generated momentum. The vice-governor candidate Laborda Ibarra comments that they were receiving much more economic support from businessmen and individuals (interview Laborda). But it was still limited compared to the private support the government was receiving. The local UCR president at that time, Horacio Quevedo, comments that Laborda Ibarra traveled to Buenos Aires to meet with the owners of companies that had originally received industrial promotion benefits, but then left San Luis once the benefit period had terminated. Laborda promised, in exchange for economic support, to renew their benefits in case he got elected (interview Quevedo). Laborda Ibarra was also able to receive media support from companies outside San Luis. National newspapers and magazines such as Clarín and Noticias published interviews. He also had air time in national television where he told the story of the corruption in San Luis.

Given the difficulty for the opposition to receive support from important businessmen, they depend on the side effects of the political conflict. For example, Victorio Gualtieri is the owner of the TV stations TVC Puntana and Carolina Cable Color. In addition, his construction company has benefited from the links with the government. Both stations followed the editorial line of the government and supported every political action of ARS (Chavez 2004). But a conflict over a construction contract for the building of a dam in San Luis affected their relationship with the government. In this new context, the opposition was benefited. Gualtieri began offering air time either for free or for a very low cost to the UCR. The editorial also
changed and began to express dissent. Many times they would interview opposition leaders to have their opinion on the government´s actions (Interview Cacace).

On the other side of the political spectrum we also find limitation with political financing with the incumbent´s candidate, but of a different nature. As said, the Rodriguez Saás know that, by controlling economic autonomy, they can control political autonomy as well, and promote or limit political careers. What they do is to centralize the economic support received from the economic sectors and then finance the campaigns of every candidate of the PJ (interview Samper, Risma). Jorge Sopeña, a former provincial senator, comments that, in the primaries, candidates have to finance their own campaigns either with personal funds or the support of friends and relatives. In his case, he was able to afford it with his agricultural exploitations. But once you are the official candidate, the Rodriguez Saás take over and they finance your campaign (interview Sopeña).

ARS has reserved funds to run campaigns that he obtains from every company that received the fiscal benefits of the industrial promotion (interview Laborda Ibarra). This allows him to control the political careers inside the PJ as well as the level of competition in the elections. As Maria Clelia Guiñazú (2003) comments, ARS fosters the formation of satellite parties, led by Peronist cadres or eventual sympathizers who represent small electoral clienteles. Some of the examples were the Partido Union Popular, the Partido Social Democrata, and the Partido Popular Conservador. This electoral strategy seeks to control internal dissent, to

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46 A very insightful anecdote told by Samper (2006) paints the control the Rodriguez Saás had over the political careers in the PJ. In the department of Pringles the PJ committee could not agree on the list for local representative. Out of the three positions at stake, they were able to agree on only two names. Alberto, who had a farm in the area, decided to end the conflict by imposing the foreman of his farm as the third candidate. He was provincial representative for four years while he continued to work on Adolfo’s farm.
accumulate votes, to create a sort of fictional opposition, and to electorally weaken the real
Peronist opposition (Guiñazú 2003).

**The Media**

One of the most tangible democratic problems in San Luis is freedom of expression. A
report by the national organization *Foro de Periodismo Argentino* that evaluates freedom of
expression in Argentina analyzed the case of San Luis and presented an alarming review. The
main problem found by the report is that the Rodriguez Saá family exerts control on the major
media in the province. Adolfo is the owner of the only local newspaper with a provincial
distribution, *El Diario de la República*, and through the executive power, he controls the only
public TV station with provincial reach, Canal 13 (FOPEA 2012).

In the early years after the transition from the authoritarian regime, there were several
newspapers in San Luis. Up until 1985 the province had *El Diario de San Luis*—owned by Mario
Perez—, the newspaper *La Opinión*—owned by Irma Rodríguez Saá, the aunt of ARS—, the
newspaper *Impuslo*—owned by Eduardo Dubor— and the *Diario Puntal San Luis*—owned by a
conglomerate from the province of Córdoba—.

In his first years as Governor, Adolfo bought El Diario de San Luis and renamed it *La
República*. At the same time the newspapers *Impulso* and *Puntal* began to have economic
difficulties and went bankrupt. Adolfo also bought the newspaper *La Opinión*, owned by his
aunt, and closed it. This made the *El Diario de la República* the only provincial newspaper.
Moreover, *El Diario de la República* began to operate also as a printer, and it’s in charge of
printing the official gazette of San Luis and also printing the ballots for the elections (FOPEA 2012).

One of the strategies Adolfo used to coopt all of the local media was the discretionary use of public funds to advertise only in aligned media. But more importantly, he linked the process of economic development with the process of media domination. By the provincial executive order No 1794 of 1990 he established that every public construction contract signed with the province should allocate 0.5% of the budget for advertisement, with the objective of promoting the work or service. While the companies were free to allocate the money in the media of their choice, naturally all of them chose the Diario de la República owned by Rodriguez Saá (FOPEA 2012).

In the case of the radio, internet blogs and cable companies, San Luis presents a more democratic scenario. Carolina Cable Color is owned by Américo Gualtieri. He’s a media owner but also an important constructor who obtained several construction contracts from the government through personal contacts. Nonetheless, due to an economic conflict in his last construction contract, he took distance from the Governor and allowed the opposition to use his media to express dissent (interview Cacace). The other cable TV channel, San Luis CTV, is owned by Mendoza’s Group Vila-Manzano. Both owners are influential political players in Mendoza and nationally, so it’s not surprising that they also play a role locally. While they are on good terms with the Rodriguez Saá brothers, in the 2011 election they favored the candidate supported by President Cristina Kirchner (interview Verges).

Among the radio stations, the most popular one is Radio Dimensión, owned by a conglomerate from the province of Córdoba. While the Radio has received pressure to limit any
dissent and support the government, its economic autonomy allowed it to maintain editorial independence. During the period 2011-2014, Alberto Rodriguez Saá had a radio program: *Planeta Xiliunum*—named due to his esoteric beliefs—which he used to control and denounce any political acts that he considered inappropriate during Poggi’s government (interview Flores).

**Conclusion**

The case of San Luis stands as the archetypical subnational autocratic government. The brothers Adolfo and Alberto Rodriguez Saá were able to consolidate a hegemonic power and reduced the political competition in the province. In the first election after the transition from the authoritarian regimen the Rodriguez Saás were just two of many politicians trying to obtain the primary election first and the gubernatorial race second. It was after ARS took office and built on the economic transformation of the province that he was able to consolidate power. The industrial promotion policy is the reason behind the economic—sectorial and geographic—concentration in the province that allowed a tight alliance between the manufacturing industry and the executive power. And this policy was in a way exogenous to the Rodriguez Saás, as it was approved during the military regime without their participation in the decision making. Nonetheless, these savvy politicians were able to capitalize the economic structure to their own benefit.

As María Guiñazú concluded in her work on San Luis, “the preservation of the industrial promotion and the strategies adopted by the provincial ruling party leaders in the provincial political arena facilitated a successful policy adaptation in San Luis and, simultaneously,
contributed to further consolidate the one-party dominant provincial accommodation” (Guiñazú 2003). In this chapter we were able to describe this policy adaptation and looked into the mechanisms of consolidation for the autocratic government.

Three pillars stand out as the base of the Rodriguez Saás strategy: 1. the symbolic discourse, 2. the control of the political finance, and 3. the control of the media. In the three cases they were based on the economic transformation and the role of the manufacturing sector. Firstly, ARS was able to link his name with the economic growth of San Luis. He is considered the maker of the provincial success and made it impossible to criticize him without criticizing the policy that made San Luis economically successful (Trocello 2008).

Secondly, the control of the political finance has been deterministic for the lack of a relevant internal and external opposition. The Rodriguez Saás have limited the available funds for opposition parties as well as for PJ competitors. In this way, they are able to control and limit political careers. The lack of equivalence in the economic power between manufacturing and the other sectors have left the opposition parties without resources to compete in the political arena. Funds from the national party or legal transfers from the National Government are no match for the unlimited funds provided by the hundreds of companies relocated in San Luis. This has a deep impact in their chances of competing (interview Laborda Ibarra, Agúndez, Cacace, Verges, Risma).

Finally, the media control is a complementary method to the limitation of funds, as it also seeks to limit the chances of the opposition to run a successful campaign. By buying and closing all the unaligned media and forcing the state contractors to invest in the official companies, they controlled the agenda. Through this mechanism they have also attacked the Judicial Power, the
Church, the teachers association and the few politicians that have opposed the power of the Rodriguez Saás (Trocello 2008, FOPEA 2012, interview Agúndez, Cacace, Verges).

As the autocratic government of San Luis starts its third consecutive decade in power we wonder when and how we could see a transformation in the local political scenario. A combination of a natural ware-out of the regime, a unification of the opposition and a favorable national scenario will probably be needed to balance such hegemonic power. The other important question is the democratic institutions of San Luis will be able to stop the future successor to take over the mechanisms used by the Rodriguez Saás and take advantage of the structural concentration of power in San Luis to start a new autocratic government.
CHAPTER VII

Statistical Analysis

The hypothesis presented by this study is that the level of economic diversification of a province, given the network of interests it creates, may favor the existence of an autocratic government, or may incentivize more democratic competition. By economic diversification I mean how diverse the composition of the economic production is in a given province. This diversification could be the distribution of the production across economic sectors or across geographic regions.

On the one hand, the economy is diversified among sectors, that is, the percentage of GDP that each type of production represents: e.g. agriculture, mining, manufacturing, electricity, services, communications, transportation, commerce, etc. On the other hand, the economic diversification can be based on its distribution across regions, that is, when a province contains several major economic clusters. As described in the theory chapter, the inter-capitalist competitions between economic groups could respond to either sectorial or geographic cleavages (O’Donnell 1982, Schmitter 1971, Acuña 1995). Business organizations aggregate interest by sector and by geographic area, because these are the two main sources of politicized issues and demands.

The theory then follows that an undiversified economy with a dominant economic sector/region usually leads to a network of interests aligned with the incumbent and reduces the opposition’s financing opportunities. In a more diversified economy, we will find increased economic groups and a more complex network of interests. The inter-capitalist competition that
emerges from a more complex economy will influence politics, as different interest groups will finance opposition parties whenever they are aligned with their interests more than the incumbent parties. Therefore, an undiversified economy will favor autocratic leadership, while more diversified economy will favor democratic competition.

In sum, given the theory presented, I expect that sectoral, as well as geographic, diversification have a statistically significant effect on the levels of provincial political competition.

**Dependent Variable**

The dependent variable of the study is level of democracy of the local government. As discussed at length in the theory chapter, measuring the level of democracy for subnational governments is challenging. Most national-level approaches for measuring democracy depend upon the actions of the central government (i.e. Freedom House, Polity IV, Vanhanen’s Index of Democracy, and Democracy Index). In this study I am studying variation of democratic development among provinces that are *within* a democratic country. Therefore, common state-level measures, like the right to vote, the division of power, or the control of the military, would obscure the internal heterogeneity of the country. For this reason I decided to use a procedural or minimal definition of democracy. I focus on Schumpeter’s definition of democracy: “The democratic method is that institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people’s vote”
The notion of competitiveness leads me to use the level of political competition as a proxy for the level of democracy.

The difficulty of measuring subnational democratization has been a fairly debated topic in the political science literature in recent years. Authors like Hill (1994), Hernandez Valdez (2000), Solt (2003), Borges (2007), Tomassi et.al (2007), Giraudy (2010) and Gervasoni (2010, 2012, 2013), have presented different methods to deal with this problem. The tendency is twofold, as there is usually a mix between objective measures, like electoral results, and subjective measures, like interviews with informed actors. Regarding the objective data, political dominance by the governor is commonly used. For this purpose, indexes consider the number of executive turnovers, the effective number of parties competing in the election, the share of seats the incumbent holds in the legislature and the victory margins obtained in the election. The subjective indicators might use rankings made through surveys (Gervasoni 2010), or indirect analysis such as the measuring “clean elections” through newspaper articles (Giraudy 2010, 2015). Table 7.1. summaries the examples of subnational democratization indexes that have been applied to Latin America.

This multiplicity of indicators can generate an index that could give us a description of the level of political competition in a given province. As we described in the theory, it is the level of political competition that will determine the level of democratization. In context of low political competition, where the incumbent party holds the majority of the votes and the seats in the legislature, governors are able to consolidate power due to control of institutions and lack of opposition. The consolidation of a hegemonic party in government is the
baseline for autocratic practices. That is why low levels of democratic competition can operate as a proxy for subnational autocracy.

Table 7.1. Examples of Indexes of Subnational Democracy / Political Competition.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Operat.</th>
<th>Range</th>
<th>Variable</th>
<th>Operat.</th>
<th>Range</th>
<th>Variable</th>
<th>Operat.</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Right to Vote</td>
<td>quali</td>
<td>1-4</td>
<td>ENP (votes)</td>
<td>1/ ΣP²</td>
<td>#</td>
<td>Budget allocations to legislative</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Party Compet.</td>
<td>Relative # of seats</td>
<td>#</td>
<td>ENP (seats)</td>
<td>1/ ΣP²</td>
<td>#</td>
<td>Budget allocations to judicial</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Particip.</td>
<td>%</td>
<td></td>
<td>Turnovers</td>
<td>#</td>
<td></td>
<td>Municipal financing</td>
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<td></td>
</tr>
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<td></td>
<td></td>
<td></td>
<td>Human Rights</td>
<td>#</td>
<td></td>
<td>#</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td># of denounces</td>
<td>#</td>
<td></td>
<td>Violations of ballot secrecy</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>Political Violence</td>
<td></td>
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<tbody>
<tr>
<td>Gov. Votes</td>
<td>%</td>
<td>&lt;%&lt;</td>
</tr>
<tr>
<td>Gov. Seats</td>
<td>%</td>
<td>&lt;%&lt;</td>
</tr>
<tr>
<td>Political Continuity</td>
<td>reelections/terms</td>
<td>0-100</td>
</tr>
<tr>
<td></td>
<td>Intra Party Compt</td>
<td>Low-High</td>
</tr>
<tr>
<td></td>
<td>Gov. Seats</td>
<td>&lt;%&lt;</td>
</tr>
<tr>
<td></td>
<td>Constitutions (reelect.)</td>
<td>0- no limits</td>
</tr>
<tr>
<td></td>
<td>ENP (Seats)</td>
<td>&lt;#&lt;</td>
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<tbody>
<tr>
<td>Exec. Contestation</td>
<td>1-%</td>
<td>0-1</td>
</tr>
<tr>
<td>Legis. Contention</td>
<td>1-%</td>
<td>0-1</td>
</tr>
<tr>
<td>Succession Control</td>
<td>Low/med/high</td>
<td>1-3</td>
</tr>
<tr>
<td>Legis. Seates</td>
<td>%</td>
<td>0-100</td>
</tr>
<tr>
<td>Term Limits</td>
<td>0- no limits</td>
<td>0-3</td>
</tr>
<tr>
<td></td>
<td>Exec. Rotation</td>
<td>changes or rot.</td>
</tr>
<tr>
<td></td>
<td>Alter. Probability</td>
<td>(0.66*** or more)</td>
</tr>
<tr>
<td></td>
<td>Legis contest 50%</td>
<td>(100-LIV)*2 or log(100-LIV)</td>
</tr>
<tr>
<td></td>
<td>Legis control</td>
<td>100-legis. Incum seats</td>
</tr>
<tr>
<td></td>
<td>Legis control 50%</td>
<td>(100-LIV)*2 or log(100-US)</td>
</tr>
</tbody>
</table>

Indexes have to find a balance between effectiveness and replicability, as those based on subjective information might be more efficient at capturing the particularities of a given case, but not easily replicable in other countries, given the lack of similar information in other nations or the costs of surveying multiple countries. Indexes that are based on objective data that is available for every case and show good levels of effectiveness are, in my opinion, preferable. Avoiding subjective analysis that might introduce error into the measurement as well as having a
benchmark for comparison is a better option when the study seeks to compare more than one country.

The index I developed builds on elements previous authors have used and tested. Most of them try to capture the dominance of the governor and the control of the legislature. Out of all the indexes presented in table 7.1, the one developed in this work resembles Giraudy’s the most, except for the qualitative indicator of clean elections used by the author for the case of México. This unintended similarity only reinforces the validity of the index developed and allows for a better comparison with the rest of the literature.

Therefore, to construct the political competition index I will rely on electoral data, making the index replicable for other cases. The index captures the level of political competition by measuring how much control the governor can assert over the democratic institutions. As said, when a governor is able to have majorities in the legislature and the opposition is fragmented or week, he/she will be able to overcome the democratic limitations and consolidate an autocratic power.

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Contestation</td>
<td>Reelection</td>
<td>Legislative Contestation</td>
</tr>
<tr>
<td>Victory Margin</td>
<td>ENP</td>
<td>Party</td>
</tr>
<tr>
<td>%</td>
<td>+ 1/(ENP)</td>
<td>1=none; 1.5=one; 2=both</td>
</tr>
</tbody>
</table>

Index of Political Competition = 1/(A*B*C)

Figure 7.1. Political Competition Index.
The political competition index developed for this study is described in Figure 7.1. It is composed of three main components: contestation in executive elections, existence of reelection, and contestation in legislative elections. The first component seeks to capture how competitive the governor’s race is. It adds the victory margin and the effective number of parties (ENP=1/\(\sum P_i^2\)) competing in the election\(^{47}\). When added (victory margin + 1/ENP), executive contestation is lower when the level of competition is high, that is, when the winner had a small victory margin and there were several parties competing. The second component, reelection, codes whether the governor and/or the incumbent party is reelected. If both the party and the governor are reelected, the number is higher and the level of competitions decreases. It is coded 1 if none is reelected, 1.5 if the party or the governor is reelected and 2 if both are reelected. Finally, the legislative contestation resembles the first component, as the larger the number of incumbent’s seats and the lower the effective number of parties, the less competitive the system is (winning coalition + 1/ENP). The three components are then multiplied to create an index. So far, the higher the number the less competitive de province, but to make it more intuitive I take the inverse of the index score so that the new index score increases with more political competition and decreases with lower competition.

The database compiled for this index describes the cases of Argentina and Brazil, incorporating all gubernatorial elections since the return to democracy until the last election covered in the study (see Annex I for more a detailed description of the sources used for the database). Argentina has 24 provinces and 8 electoral periods between 1983 and 2011, for a total of 185 observations. Brazil has 27 states and eight electoral periods from the first democratic

\(^{47}\)The effective number of parties (ENP) is an estimation presented by Taagepera (1979), that instead of counting all of the existing parties, including the smallest one, it adds the parties taking into consideration their relative size. The idea of “effectiveness” refers to the idea of “effective access” to the political position.
election of governors in 1982 until 2010, for a total of 205 observations. Not all the current provinces and states in Argentina and Brazil held gubernatorial elections in the beginning of the transition, as some gained their autonomous status later on.

If we look at the Political Competition Index (PCI) by country, we see that Argentina has a mean of 1.56 while Brazil has a mean of 2.94, seemingly a large difference. This is in part due to the fact that states in Brazil usually have coalition governments where a main party is supported by several smaller parties that only represent an individual politician. Since the PCI counts the number of parties participating in the election, this increases the effective number of parties and thus the value of the PCI. This difference in the PCI base line between countries does not affect the results as each country is tested individually. Nonetheless, a future line of research could be the aggregation of parties in Brazil by coalitions, which will show the real number of competitive political sectors and more closely resemble the Argentine case.

When looking at the variation of the index over time, we see that the PCI of Argentina has a maximum of 4.75 (Tierra del Fuego in 2007) and a minimum of 0.28 (Santiago del Estero in 2008). The ranking of provinces based on the temporal averages is presented in Graph 7.1 where the variation across provinces is easily seen. The provinces with the highest and lowest scores are Tierra del Fuego and La Rioja respectively. The rest of the provinces show a constant slope without any significant outliers or breaks. Highlighted in red are the provinces Mendoza and San Luis, the two cases selected for the Argentine case studies. Mendoza ranks third as most competitive with an average index of 1.97, which is comparable with findings in other studies (Tomassi et.al. 2007, Gervasoni 2010, 2013; Giraudy 2010, 2015). In stark contrast is San Luis,
with an average index of 0.55. This also lines up with previous work (Chavez 2003, Guiñazú 2003).

Graph 7.1. Argentina: Political Competition Index, Temporal Average by Province.

When looking at the evolution of the provinces over time in Graph 7.2, there is wide variation. Regarding provinces with negative slopes (such as San Luis, Santa Cruz, Formosa, Jujuy, La Pampa or Misiones), we could argue that they departed from a first election marked by the return to democracy and the reorganization of the party system, which influenced the local party competition. Over time, dominant parties and leaders were able to consolidate power, and minimize internal political competition. Provinces with more erratic behavior (such as San Juan, Tierra del Fuego, Chaco and Corrientes) illustrate sudden changes in the distribution of power,
due either to local or national political junctures that affected the expectations of victory and the support of the population.

Graph 7.2. Argentina: Political Competition Index over Time, by Province.

Source: Author’s calculations based on Atlas Electoral de Andy Tow.

The PCI in Brazil has a maximum of 14.87 and a minimum of 0.06 with Rondônia presenting the highest average and Ceara the lowest. The particular case of Rondônia, a relatively small state in the North West of Brazil, is a clear outlier compared to the other 26 districts that present a slope similar to the one found in Argentina. Rondônia is an outlier due to a series of close elections that minimized the victory margins of the opposition. This anomaly, as well as the distribution of the other states, resembles the classification found in previous analysis of Brazil’s subnational governments (Borges 2007, 2011; Montero 2007).
When looking at the two selected cases of Minas Gerais and Bahía highlighted in Graph 7.3, we see a significant difference in their level of political competition, which could even be larger if considering coalitions and not just parties individually. The PFL in Bahía tend to form broad coalitions when competing in elections to maximize winning margins. As noted in the description of the cases, Minas Gerais and Bahía are interesting case studies because they differ substantially in their levels of political competition, but are still neighboring states with many similar characteristics, including size and GDP, making them a most similar case comparison.

Graph 7.3. Brazil: Political Competition Index, Temporal Average by Province.

When looking at the evolution of the PCI over time in Brazil we see that many of the state started with proportionally lower scores and continued that same path, like Alagoas, Amazonas, Bahía, Ceará, Serguipe or Tocatins (Graph 7.4). This is an interesting contrast with
the Argentine case, where there was a decline in less-competitive provinces over time. This is explained by the fact that the states in Brazil had elections during a dictatorship. Even though these elections were highly controlled by the national government, the local factions resolved their differences by creating different factions within Arena, the government sponsored party. The 1982 election for governor, the first election with real opposition but still under military regime, occurred with fully functional local political machineries. We consider it a democratic election since opposition parties won in several states. Thus, the number of parties and politicians running for office was less determined by the democratic transition as it was in Argentina.

Graph 7.4. Brazil: Political Competition Index over Time, by Province.

Source: Author’s calculations based on Tribunal Superior Eleitoral.
Main Independent Variables

Following the theory presented in the corresponding chapter, economic diversification explains the existence of more political competition and, therefore, more robust democracy. The inter-capitalist competition translates to the political arena through financing of political parties. Economic sectors are the most important campaign fund source for parties. Unlike individuals, these organizations control large sums of money which can be used to staff offices, hire lobbyists, and make donations to political action committees (Schlozman, Verba and Brady 2012; Bergan 2005; Freille 2015).

Undiversified economies will lead to less inter-capitalist competition and greater alignment with incumbents. In contrast, in diversified economies, more firms, unions and business organizations will have interests and resources to finance different political parties, thus favoring political competition. As mentioned above, economic diversification is divided between sectoral diversification and geographic diversification.

By sectoral diversification I mean how diverse the composition of the economic production is in a given province, that is, the percentage of GDP that each type of production represents (e.g. agriculture, mining, manufacturing, electricity, services, communications, transportation, commerce, etc.). For example, the agriculture sector has different interests than manufacturing, as one may prefer a higher exchange rate in order to export and the other may prefer lower exchange rates to import parts and materials for their industry (Acuña 1995).

The second important cleavage is geography. Business organizations are divided both by sector and by geographic location, as the interests of businessmen are closer among producers of
the same good that belong to the same area. The need of infrastructure, transportation costs, industrial promotion policies, etc. are defined by the location of the production. Therefore, if the state has to decide where to invest or promote with their limited resources, they will have to choose an area. That is why businessman may have to compete with producers of the same goods from other regions of the province.

**Sectoral Diversification Index.**

In order to capture the level of sectoral diversification I use the Herfindahl-Hirschmann (HH) Index: this index is the sum of the squared percentages of each group, and ranges from 0 to 1, with 1 being the highest concentration. For consistency purposes, I inverted the index in order to resemble the DV, so higher sectoral diversification is represented by a higher index score.

I used the HH index on the GDP of each province, divided by the number of economic sectors. Because of the need to apply a uniformed criterion that can compare the GDP composition across provinces and countries, I used the ISIC ((International Standard Industrial Classification of All Economic Activities, Rev.2)), that categorizes economic sectors in 10 different groups. Based on theoretical grounds, I chose to compare the diversification across 5 of these groups: Agriculture, Hunting, Forestry and Fishing; Mining and Quarrying; Manufacturing; Construction; and Financing, Insurance, Real Estate and Business Services. These were selected because they represent the main sources of campaign contributions, as they include the most defined economic interests and the most organized business organizations.

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48 1 - Agriculture, Hunting, Forestry and Fishing; 2 - Mining and Quarrying; 3 - Manufacturing; 4 - Electricity, Gas and Water; 5 - Construction; 6 - Wholesale and Retail Trade and Restaurants and Hotels; 7 - Transport, Storage and Communication; 8 - Financing, Insurance, Real Estate and Business Services; 9 - Community, Social and Personal Services; 0 - Activities not Adequately Defined.
Graph 7.5. Argentina: Sectoral Diversification Index 1983-2011, by Province.

Source: Author's calculations based on Instituto de Estadísticas y Censos (INDEC); Ministerio de Economía.

Graph 7.5 shows the coding of the Sectoral Diversification Index (SDI) for the Argentine case over time. The first and most interesting aspect of the SDI is that the variation is much higher across cases than over time. Most of the provinces tend to maintain the level of sectoral diversification over time, since the economic structure existing in 1983 in Argentina has not change drastically, as most of the processes of industrialization and diversification occurred in previous decades (O’Donnell 1982, Acuña 1995). Cases like San Luis, La Rioja and Catamarca appear as exceptions to the rule. This is due to the policy of industrial promotion approved at the end of the military regime that continued under the democratic government and favored the settlement of new industries in economically underdeveloped provinces. This modified the
structural composition of the province, increasing the weight of the industry in the composition of the GDP. But as seen in San Luis, that modification of the economic structure favored the hegemony of the manufacturing and construction sectors. The other case study, Mendoza, shows high levels of sectoral diversification from the beginning of the period as the process of modernization and diversification occurred previous to 1983.


Source: Author’s calculations based on Instituto de Pesquisa Econômica Aplicada (IPEA).

For the case of Brazil, we see a generally consistent level of SDI over time, with only a few exceptions like the Federal District (. This is another clear outlier because its GDP composition almost entirely services and state administration (education, security, etc.). This is not surprising given that the Federal District was created in the 1960s with the sole intention of
hosting the national government. Most other states went through a period of economic modernization during the military regime, which favored Northern provinces and created, in most cases, economic enclaves. The case of Bahía is an archetypical case that shows how investment developed the state economically, but concentrated economic power among few industrial poles around the capital city.

**Geographic Diversification Index.**

The Geographic Diversification Index (GDI) uses a formula \(1/ \sum P_i^2\) that captures what could be defined as the effective number of regions, based on the location of the population. The database has the number of third level political subdivisions (municipalities) that divide each province of Argentina and states in Brazil, and the percentage of the total population of the province that lives in that municipality. The GDI captures how many significant regions the province has based on the location of the population by using the same formula commonly used for the effective number of parties (Taagepera 1979).

The GDI seeks to capture how economic power is divided across the geography of the province and how many economically relevant centers a province has. As said, geography could be a relevant cleavage for the aggregation of sectorial interests. Moreover, as seen in the cases of Mendoza and Minas Gerais, the primaries of the gubernatorial elections often present Mayors that, with the support of the local economic groups, are able to compete and increase the number of political actors in the provincial race.

While ideally we would like to have the GDP divided by economic regions, this is not available for Argentina and Brazil for the length and observations of this study. That is why a
proxy is necessary. The theoretical argument behind the use of population as the proxy for the geographical distribution of the economic power is that people follow economic development. When a region is productive, people will move in order to work either directly in the regional productions or in the indirect jobs that economic development generates. Moreover, for the purposes of this study, the number of people living in a certain area gives a sense of the political power of the region, as more population implies more votes. The cases of Mendoza and Minas Gerais are great examples of this situation, as they present several economic centers that decentralize the political power and allows for the competition of different economic regions in the provincial political arena.

The Graph bellows shows the GDI for the Argentine case. Even more so than the SDI, the geographic diversification tends to be steady over time, as big cities and population movements require time to consolidate. Many times the rapid economic development of a province is led by investment in the already populated areas, because of the need for labor workers. This endogenous relationship with economic diversification makes the proxy of population even more relevant. We can also see in the Argentine case that most of the provinces have low levels of geographic diversification. This occurs because several provinces have low levels of population density as in Argentina almost 50% of the population is concentrated in eight urban agglomerations.49

49 http://www.ign.gob.ar/NuestrasActividades/Geografia/DatosArgentina/Poblacion
Graph 7.7. Argentina: Geographic Diversification Index 1983-2011, by Province.

Source: Author’s calculations based on Instituto de Estadísticas y Censos (INDEC).

In the case of Brasil, showed in Graph 7.8, we still find that variation across cases is larger than variation overtime. Nonetheless, unlike the Argentine case, several states in Brazil have significant changes in the GDI. The reason behind those modification is the political decisions to increase the number of municipalities at the local level. The reform of the national constitution in 1988 generated a federal transformation that favored the creation of new municipalities and increased their autonomy (Tomio 2005). This created a large number of new local governments and increased the number of regions while reducing the average number of population in each one of them. But once those political transformations occurred, we see the maintainance over time of the GDI.

Variables and Operationalization

In addition to the three indexes that operate as the DV (PCI) and the main IVs (SDI and GDI) the model includes control variables and alternative hypothesis. On the one hand, the model controls for development through the GDP per capita and a Poverty Index based on existing information for Argentina and Brazil. These variables seek to control for those arguments that look into poverty or economic development as sources for democratization.

The importance of economic development as well as the type of economic development has been widely debated in the literature (e.g. Lipset 1959, Diamond 1992, Przeworski et.al. 2000, Ross 2001, Epstein et al. 2006, Boix and Stokes 2003, Ross 2001). The argument
presented in this research assumes that it is not just economic development, but development that creates a competitive arena of economic interests that will promote political competition, and thus, favor democracy. Therefore, it is important to control for the level of development by measuring the per capita GDP and the level of poverty in order to isolate the effect of economic and geographic diversification.  

A third control variable is population density, to control for the population size in each state or province. One might expect to find more population centers with a larger the population, so it is important to control for the rate between population and territory in order to compare geographic diversification, regardless of the size.

On the other hand, we include two alternative hypotheses. The first one refers to the role the national government has in promoting the consolidation of a governor of the same political party. The importance of presidents in the local elections is a topic studied by the literature, but it is unclear when and how that influence is successful in perpetuating or limiting the governor’s power (O’Donnell 2004, Gibson 2005, McMann 2006, Gervasoni 2010, Giraudy 2015, Borges 2007, Montero 2007). In the argument presented in the theory, the national political arena may play a role in the level of political competition by either creating a political juncture that might incorporate politicized issues into the local agenda and/or by participating in the financing of

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50 The time series for GDP at the local level are limited for Argentina and Brazil. For the first case, the data for the Argentine provinces was either obtained from the Buenos Aires office of the Economic Commission for Latin America and the Caribbean or from the Statistic Office of the province (see Annex I for a detailed description of the sources). The range of years covered ranges in general from 1991 until 2011. In the case of Brazil, the data obtained from the Instituto de Pesquisa Economica Aplicada (Ipeadata.gov) ranges from 1995 until 1999. Therefore, following the strategies taken by similar works (Gervasoni 2010, Borges 2011) it was necessary to extrapolate the figures for the periods missing. While not ideal, this strategy can be justified on the grounds that cross sectional differences in development in regionally unequal countries are larger than temporal differences over a few years, and also the fact that I focus on the relative compositions of the GDP (the percentage of each sector) which varies very slowly over time.
local campaigns. We would then expect governors´ co-partisanship with the president to have a negative impact on the local political competition.

The second alternative hypothesis is the rentier theory presented by Gervasoni (2010) that argues that when the subnational government is autonomous from the accountability of the citizens, it allows for the existence of an authoritarian government. Instead of obtaining the rent from productions such as oil or mining, the autonomy comes from the national transfers that provinces receive and that in many cases is significantly larger than the local taxes (Gervasoni 2010).

In sum, the statistical tests use two independent variables and incorporate a series of control variables that represent different theoretical approaches of the literature on democracy and subnational authoritarianism.

Table 7.2. Summary Statistics for Dependent and Independent Variables.

<table>
<thead>
<tr>
<th></th>
<th>Argentina</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent Variable</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political Competition Index</td>
<td>185 1.56 0.97 0.28 4.75</td>
<td>205 2.94 2.43 0.06 14.87</td>
</tr>
<tr>
<td><strong>Main Independent Variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic Diversification Index</td>
<td>192 0.62 0.14 0.15 0.80</td>
<td>216 0.64 0.11 0.20 0.79</td>
</tr>
<tr>
<td>Geographic Diversification Index</td>
<td>192 6.91 6.11 1.96 35.97</td>
<td>216 14.54 12.58 1.00 50.40</td>
</tr>
<tr>
<td><strong>Controls and Alternative Hypothesis</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP per capita</td>
<td>192 0.79 0.67 0.16 3.41</td>
<td>216 0.16 0.23 0.01 2.03</td>
</tr>
<tr>
<td>Poverty index</td>
<td>192 20.42 10.45 3.79 46.80</td>
<td>213 36.76 18.69 1.67 82.73</td>
</tr>
<tr>
<td>Population Density</td>
<td>192 618.58 2916.92 0.47 14827.02</td>
<td>216 54.76 82.64 0.37 444.07</td>
</tr>
<tr>
<td>Nat` Government Transfers</td>
<td>190 763.42 822.26 52.14 5856.88</td>
<td>215 31500 86000 0.00 953000</td>
</tr>
<tr>
<td>National Incumbent Party</td>
<td>187 0.48 0.50 0.00 1.00</td>
<td>207 0.34 0.47 0.00 1.00</td>
</tr>
</tbody>
</table>
Table 7.3. Dependent and Independent Variables, Description, and Sources.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent Variable</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political competition index</td>
<td>Index based on Executive Contestation, Reelections and Legislative Contestation.</td>
<td>Argentina: Author’s calculations based on Atlas Electoral de Andy Tow</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Brazil: Author’s calculations based on Tribunal Superior Electoral.</td>
</tr>
<tr>
<td><strong>Main Independent Variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sectoral Diversification Index</td>
<td>Herfindahl-Hirschmann (HH) Index based on percentage of GDP by sector.</td>
<td>Argentina: Instituto de Estadísticas y Censos (INDEC); Ministerio de Economía.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Brazil: Instituto de Pesquisa Econômica Aplicada (IPEA).</td>
</tr>
<tr>
<td>Geographic Diversification Index</td>
<td>$1 / \Sigma i^2$, where $i$= percentage of state population by municipalities</td>
<td>Argentina: Instituto de Estadísticas y Censos (INDEC); Brazil: Instituto de Pesquisa Econômica Aplicada (IPEA).</td>
</tr>
<tr>
<td><strong>Controls Variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP per capita</td>
<td>State GDP divided by population</td>
<td>Argentina: Instituto de Estadísticas y Censos (INDEC); Ministerio de Economía.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Brazil: Instituto de Pesquisa Econômica Aplicada (IPEA).</td>
</tr>
<tr>
<td>Poverty Index</td>
<td>Argentina: Percentage of people in the total population with at least one basic unsatisfied need (housing, health services, basic education and minimum income) Brazil: Percentage of people in the total population with per capita household income below the poverty line</td>
<td>Argentina: Instituto de Estadísticas y Censos (INDEC); Ministerio de Economía.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Brazil: Instituto de Pesquisa Econômica Aplicada (IPEA).</td>
</tr>
<tr>
<td>Population Density</td>
<td>State population divided by territorial size.</td>
<td>Argentina: Instituto de Estadísticas y Censos (INDEC); Ministerio de Economía.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Brazil: Instituto de Pesquisa Econômica Aplicada (IPEA).</td>
</tr>
<tr>
<td>National Government Transfers</td>
<td>Economic transfers from the National Government to the State.</td>
<td>Argentina: Ministerio de Economía.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Brazil: Instituto de Pesquisa Econômica Aplicada (IPEA).</td>
</tr>
<tr>
<td>National Party Incumbent</td>
<td>Dichotomous variable. 1= if governor and president are of the same party or coalition. 0 = if not.</td>
<td>Argentina: Author’s calculations based on Atlas Electoral de Andy Tow</td>
</tr>
<tr>
<td></td>
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<td>Brazil: Author’s calculations based on Tribunal Superior Electoral</td>
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</table>
Models and Results

Given the nature of the panel data, I will use Random Effects (RE) as the primary model for testing the hypothesis presented in the work. It is common when modeling time-series-cross-sectional and panel data to use Fixed Effects (FE), but given the low variation over time of some variables and the higher cross-sectional variation, RE appears as a preferable alternative (Bell and Jones 2015; Hsiao 2003).

Fixed or Random effects are different strategies to solve the problem of the omitted variables. We use FE when we cannot include variables in the model that proxy for the unobservable variables, but it is reasonable to assume that unobservable variables affect the way the DV behaves. If we expect omitted variables to affect the DV in a consisted way and do not vary in time, they could be "removed" in order to calculate with greater precision the effect of the IVs selected. The FE estimator is computed on the difference between the value of an observation and the average value of that variable throughout the period in which that unit is present in the base. Estimations with RE take particular interest when unobservable variables might be randomly or inconsistently affecting the explanatory variables. Here, for example, "political climate" could have a positive or negative influence on certain ideology during the study period. Estimates of RE obtain estimators more efficiently than FE, as both have the same average, but estimates of RE have a smaller variance (Bell and Jones 2015; Hsiao 2003).

Given that fixed effects estimators rely on within-case variance only, this might not be the preferable method for a data set that contains more cross-sectional than temporal variance. Table 7.4 summarizes the within and between variation of each variable. While the DV shows a
bit more variation over time, both the IVs and several control variables show significantly more cross-sectional variation.

Table 7.4. Summary of Standard Deviations for Dependent and Independent Variables.

<table>
<thead>
<tr>
<th></th>
<th>Argentina</th>
<th></th>
<th></th>
<th>Brazil</th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Between</td>
<td>Within</td>
<td>Total</td>
<td>Between</td>
<td>Within</td>
</tr>
<tr>
<td>Political Competition Index</td>
<td>1.56</td>
<td>0.97</td>
<td>0.59</td>
<td>2.94</td>
<td>2.43</td>
<td>1.38</td>
</tr>
<tr>
<td>Main Independent Variables</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic Diversification Index</td>
<td>0.62</td>
<td>0.14</td>
<td>0.14</td>
<td>0.64</td>
<td>0.11</td>
<td>0.10</td>
</tr>
<tr>
<td>Geographic Diversification Index</td>
<td>6.91</td>
<td>6.11</td>
<td>6.21</td>
<td>14.54</td>
<td>12.58</td>
<td>9.66</td>
</tr>
<tr>
<td>Controls and Alternative Hypothesis</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP per capita</td>
<td>0.79</td>
<td>0.67</td>
<td>0.67</td>
<td>0.16</td>
<td>0.23</td>
<td>0.11</td>
</tr>
<tr>
<td>Poverty index</td>
<td>20.42</td>
<td>10.45</td>
<td>7.29</td>
<td>36.76</td>
<td>18.69</td>
<td>16.00</td>
</tr>
<tr>
<td>Nat' Government Transfers</td>
<td>763.42</td>
<td>822.26</td>
<td>699.66</td>
<td>448.68</td>
<td>31500</td>
<td>86000</td>
</tr>
<tr>
<td>National Party Incumbent</td>
<td>0.48</td>
<td>0.50</td>
<td>0.28</td>
<td>0.34</td>
<td>0.47</td>
<td>0.15</td>
</tr>
<tr>
<td>Population Density</td>
<td>618.58</td>
<td>2916.92</td>
<td>2971.17</td>
<td>64.03</td>
<td>54.76</td>
<td>82.64</td>
</tr>
</tbody>
</table>

**Argentina.**

The main results of the statistical analysis for the Argentine case are described in Table 5.3. The DV is the Political Competition Index and the two main IVs, the SDI and the GDI, have been standardized for a better understanding of the results. Model 1 includes the IVs and the controls selected for this study, and Model 2 includes the two alternative hypothesis described earlier. For Argentina we obtain significant results for sectoral diversification in model 1, and a strong support for the two main independent variables in the OLS and RE in model 2. As argued above, the primary statistical model selected due to the characteristics of the data panel is random effects, which justifies the non-results obtained with FE. Moreover, the explanatory power of the $R^2$ is much higher with RE than with the alternative models.
Model 1 in Table 7.5 shows that SDI is significantly correlated with political competition, and that an increase in 1 standard deviation in the IV generates a 0.24 standard deviation increase in the DV. The second IV, GDI, presents the right signs in OLS and RE, but has no significance. Regarding the control variables, GDP per capita also appears to be significant in the OLS model, but in FE it changes signs and in RE it loses significance, while Poverty and Density show no impact on the DV.

Model 2 modifies the analysis significantly. In this model I include the two alternative hypotheses by adding National Government Transfers and National Party Incumbent. Both variables are significant and correctly signed. The more transfers from the national government a province receives, the lower the political competition index, consistent with a rentier argument that the more autonomous the governor is from the voters, the higher the chances that he will consolidate power. The second hypothesis argues that when the governor and the president are from the same party, the higher the chances of political consolidation of the local governor and the lower the political competition.
Interestingly, the addition of these alternative hypotheses significantly increases the power of the main IVs. Both SDI and GDI become highly significant with OLS and RE. It is interesting to see that both IV have similar betas, meaning that a 1 standard deviation increase in sectoral diversification or geographic diversification has a 0.37 and 0.35 standard deviation increase in political competition of a province respectively.

Regarding the control variables, we find that GDP per capita is significant and positively signed, indicating that economic growth impacts political competition and democracy, which relates to the debate of development and democracy mentioned above. Poverty, while correctly signed, it is not significant. Finally, there is a rise in the explanatory power of model 2 with the increase of the R², suggesting this model captures the variation in political competition better than model 1.

The results in model 2 strongly support the theory presented and the story behind the case studies. Democracy in the subnational governments in Argentina is intimately related with the structure of economic and political interest. Economic diversification affects the level of political competition at a key moment, the elections. The natural mechanism to influence political competition in elections is through campaign funds coming primarily, but not exclusively, from the private sector. Private sector representatives provide this financing to push their economic and political interests. In instances where there is a clash of interests among different economic sectors, there will be inter-capitalist competition that will affect the political arena directly. As described at length above, economic diversification can be measure through two cleavages: sectoral diversification and geographic diversification. The RE in model 2 shows that both cleavages are highly significant and have a strong effect on political competition. Controlling for
geography, economic development and national context, the diversification of the local economic interest is a key determinant of political competition, and thus it can favor or limit democracy.

Model 2 also illustrates a more complex story, since other variables influence the level of political competition. These variables allow us to build on existing knowledge and construct a better understanding of local politics. First, economic development positively influences the maturity of democratic competition. Second, the critical role of the national government in the local election is supported by the National Incumbent Party variable. The effect of the national government was also described in the case studies when highlighting elections marked by the national agenda. Finally, the role of national transfers links the efforts of this study with those of previous analyses in the literature. A future endeavor should analyze the links between the level of transfers a province receives and the type of economic structure it has, as they are intimately related.

The graphs below show a detailed description of the relationship between the SDI and the political competition for every observation of Argentina. Graph 7.9 has a scatterplot with a fitted line, showing a homogeneous distribution of the PCI and a larger cluster of observations of sectoral diversification above .6. Graph 7.10 displays the temporal average of the PCI for each province for the period studied over the average of the SDI, with 95% confidence intervals. Most provinces fall either within the CI or very close to it. The pattern, naturally, follows a similar distribution to the scatter plot above, with a wide range of PCI and a larger cluster of provinces on the right side.
Graph 7.9. Argentina: Sectoral Diversification and Political Competition Index.

Graph 7.10. Argentina: Sectoral Diversification and Political Competition Index, Average and CI.
Graphs 7.11 and 7.12 examine the second IV studied, showing that the GDI has a lower average than the SDI and provinces tend to cluster in the first half. The fitted line has a higher slope and shows a clear correlation between both variables. The second graph shows the aggregated values of each provinces and the confidence interval. Again, most of the provinces have their values within the 95% confidence interval.

Graph 7.11. Argentina: Geographic Diversification Index and Political Competition Index.
Brazil.

The table below summarizes the statistical tests for the case of Brazil. As it was the case for Argentina, the table presents model 1 with the main IVs and the control variables, and model 2 incorporates the alternatives hypothesis of national government transfers and national party incumbent. The first and most important contrast with the Argentine case is the number of variables that show significance. Unlike Argentina, Brazil shows significance with the Geographic Diversification Index in every test, and only once with the Sectoral Diversification Index. The SDI has the right sign and is close to significance in all of the models, and as we will see later, this could be caused by a couple of outliers.
Regarding the GDI, it is significant in model 1 and model 2, especially with fixed effects and random effects. GDI being a better explanatory variable for Brazil is explained by the fact that the states in Brazil have a much larger number of municipalities per state, due to the population size of these states, and also by the political decision to expand the third level of government. Given that candidates for both national and local legislature tend to run as individuals rather than party members, this empowers municipalities. As described in the cases of Bahía and Minas Gerais, a national representative needs to have the support of a medium size municipality in order to have enough votes to win a seat. Given this political dynamic, it is not surprising that the more diversified a state is geographically, the more political competition this could generate.

Table 7.6. Determinants of Subnational Political Competition in Brazil.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model 1</th>
<th></th>
<th></th>
<th>Model 2</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>OLS FE RE</td>
<td>OLS</td>
<td>FE RE</td>
<td>OLS FE RE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic Diversification Index (standarized)</td>
<td>0.0513</td>
<td>0.3851*</td>
<td>0.1217</td>
<td>0.0547</td>
<td>0.2804</td>
<td>0.1223</td>
</tr>
<tr>
<td>Geographic Diversification Index (standarized)</td>
<td>0.1828*</td>
<td>0.3828***</td>
<td>0.2751***</td>
<td>0.1617*</td>
<td>0.3698***</td>
<td>0.2584**</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>-0.6418</td>
<td>-0.8532</td>
<td>-0.7668</td>
<td>-0.8143</td>
<td>-1.3322*</td>
<td>-1.1199*</td>
</tr>
<tr>
<td>Poverty Index</td>
<td>-0.0121**</td>
<td>0.0007</td>
<td>-0.0083</td>
<td>-0.0137**</td>
<td>-0.0005</td>
<td>-0.0102</td>
</tr>
<tr>
<td>Population Density</td>
<td>0.0013</td>
<td>-0.0004</td>
<td>0.002</td>
<td>0.0013</td>
<td>0.0017</td>
<td>0.0022</td>
</tr>
<tr>
<td>Nat’ Government Transfers</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Party Incumbent</td>
<td></td>
<td>-0.2901</td>
<td>-0.2725</td>
<td>-0.3064*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>204</td>
<td>204</td>
<td>204</td>
<td>204</td>
<td>204</td>
<td>204</td>
</tr>
<tr>
<td>R2</td>
<td>0.072</td>
<td>0.1134</td>
<td>0.059</td>
<td>0.089</td>
<td>0.1439</td>
<td>0.0726</td>
</tr>
</tbody>
</table>

legend: * p<0.05; ** p<0.01; *** p<0.001

Regarding the control variables, we find a strange behavior of the GDP per capita, which becomes significant only in model 2, but is incorrectly signed. This might require a deeper analysis than the one I am able to provide at this point. It may be that there are low-populated
states with high GDP per capita due to extractive industries that increase the economic production of the state, but generate no redistribution to the population. While the GDP per capita could be higher than the average, the concentrated economy favors low levels of political competition. This is supported by the fact that the poverty index also shows significance with the OLS analysis and is correctly signed, which could be a better proxy for economic development in these particular cases.

When examining the two alternative hypotheses, we have to discard the National Government Transfer as it does not present relevant results in any of the models. On the contrary, the argument in favor of the importance of governor-president co-partisanship seems to be significant when we use random effects. This is expected based on the field work and the nature of the Brazilian political system, where the role of the national government, either through shared political campaigns or due to political junctures, is similar to Argentina. The case analysis of Bahía and Minas Gerais describes the interaction between the local and national government during electoral campaigns, and the influence presidents had in financing and supporting candidates. While not determinative, the national arena can be very influential.

The two graphs bellow plot the relationship between geographic diversification and political competition for the states of Brazil. We can see in Graph 5.13 that the distribution across both variables is constant and there are no significant clusters affecting the results. The nature of the states is nonetheless quite heterogeneous. In graph 5.14 we see how the average values for both indexes distribute states on the four quadrants of the graph.
Graph 7.13. Brazil: Geographic Diversification and Political Competition.

Graph 7.14. Brazil: Geographic Diversification and Political Competition, Average and CI.
The results for Brazil so far present support for geographic diversification, but not much for sectoral diversification. When including all of the 27 states of Brazil in the analysis, the Sectorial Diversification Index is only significant with Fixed Effects in model 1, which is not what the theory would predict. However, as mentioned before, these results could be driven by several outliers.

Early in this chapter, when examining the Political Competition Index for Brazil in Graph 7.4, the state of Rondônia was evident as an outlier that had very high PCI due to a series of close elections. In addition, the Federal District also showed high levels of political competition but had a very small territory given that it was created in the 1960s for the sole purpose of hosting the national government. Its economy is 95% based on services and public administration and lacks the sectors that we have identified as key for local political funding. It is expected that give its federal nature, the Federal District follows closely the national political swings. Therefore, due to their extraordinary characteristics, these observations might be affecting the results.

Table 7.7 repeats the analysis made with models 1 and 2 but excludes the cases of Rondônia and the Federal District. The results transform the analysis of the Brazilian case by showing an increase in the significance of both sectoral and geographic diversification. In addition, we see an increase in the significance of the poverty index, as well as in the size of the $R^2$, supporting the alternative analysis.

Now there is a similar political dynamic to the Argentine case. Both sectorial and geographic diversifications appear as significant with correct signs and similar betas. This might
favor the argument that when outliers are taken of the sample, local political competition in Brazil is highly influenced by economic diversification.

It is worth noticing that poverty increases in significance in both models, which supports the arguments made by Montero (2011) that links poor economic development with low levels of democracy in Brazil. GDP per capita is also significant, but incorrectly signed, something that might follow the explanation I gave earlier, that states with extractive industries and high levels of poverty could have an average GDP per capita higher than the country mean. In this sample, the two alternative hypotheses are not significant, but in the case of National Party Incumbent, it is correctly signed.

Table 7.7. Determinants of Subnational Political Competition in Brazil without Rondônia and Federal District.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model 1</th>
<th></th>
<th></th>
<th>Model 2</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>OLS</td>
<td>FE</td>
<td>RE</td>
<td>OLS</td>
<td>FE</td>
</tr>
<tr>
<td>Economic Diversification Index (standarized)</td>
<td>0.1643*</td>
<td>0.4559**</td>
<td>0.1778*</td>
<td>0.1691*</td>
<td>0.3538*</td>
</tr>
<tr>
<td>Geographic Diversification Index (standarized)</td>
<td>0.2212***</td>
<td>0.3597***</td>
<td>0.2333***</td>
<td>0.2035**</td>
<td>0.3552***</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>-0.7403</td>
<td>-1.0720*</td>
<td>-0.7782*</td>
<td>-0.9538*</td>
<td>-1.4201**</td>
</tr>
<tr>
<td>Poverty Index</td>
<td>-0.0103**</td>
<td>-0.0017</td>
<td>-0.0101*</td>
<td>-0.0116**</td>
<td>-0.0023</td>
</tr>
<tr>
<td>Population Density</td>
<td>0.0014</td>
<td>0.0024</td>
<td>0.0014</td>
<td>0.0013</td>
<td>0.0034</td>
</tr>
<tr>
<td>Nat’ Government Transfers</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-0.2298</td>
<td>-0.1866</td>
</tr>
<tr>
<td>National Party Incumbent</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-0.2332</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>192</td>
<td>192</td>
<td>192</td>
<td>192</td>
<td>192</td>
</tr>
<tr>
<td>R2</td>
<td>0.1211</td>
<td>0.1412</td>
<td>0.1208</td>
<td>0.1357</td>
<td>0.1604</td>
</tr>
</tbody>
</table>

Legend: * p<0.05; ** p<0.01; *** p<0.001

Conclusion

In the present chapter I have developed the statistical analysis of the argument initially presented in the theoretical chapter and later in the case studies. The objective was to test the
validity of the hypothesis for the rest of the provinces in Argentina and the states in Brazil. While the case studies were selected in order to show how the mechanisms of the theory operated in most similar cases, the statistical analysis seek to test the correlation between political competition and economic diversification.

For the test, I developed a database with 8 periods of electoral results and created an Political competition index to measure the level of subnational democratic development. This index follows previous examples in the literature, but it is novel in that it avoids subjective coding and simplifies the aggregation of electoral data. For the IVs, I developed a Sectoral and a Geographic diversification index that captured the economic cleavages of the economic diversification in each province. These are novel indexes that add a new explanatory variable to the literature. In order to insert my study in the context of previous works, I included variables to measure the effect of development, poverty, presidential influence and national transfers.

The results show a strong support for the theory. In the case of Argentina, both the sectoral and geographic diversifications have a significant effect on the political competition. Therefore, I affirmed that economic diversification affected democracy at a key moment: elections. Since the PCI uses electoral results to measure competition, I can affirm that the most important manner economic sectors have to influence politics is their role in financing campaigns.

When I analyzed the case of Mendoza and San Luis I showed the mechanisms behind the links between economic diversification and political competition. Both the sectoral and geographic diversification influenced political dynamics in Mendoza by changing support over time and promoting overturns in government. In the same way, the geographic and sectoral
concentration in San Luis created an alignment between the private sectors and the governor. In both cases, opposition parties justified their victories and defeats in great part by the availability of campaign funds.

The statistical analysis also found support for variables that were developed by the literature. Development seems to have an impact on the type of political competition, as well as presidential co-partisanship and the amount of transfers the national government gives to each province. Thus, the work presented in this study complements and improves knowledge on political competition by adding a key factor into the understanding of subnational governments.

In the case of Brazil, I made two analyses, one with all the states and one excluding two clear outliers. In the first case, I found significant support for the role of geographic diversification, as well as the importance of the national incumbent party. Given that Brazil had a larger extension of territory as well as a larger population, in addition to a municipality based election of representatives, it was unsurprising that geographic diversification was the most significant variable. In the second case, after I removed outliers Rondônia and the Federal District, the other 25 states showed a behavior similar to the Argentine provinces. Both sectoral and geographic diversification increased in significance and presented similar betas. In addition, the explanatory power of the model also increased. In this new scenario, I argue that the dynamic found in the Brazilian states had the same mechanisms of influence over the political competition.

It is not surprising then that the case studies of Bahía and Minas Gerais also resemble the mechanisms of Mendoza and San Luis. In the case of Bahía, the enclaved economy was mostly based on manufacturing and petrochemical industry, which were centrally located around the
capital city. The economic sectors had a strong alliance first with the *Carlismo* and then with the PT, in the same way the manufacturing sector had an alliance with the Rodriguez Saás in San Luis. In the case of Minas Gerais we found a resemblance to a small federal system, where each region of the province, as well as the economic sectors, competed for the influence over the governor’s election.

Overall, the statistical analysis shows results expected by the theory and supports the argument that the economic diversification is a strong explanatory factor of subnational political competition, and therefore, of the democratic development of provinces and states.
CONCLUSION

This dissertation aimed at studying the origin and persistence of subnational autocratic enclaves in Latin America. This phenomenon occurs in the context of democratic countries, with regular elections for local and national authorities, with formal checks and balances and liberties guaranteed by the constitution. However, some governors are able to establish autocratic governments, controlling the state apparatus, limiting liberties and degrading democracy. In these autocratic enclaves a governor or party is able to rule unchallenged, overcome the democratic institutional constraints and control the legislative and judicial powers. This is possible in a context of low political competition, where the incumbent party holds the majority of the votes and seats, and governors are able to consolidate power due to controlled legislatures and the lack of opposition. So the question is: what is the origin of low or high level of political competition?

This dissertation argued that it is the economic diversification of a province what generates inter-capitalist competition. This competition is transferred to the political arena through the finance of political parties. We assumed that parties cannot compete without a successful campaign and cannot have a successful campaign without funds. I argued that while incumbents are able to use both public and private resources, challengers rely primarily on private funds to run a campaign. Given that economic actors (business association, individual businessmen, unions, etc.) have the economic capacity and the interest in contributing to political campaigns, their interests become politicized. Therefore, when economic power is concentrated in fewer economic actors it is easier to aggregate interests and coordinate these interests among
fewer political actors. On the contrary, when the economy is diversified, it is harder to coordinate interests. In this case, economic groups compete and finance different political parties.

In sum, the hypothesis argues that undiversified economies develop a small network of interests, therefore, the party in government aligns with the hegemonic economic sector. This alignment limits the available resources for the opposition and significantly reduces the political competition, preparing the ground for the development of an autocratic government. But the higher level of diversity present in the economic structure, the more economic actors will appear, resulting in a higher inter-capitalist competition for the influence on the state. This competition generates economic support for different parties, as a consequence, more political competition.

In Chapter 1, I developed the theory in depth. By applying a procedural definition to define democracy and autocracy at the subnational level, I focused on free and fair elections. In democratic countries most of the prerequisites for democracy are defined by national institutions and, thus, are inadequate to define autocratic governments at the subnational level. A procedural definition, on the other hand, looks at aspects of fairness and competitiveness in elections that are in the realm of provinces. I used Schumpeter’s definition of democracy. “the institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people’s vote” (Schumpeter 1976). His notion of “competitive struggle” allowed me to incorporate prerequisites for democracy that are linked with electoral competition. For example, an autocratic government can restrict competition by persecuting the opposition, controlling the use of the media or affecting the equitable access to finances.
My theory proposed a mechanism that traces the influence of the economic structure over the political competition (see Figure 8.1). The Step 1 looks at the economic actors as the main sources of campaign funds, while the step 2 links political competition with campaign financing. This mechanism assumes that a candidate cannot access power without a successful campaign. In order to support these assumptions, I discussed with several literatures. Firstly, I analyzed how much and in what ways campaign financial backing influences elections and politics (Cox and Thies 2000; Denver, Hands and MacAllister 2004). I showed that even in countries where the system is dominated by party loyalty, campaign spending by individual candidates can change their performance in a measurable and politically significant way (Scarrow 2007). That was also the case in the selected countries of Latin America, Argentina (Freille 2015) and Brazil (Samuels 2001). Secondly, I looked at the links between the economic structure and political finance, highlighting the importance of structural power and inter-capitalist competition. I showed that economic actors can more easily raise large amounts of funds than any other interest group (Heidenheimer 1963), and possess an advantage over the rest. Nonetheless, economic representatives do not have homogeneous interest, and they tend to compete for the influence over policymaking. The diversity and influence of business interests on politics is affected by the aggregation of interest which could present geographical, sectorial or market size cleavages (O’Donnell 1978). Finally, I described the sources of political finance, differentiating from primary sources (state resources, state contractors and economic sectors) and secondary sources (individuals, branches of the party and the national government).
In order to test the argument I carried out two pair comparison and a quantitative analysis of Argentina and Brazil. I selected the neighboring provinces of Mendoza and San Luis in Argentina, and the neighboring provinces of Bahía and Minas Gerais in Brazil. These selections were based on the most similar method (George and Bennett 2005). They varied on the DV and the IV, but were similar in geographic size, economic development and culture, what allowed for the isolation of the independent variable. Chapters 3 to 6 covered each of the selected cases.

The first case analyzed was Bahía, a northeastern state on the coast of Brazil. Throughout its history, Bahía presented a direct link between its economic structure and its political structure. Every time its economic structure changed, there was a redistribution of political power. The period under analysis focused on the sectoral and geographic centralization that emerged at the end of the Military Government in the early 1980s. The new undiversified economy implied a replacement of the local elites for new exogenous bourgeoisie that provided investment and aligned behind the incumbent, limiting the chances of the opposition to compete. The new dominant bourgeoisie, having their headquarters outside Bahía, had no political aspirations and demanded only economic returns. In exchange for a technocratic apparatus that promoted budget moderation and tax benefits, the new dominant sectors restricted their support to alternative parties and aligned behind the incumbent.
This dissertation covered eight elections in Bahía from 1982 until 2011. This was a period of clear low democratic competition (Montero 2007, Borges 2007, 2011). The two periods of domination, one under the PFL (1982-2006) and one under the PT (since 2006) presented similarities. Although these parties had different ideologies, they developed the same level of control of the political machinery. They controlled the legislative and judicial branches, the municipalities and limited the political competition. This phenomenon is explained by the close alliance these parties had with the hegemonic economic powers. With 70% of the industrial production in Bahía located around the capital, and the GPD dominated by heavy industries such as petrochemical and metal mechanic, the incumbents were able to monopolize political funding, restricting the chances of the opposition. We saw that this alignment played a defining role in the campaigns, where they represented the large majority of the available funds. The opposition lacked support from the main economic sectors; its funding mostly depended on party committee funding and individual dues. The victory of the PT over the Carlismo in 2006 was explained by the political conjuncture that had a worn-out PFL and the unification of the opposition behind the PT candidate. But the success of the PT did not change the political dynamic, and the new incumbent maintained a good relationship with business as well as a tight control of the political machinery.

In Chapter 4 I studied Minas Gerais, a diversified and competitive south-eastern state of Brazil. Unlike Bahía, Minas has historically been subdivided in seven zones or sub regions. Each zone developed their economies independently, creating a history of disarticulated and discontinuous growth. In reaction to this heterogeneity, the different elites had to coordinate efforts to strengthen their economy and created a sophisticated political system to balance
regional interests. Throughout the 20th Century, Minas went from an oligarchic system to a polyarchic one where competition among sectors and elites was translated to the party competition.

The process of economic modernization left behind by the military regime had a deep impact in the political structure of Minas Gerais. It generated a new structure with four economic actors: the old oligarchic elite, the new industrial bourgeoisie, the unions and the urban professionals. The old elites and the new industrials also represented the conflict between the agricultural sector and the industrial sector that we found in Bahía. This conflict was more complex given the multiplicity of economic poles in the state. The consequence of this diversification was the fragmentation of the party system, generating a competitive electoral arena where no leadership or political group was capable of holding power for too long. The diversification had a direct impact on the political competition. I showed how during the gubernatorial elections of the democratic period, the support of the different economic sectors was a defining variable for a successful campaign. Also, I described how parties adapted their candidates and their tickets in order to obtain economic support from potential contributors.

The pair comparison in Brazil led the way to the second comparison, the cases of San Luis and Mendoza in Argentina. Chapter 5 looked into the case of Mendoza, a province characterized by high levels of political competition and a very diversified and politicized economy. Mendoza presented an intimate crossover between business sectors and policy. It is the economic diversification of the province plus the particularities of specific sectors (i.e. vitiviniculture) that generates a diversity of interests. The heterogeneity of Mendoza could be explained both by the differentiation of sectoral activities as well as by its geographical diversity.
On the one hand, Mendoza has diversified industries and agricultural sectors. The province diversified the nature of its industrial production during the second half of the 20th century by developing the heavy metal-mechanic industry, the chemical and petrochemical sector and the processed food industry. Geographically, agriculture and, especially, the wine industry developed in irrigated oases of Central, North and South of the province. They represent up to 3% of the total surface of the territory, and concentrate most of the population in the province. The remaining 97% of the surface corresponds to the dry land, where we find oil enclaves, mining and subsistence agriculture. This does not imply a political imbalance between the different areas of the province, as Mendoza’s 18 municipalities have similar political and economic weight (Mellado 2012).

Politically, Mendoza has three competitive parties interacting in the political arena: PJ, UCR and PD. Since the return to democracy, the PJ and the UCR took turns at the Governor’s seat and the PD acted as the balance that limits the development of political domination. When I described the three decades of gubernatorial elections, I highlighted the importance of the participation of the economic sectors as well as the incorporation of businessmen into the governments. I also showed the conflicts that arose between the economic and political actors and how businessmen changed their support from one party to another. Even though Argentina does not have the available data on campaign funding, I was still able to reconstruct how political support is channelized through campaign contributions through interviews with politicians, businessmen and union leader. It is not surprising that several governors and gubernatorial candidates declared that the economic diversification of Mendoza was the reason
behind the multiplicity of ideas and the competition of political parties (interview Bodón, Baglini, Gutierrez and Lafalla).

Finally, Chapter 6 analyzed the case of San Luis and contracted the reality of this autocratic government with its neighbor province, Mendoza. In the case of San Luis, the process of industrialization reinforced the regional inequalities by concentrating the new manufacturing industries in the populated areas. The concentration was sectorial and geographic, with the manufacturing sector dominating the production in the province and 85% of the new industries located in the Center of the province around the two largest cities, San Luis and Villa Mercedes (Bussetti 2009). The economic growth of San Luis was the consequence of the industrial promotion policy developed during the last military dictatorship. Through a package of tax exceptions, that reduced cost and increased competitiveness and the investment in infrastructure, hundreds of industries relocated part of their production in San Luis. This economic transformation concentrated the economy and allowed for the alignment of the economic power and the political power controlled by the brothers Adolfo and Alberto Rodriguez Saá.

The brothers were able to capitalize the impact that the industrial promotion policy had in the province with a technocratic bureaucracy and by maintaining a balanced budget. The autocratic government of the Rodriguez Saás presented several episodes of abuse of power, persecution of the opposition and a tight control of the political allies. They controlled the media –most of which they personally own-, they created an aura of infallibility around their administration and, more importantly, they control the resources for political participation.

The alignment of the manufacturing sector behind the Rodriguez Saás has left the rest of the political scenario without economic support and, thus, without chances of competing. The
opposition has been unable to receive support from the manufacturing sector and only marginal sectors as cattle ranching and urban commerce have expressed support due to the conflicts they had with the government. Whiting the incumbent’s party, political careers are also limited due to the centralization of economic resources. The Rodriguez Saás centralized the campaign contributions in order to only finance the campaigns of those that respond politically to their project. The autocratic government of San Luis has recently started its third consecutive decade in power supported by an economic structure that limits the appearance of political alternatives. It is still unclear for how long this could last.

The qualitative analysis obtained from these four cases strongly supported the hypothesis presented. In the four cases, I found businessmen describing their strategies to influence politics and politicians and talking about the need of economic support to successfully compete in the political arena. In the cases of Bahía and San Luis, even though they are geographically and culturally different, they presented the same type of alignment between the centralized economy and the autocratic government. Antonio Carlos Magalhães and Adolfo Rodriguez Saá were able to capitalize the economic structure that the process of modernization generated in each place, and limited the political competition through media persecution and control of the campaign funds. The opposition leaders in both cases complained about the difficulties generated by the uneven resources.

On the other side of the spectrum, the cases of Minas Gerais and Mendoza presented competitive political systems, with periodical alternation and strong opposition representation in Congress. At the same time, both cases show a history of sectoral and geographic diversification that translated interest to the party competition. Again, politicians and businessmen highlighted
the importance of the multiplicity of interest and financial resources for the vivid political competition.

After this in-depth qualitative analysis, Chapter 7 presented the statistical analysis and tested the hypothesis for all the subnational governments in Argentina and Brazil. In the case of Argentina, I tested the eight electoral periods that took place between 1983 and 2011 in the 24 Argentine provinces. In Brazil, I tested the eight electoral periods that took place between 1982 and 2010 in the 27 states. In order to test the hypothesis, I developed a Political Competition Index building on elements that previous authors have used and tested (Hill 1994, Hernandez Valdez 2000, Solt 2003, Borges 2007, Tomassi et.al 2007, Giraudy 2010 and Gervasoni 2010, 2012, 2013). The index captured the level of political competition by measuring how much control the governor can assert over the democratic institutions. Figure 8.2 summarizes the components of the index.

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
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<tbody>
<tr>
<td>Executive Contestation</td>
<td>Reelection</td>
<td>Legislative Contestation</td>
</tr>
<tr>
<td>Victory Margin</td>
<td>Party</td>
<td>Winning coalition</td>
</tr>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>+</td>
<td>1/(ENP)</td>
<td>+</td>
</tr>
</tbody>
</table>

Index of Political Competition = 1/(A\*B\*C)

Figure 8.2. Political Competition Index.

The independent variable, economic diversification, was divided among two main cleavages: sectoral diversification and geographic diversification. Both diversifications might have generated the need to transfer inter-capitalist conflict to the political arena. For this reason,
I created a Sectoral Diversification Index and a Geographic Diversification Index. The first index captured the diversification in the composition of the GDP, while the second index quantified the number of economic poles within a province.

The quantitative results supported my theory and qualitative analysis. In the case of Argentina, the sectoral and the geographic diversification had a significant impact on the political competition. Therefore, I affirmed that economic diversification affected democracy at a key moment: elections. Since the PCI uses electoral results to measure competition, I could affirm that the most important mechanisms economic sectors have to influence politics is their role in financing campaigns. The statistical analysis also backed the variables developed by the literature. Development seems to have an impact on the type of political competition, as well as the president co-partisanship and the amount of transfers the national government gives to each province.

In the case of Brazil, after excluding two state outliers, sectoral and geographic diversification increased significance and presented similar influence over the political competition index. The explanatory power of the model also increased. Therefore, I argued that the dynamic found in the Brazilian states had the same mechanisms of influence over the political competition as the one found in Argentina. Nonetheless, I found less support for the alternative explanations, and only president co-partisanship and poverty showed some significance.

In sum, the statistical analysis presented the results expected by the theory. It also confirmed that that the economic diversification is a strong explanatory variable of the subnational political competition and, therefore, of the democratic development of provinces and
states. Moreover, my conclusion complemented and improved the literature on political competition by adding a key factor into the understanding of subnational governments.

**Building Knowledge**

In Chapter 1, I argued that current theories on subnational authoritarianism are unable to provide satisfying explanation on the emergence and endurance of autocratic government. I highlighted those works that underscored the role of political cleavages in allowing the emergence of hegemonic parties (Key 1949, O’Donnell 2004, Mickey 2005, Gibson 2005). For these authors, local party bosses are able to subdue democratic institutions by limiting the power of the opposition either through the exploitation of social cleavages or through political strategies that limit the interference of the national government. I also explored the trend that focuses on studying the control of the economic resources that the provinces receive from the central government (McMann 2006, Gervasoni 2010, Giraudy 2010, Borges 2007 and Montero 2007). National transfers are expected to allow governors to avoid accountability and/or to create a clientelistic machinery that guarantees electoral results.

Through the qualitative and the quantitative analyses, I was able to evaluate the alternative hypothesis presented in the literature. For example, the “boundary control” argument presented by Gibson (2005, 2012) affirmed that incumbents try to keep the boundaries closed in order to isolate the local conflict from any external intervention and, in this way, limit the opposition chances of competing locally. Interestingly, Gibson acknowledged that one of the mechanisms used by the national government to interfere in the local arena is the transfer of
campaign resources. In this way, his argument connects with the theory presented in this dissertation. However, Gibson’s theory focuses on those cases where the national intervention is detrimental to the governor. As we have seen in Bahía and San Luis, sometimes the participation of the national government can help maintain the autocratic structure. As Giraudy (2015) points out, there are undemocratic governments supported by national allies. The statistical analysis in Chapter 7 showed that governor-president co-partisanship affected the level of political competition in Argentina and in Brazil. This co-partisanship can influence politics in more ways than the one presented by Gibson, as presidents can decide to intervene or not, and that intervention could be in favor or against the incumbent. My ultimate conclusion is that national intervention is important, especially in specific political junctures, but it is secondary to the local political dynamic and structure.

Another alternative explanation found in the literature is that the distribution of federal funding allows subnational states to obtain resources to control power without depending on the population (Gervasoni 2010). Gervasoni argues that there is an inverse relationship between the government autonomy from the citizens and the level of democracy. The explanation derives from rentier theories, where the lack of dependency from the citizens gives the government autonomy to rule through undemocratic means. As I said initially, this theory does not look into the local political context, which seems to be black-boxed. In my hypothesis, it is not the amount of resources obtained from the local actors, but the multiplicity of interests among those local actors that influences political competition. There might be a link between the economic structure and the resources that the government transfers, a topic I plan to study in future works. Nonetheless, in Chapter 7, I included the “variable national transfers” in the statistical models for
Argentina and Brazil. In the case of Argentina, the variable is significant, which follows the results obtained by Gervasoni. But in the case of Brazil, the variable has no significance while my independent variable does. I believe it is necessary to explore the interconnections between exogenous resources and local resources in Gervasoni’s theory. Nevertheless, I believe it is necessary first to look at local explanations to understand the local dynamics.

Finally, the statistical models in Chapter 7 also included variables that measured development and poverty, with the objective of incorporating the literature that links development and democracy. The research I presented contributed to this literature by arguing that the kind of development that fosters democracy is the one in which there is competition among economic actors. In the case of Argentina, the level of GDP per capita had a small but significant effect over political competition, controlling for all other hypothesis. In the case of Brazil, GDP had a strange behavior. It was significant, but had the wrong sign. In the case of poverty, it was significant and had a negative effect over political competition. This links back to the arguments of Montero’s (2007) and Borges’ (2007) on poverty and clientelism to explain autocratic governments in poor states of Brazil. Nonetheless, the results for economic diversification are much stronger and consistent through the test than the poverty argument.

All in all, I believe that the theory developed in this dissertation builds on previous works and alternative hypothesis, but improves the literature significantly by using local dynamics as the main explanatory variable for subnational governments. The role of the national government either through economic transfers or direct political involvement can help lean the scale, but only as much as the local structure allows it. While political junctures created by the national political scenario are relevant and can affect an election, these are exceptional. In order to explain local
politics in the long run -beyond one election- it is necessary to look at the type of political dynamic in the province or state.

**Future Research**

This dissertation opened new lines of research. My study of the influence of the economic structure over political competition in subnational government in Latin America could be extended in several directions. Firstly, we could develop new measures that can capture the political participation of business interests in politics. The present work used the Economic and the Geographic Diversification Indexes with the idea of capturing the main cleavages of the economy. However, there is no aggregated data on the level of economic contributions generated by these cleavages. The construction of a dataset with the projected amounts could further disentangle the influence of money in political competition.

More importantly, the study of the municipalities could further reveal the influence of the economic structure in the political arena. By reducing the scale of analysis from provinces to municipalities, we should be able to disentangle how the geographic diversification of the economic structure empowers Mayors that later compete with other regions. As described in the competitive cases of Minas Gerais and Mendoza, local politicians would participate in the provincial primaries supported by the economic sectors of their regions. In the cases of Bahía and San Luis, the geographic centralization left municipalities with fewer resources to compete. Given that Mayors are the most disaggregated entrance to policymaking and are even closer
connected with the economic production of their regions, it is important to understand in detail the role they play in the provincial inter-capitalist competition.

Another aspect of the economic-political dynamic at the subnational level that should be study in depth is the existence of intermediate cases. In my case selection, I explored how business and government interacted on the extremes, that is, on those provinces with higher and lower levels of democratization. As I argued, there is a range of provinces located in the continuum between those extremes. I then find important to look into these middle cases in order to observe what kind of dynamic they follow. Is there a tipping point after which the economic interests are impossible to aggregate and there is a natural need for more parties participating in politics? Are there other types of relationship between business and politics? Can we find cases in which politics dominates the economy vs cases where the economy dominates politics? The study of more individual cases would make the mechanisms richer and the theory stronger.

As I commented in the introduction, desegregating countries along territorial divisions allows us to explore the dynamics between different regions and levels of the political system. Understanding internal relationships is also crucial for explaining the national level. The extent to which the level of democracy varies from province to province will have considerable consequences for political representation, public policy making and even the survival of democracy (Harbers 209). Therefore, one line of research that I plan to pursue is how the aggregation of the subnational cases affect the process of democratization at the national level.

Political scientists usually isolate the analysis of the national level and treat it as an autonomous arena with its own logic and its own actors. Most studies that have linked the national and subnational scenarios looked at the presidential intervention in provinces and states.
Given structural differences between levels of government, it is natural to assume that the national government has more resources and power to influence local politics. That is why I have included the political and the economic interference of the President in local elections in my theory and analysis. I have supported the argument that the co-partisanship between the governor and the president can reduce the support for opposition parties and vice versa. However, I showed that this influence is secondary to the local political dynamics, as many times the intervention of the President is not enough to change an election in favor or against the incumbent.

As I showed in the qualitative analysis, many times the subnational actors make a jump to the national arena, and with them they take the local dynamics. I provided the examples of the Adolfo Rodriguez Saá (San Luis) becoming president of Argentina for a week, and the presidential candidacies of Aécio Neves (Minas Gerais) and José Octavio Bordón (Mendoza). It would be crucial to explore in-depth the mutual influence of both levels of government in order to understand the national democratic development of the region. The attempt of the industrial and agricultural sectors of Minas Gerais to generate a mineiro President talks about the importance it has for the local economy to reach the national level. It would be expected then to find a difference between a President coming from an undiversified economy from a president coming from a diversified province.

Finally, this dissertation contributes to future studies on the impact of subnational democratization over the implementation of public policies. Although there is a wide literature on public policy decentralization in Latin America (Montero and Samuels 2004, Willis et.al. 1999, Falleti 2010), only recent studies looked at how different types of subnational governments
affect the implementation of decentralized policies in Latin America. The work of Alison Post (2014) and her analysis of the water and sanitation systems is a good example of the type of studies than can take the understanding of local democratization a step further.
APPENDIX: LIST OF INTERVIEWS


Benelbaz, Hector. Professor Universidad Nacional de Cuyo. Mendoza, February 16, 2013


Cacace, Alejandro. President of the UCR. San Luis, March 6, 2013.


Dos Santos, Manoel. Professor Universidade Federal da Minas Gerais. Belo Horizonte, May 9, 2013.


Luna, Eliana, Director of FAVIM Acción Ciudadana. Mendoza, February 20, 2013


Pérez, José. Union Leader ATE. San Luis, March 22, 2013.


Roitman, Roberto. Vice-President of the Federación Económica de Mendoza, CEO of Pro-Mendoza. February 13, 2013.


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