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HIERARCHICAL CAPITALISM IN LATIN AMERICA: COMPARATIVE ANALYSIS WITH OTHER ECONOMIES

Abstract

The Latin American capitalism is hierarchical (Schneider, 2009), due to the existence of monopolies and oligopolies and with high influence of multinationals and large national companies. That situation has an impact on several variables, both economic and social. The aim of this paper is to compare the three largest economies in Latin America (Brazil, Mexico and Argentina) with other economies that have another type of capitalism, in that way we can extract some effects of the hierarchical capitalism in Latin America. The comparison is based on the following variables: economic growth, innovation and democracy.

Key words: Latina America, hierarchical capitalism, comparative analysis

1. INTRODUCTION

The Latin American capitalism is hierarchical (Schneider, 2009), due to the existence of monopolies and oligopolies and with high influence of multinationals and large national companies. That situation has an impact on several variables, both economic and social. The aim of this paper is to compare the three largest economies in Latin America (Brazil, Mexico and Argentina) with other economies that have another type of capitalism, in that way we can extract some effects of the hierarchical capitalism. The comparison is based on the following variables: economic growth, innovation and democracy.

We compare countries with the largest economies in Latin America (Brazil, Mexico and Argentina) with economies that began their transitions to democracy in the eighties (South Korea, Spain and Croatia). The idea is to compare countries that in the eighties had a level of development similar to the selected Latin American countries, but with a different institutional path. We selected countries that underwent a transition from dictatorship to democracy (Korea and Spain) and one that reached its independence and was recently involved in a war (Croatia), to contrast with Latin American countries that had a transition to democracy in recent decades. South Korea was chosen as one of the countries with higher economic growth, while Spain is important because it managed the transition from a dictatorship to a democracy with an economy that has been transformed and inserted in a regional integration process (i.e. the European Union). Croatia was chosen because its economy was affected by a war. South Korea has a Stated-led plutocratic capitalism characterized by the establishment of large family-led conglomerates (i.e. chaebol) with their own banks, Spain has an economy based on services and tourism, and Croatia has a clientelism capitalist economy. In none of these three countries there is a hierarchical capitalism.

The hypothesis of the paper is that the **hierarchical capitalism** has negative effects on economic growth, innovation and the democratic level, due to the fact that monopolies and oligopolies have no interest in innovation and they establish power relations with the government.

After the introduction, in the second section we introduce the varieties of capitalism starting from Hall and Soskice (2001), and then we present the methodology. In the fourth section we perform the comparison of selected countries and the last section are the conclusions.

2. VARIETIES OF CAPITALISM

Globally, there is more than one type of capitalism, while it is true that before the fall of the Berlin Wall, countries were divided into capitalist and socialist, now the economies are classified as developed, emerging and developing countries. Hall and Soskice (2001) perform an analysis of how

capitalist economies can be classified focusing on the relationship of the firm with various key players. The authors use five spheres to explain how coordination problems are resolved.

- Industrial relations: how firms coordinate the negotiation of wages and working conditions with trade unions.

- Training and education: companies need workers who are trained, but how much is optimal to invest?

- Corporate governance: refers to the way the company has access to financing and how investors ensure returns on investment.

- Intra-company relationship: the relationship that exists with other companies, suppliers, customers, access to inputs and technology.

- Coordination with employees: refers to how the company ensures that employees have the necessary skills and how they cooperate with business objectives.

Hall and Soskice analyse how economies solve the problems of coordination of each of the five spheres and how complementarity is given. These authors found that economies can be classified into: Liberal Market Economies (LME) and Coordinated Market Economies (CME).

Hall & Soskice's analysis is for developed economies, because it does not include emerging economies and the developing. At the LME, firms coordinate their activities via hierarchies and competitive market arrangements, in addition the relations in the market are competitive and contracts are formal. In the case of CME, firms rely on relationships that are non-market, that is, agreements with the different actors are informal and incomplete contracts, monitoring is based on the exchange of information.

In the LME hierarchies are the main institutions for the coordination of companies with different players, while the CME strategic coordination is based on the strategic interaction. The United States would be the prototype of the LME country, and Germany would be the extreme case of the CME.

Amable (2003) extends the analysis of Hall and Soskice and includes the following types of capitalism: Asian, Continental, LME, Mediterranean and Social Democrat. The author uses a group of variables: the flexibility of the labour market, financial markets and welfare systems, among others. Cvijanovic and Redzepagic (2011) argue that there may be another type of capitalism, which they regard as clientelism (Croatia) and is characterized by the connections established between government and economic actors.

Since Hall and Soskice (2001) and Amable (2003), there is a classification of types of capitalism for emerging and developing countries. In the case of Latin America, Schneider (2009) and Schneider and Soskice (2009) point out that the countries in the region share the feature that are **Hierarchical** Market

Economies (HME), because the large national firms and the multinational economic groups have control of the economy, causing the existence of monopolies and oligopolies. The HME labour market is characterized by low skills and for being dual, because while formal employment has strong regulation, the informal market is deregulated and flexible.

Bizberg (2015) criticizes the approach of Schneider (2009) and Schneider and Soskice (2009), stating that Latin America cannot be classified into one type of capitalism, because when the economies of the region are analysed (in the period post-stage model of import substitution) there are at least three types of economies. The first type of economy in the region is a capitalist economy subcontracting internationally disarticulated and geared exports, which focuses on the international market and had a drastic break with the way it was handled in the model of import substitution (e.g. Mexico). The second type of economy is geared towards the domestic market, which did not break with the structure model of import substitution and is not dependent on the outside to grow (e.g. Brazil). The third type of state-regulated economy and export-led, characterized by state intervention in the movement of capital and simultaneously promotes exports (e.g. Chile). There are hybrid cases, like Argentina.

3. METHODOLOGY

3.1. Economic Dimension

The methodology is based on comparing economic growth among selected Latin American countries (Mexico, Brazil and Argentina) and the other countries (South Korea, Spain and Croatia). Gross Domestic Product (GDPs) of countries was used, and because the data for Croatia is only available from 1993, we used series from 1993 to 2008 (before the crisis). The financial crisis that began in 2008 was not included because the crisis affected much more Spain and Croatia than the other countries. The database used is the World Economic Outlook (IMF), and some economic data from The World Factbook (CIA).

Five of the countries studied have not changed their economic model in the period (1993-2008), and only in the case of Argentina there was a model change in 2003, so we proceeded to divide the period into two sub-periods for that country, the first in 1993-2003 and the second from 2003 to 2008.

Another part of the methodology is to identify the varieties of capitalism with each of the selected countries. For this purpose the theoretical part of the text section is used in order to identify the impact of the type of capitalism on economic growth.

3.2. Innovation Dimension

In the literature, innovations have been defined in different ways by authors either emphasizing features, activities or a combination of both (e.g. Edquist, 1997; Dosi, 1998; Bendis & Byler, 2009). For the purpose of this paper a broad concept that defines innovation as the implementation of a new (i.e. to the market, to the world) or significantly improved product (good or service) or process, new marketing method, or a new organizational method in business practices, workplace organization or external relations (OECD & Eurostat, 2005). The innovation systems framework is used to present a comparative analysis of innovation in Argentina, Brazil and Mexico compared to Croatia, South Korea and Spain. This framework encourages analysing the whole process of innovation instead of focusing on a single aspect. An essential characteristic is the interaction among components of the innovation system (i.e. structure of production and institutional set-up).

The data from the 2014 Global Innovation Index (GII) is used to analyse the innovation performance of the select countries. The GII comprises 81 indicators and 3 types of data. Also, selected input and output scores are used to compare the countries and illustrate some of their weaknesses and strengths. The inputs capture some of the elements that enable innovative activities and the outputs the actual evidence of these activities. In this paper we classify innovators into three groups: the innovation leaders that tend to have a more balanced innovation system with strengths in all pillars; innovation followers with an innovation system that has more strengths than weaknesses; and emerging innovators with significant weaknesses but are making efforts to improve their innovation performance.

3.3. Democratic Dimension

The analysis of the structural conditions that encourage economic growth and generate innovation in the countries depends on the institutional trust of countries. The indicators that we use for this analysis, are two: the degree of confidence in terms of the rule of law (the fight against corruption), and how each country has tried very specific events that affect the confidence of private or public investment in very specific subjects as processes of public tender, certainty in terms of opening of business or infrastructure spending.

At the second level, we discuss how it is covered by the rule of law, as institutional certainty allows us to establish the conditions to be able to link economic growth with human development parameters, and for that we analyse the position of the countries surveyed in the Human Development Index (HDI). This is important considering that the democracy as a system of government often is not enough to see the stewardship of indicators of economic growth, social welfare and indicators of democracy from a liberal perspective.

In that sense, the discussion about the role that the stability and certainty offered by the institutions built under the parameters of a liberal democracy for the development of conditions that guarantee economic growth and a system of innovation in the countries is essential, since as we explain in this paper, there is a correspondence between the levels of economic growth, the HDI and the degree of democratic stability.

4. COMPARATIVE ANALYSIS

4.1. Economic Dimension

The first variable to compare the groups of countries is the GDP per capita. The following figure shows GDP per capita; Spain, South Korea and Croatia have a higher value in relation to Latin America, because the first group's average is $27,000 dollars, while in Latin America is $15,000 dollars. There are certain factors that have had an influence in the largest countries in Latin America and they have not attained a level of output per person in relation to Spain, South Korea and Croatia, although in the case of the latter (Croatia) is closer to Argentina. Until about 40 years ago, the GDP per capita was greater for Latin American countries than for the other countries selected, so there are certain factors that Argentina, Mexico and Brazil share, which have prevented them to achieve growth.

Spain and South Korea have a GDP per capita of $30,000 dollars (with the financial crisis of 2008, South Korea has already surpassed Spain), the same level as countries with a high level of development. Croatia has a GDP per capita worth close to $20,000 dollars (with the crisis this indicator has fallen), away from Spain and South Korea. In the case of Latin America, Argentina and Mexico have a similar GDP per capita, while Brazil is behind (see Figure 1).
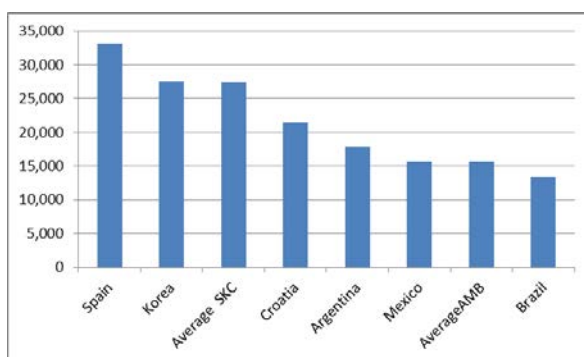

Figure 1 GDP per capita in US dollars, 2008.
Source: WEO (IMF).

A second variable is economic growth, and allows us to analyse the growth over a period of 15 years. Figure 2 shows that from 1993 to 2008 South Korea-Croatia-Spain had a GDP growth higher than the Latin American countries. South Korea grew at an annual average of 5%, followed by Croatia and Spain (both countries change the order in relation to GDP per capita, which indicates that Croatia is converging with Spain), and finally Latin America. Brazil has the highest growth in Latin America (3.20%), followed by Argentina (2.94%) and finally Mexico (2.7%). In the case of Argentina there are two different sub-periods, the first is 1993-2003, with a foreign market-oriented, with zero economic growth, while in the second period (2003-2008), domestic market-oriented, with an average economic growth of 7% annual.
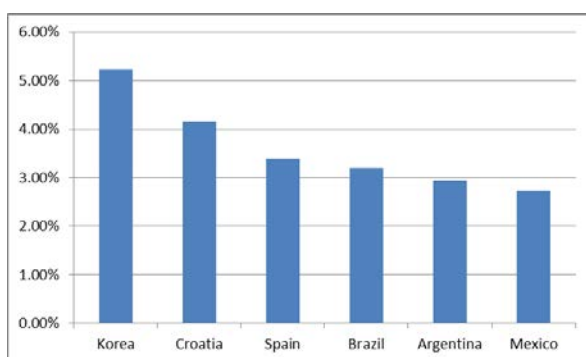

Figure 2 Annual Average GDP growth, 1993-2008.

Source: own elaboration with data from WEO (IMF).

The second part of the analysis is to compare the results of economic growth with the type of capitalism from each of the selected countries. If we link Figure 2 with the Table 1 we find that the low economic growth of Latin American countries is due to its hierarchical capitalism (Schneider, 2009), with inequality, and markets that are dominated by groups of domestic enterprises and transnational companies that are oligopolies and monopolies. To explain the difference in economic growth between Mexico and Brazil/Argentina, which is further enhanced if we take into account the 1982-2008 period (Mexico reported economic growth of 2.3%), we use Bizberg (2015). This author points out that Latin American countries do not have the same variety of capitalism, and in the case of Mexico, the author notes that the Mexican economy is characterized by being driven towards the external market, so there is a dependency that does not allow further economic growth, unlike Brazil, which has an economy geared to the domestic market, while the case of Argentina since 2003, its economy is based on the domestic market.

The policy of the Mexican government to grow based on the outside has not brought economic growth, and wage inequality has increased, because real wages have not increased, unlike Brazil and Argentina where it has been giving a boost to the minimum wage in real terms (Bizberg & Théret, 2015), in addition, social spending in these two countries has been much higher than in Mexico.

Although there are differences among the three Latin American countries, if we compare them with South Korea, the gaps are larger. Such country bases its economic growth on two strategies: the first is the financial support of large conglomerates of families (chaebol) (Witt, 2014), such as Samsung, Hyundai, LG Group and many others, supported by the South Korean government, financially and in terms of regulation (including government control of workers to cooperate with the chaebols). The chaebol have great political influence in South Korea and are comprised of groups of companies belonging to the same family. The second strategy is an active presence of the State (Amable, 2003) to support their national companies in international markets, including supporting the import of raw materials rather than consumer goods. Its exports account for half of its economy (CIA, 2015).

Spain and Croatia have been affected by the financial crisis of 2008, but have grown faster than the average of Latin American countries (in the period 1993-2008) and their GDP per capita is higher than Latin America (the Spanish is higher than the Croatian). The Spanish variety of capitalism is considered Mediterranean (Amable, 2003), between the CME and LME, while in the case of Croatia its capitalism is listed as clientelism (Cvijanovic, & Redzepagic, 2011) and is characterized by patronage ties.

The service sector of Spain and Croatia accounts for about 70% of their economies (CIA, 2015), whereas before its transition to democracy, the industrial sector accounted for a high percentage of the economy. Spain was growing on the strength of its construction sector (which later became the sector that potentiated crisis), banking (with large international banks such as BBVA, Santander) and the tourism sector, while in the case of Croatia its economic growth is based on its tourism sector and the export of some products. In both cases the state has an important role in the development of their new industries.

Table 1

Varieties of Capitalism

Country	Variety of Capitalism	Author	Characteristics
Spain	Mediterranean	Amable (2003)	-Regulated product & labour markets -Bank-based-systems - Limited Welfare State -Weak educational system
South Korea	-Asiatic -Plutocratic Stated-led	Amable (2003); Witt (2014)	-Governed product market (rather than regulated). -Regulated labour markets. -Low Levels of social protection. -Private-system of higher education and high rate of tertiary education. -The Establishment of large family-led Conglomerates (chaebol) with own banks.
Croatia	Clientelism	Cvijanovic, & Redzepagic (2011)	-Product market competition is guided by international resolutions adopted by the Republic of Croatia. -Segmented labour markets. -The financial system is guided by the big banks (concentration). -High Social security spending, but poorly distributed by patronage systems. -Low Levels of people with higher education.
Mexico	**Hierarchical** & external market-oriented	Schneider (2009); Schneider & Soskice (2009); Bizberg (2015)	-Economies with wage inequality and hierarchical -Capitalism disarticulated because the configuration of the structure of production takes place abroad. -Weak State Intervention -Non-existent coordination between unions and capital -Welfare State: residual and assistentialist.
Brazil	**Hierarchical** & internal market-oriented	Schneider (2009); Schneider & Soskice (2009); Bizberg (2015)	-Economies with wage inequality and hierarchical -The state plays a central role. -The Economy is oriented to the domestic market. -Strong labour unions and business organizations.
Argentina	**Hierarchical** &	Schneider	-Economies with wage inequality

	Hybrid	(2009); Schneider & Soskice (2009); Bizberg (2015)	and hierarchical. -Since 2003 its economy was reoriented towards the domestic market, but it depends on changes in political activity.

Source: own elaboration with information from Amable (2003), Witt (2014), Cvijanovic, & Redzepagic, (2011), Schneider (2009); Schneider & Soskice (2009); Bizberg (2015).

4.2. Innovation Dimension

According to Edquist and Zabala (2009) the main purpose of an innovation system is to develop and diffuse innovations. The impact of innovation on competitiveness, politics, society and development has been analysed and studied in the literature. Governments are aware of the benefits and are implementing strategies to enhance the innovation performance of their countries. Some countries (e.g. South Korea, Spain and Croatia) have been more successful than others (e.g. Argentina, Brazil and Mexico). According to the 2014 GII South Korea ranks 16th, Spain 27th, Croatia 42nd, Brazil 61st, Mexico 66th and Argentina 70th.

Innovation leaders have invested in infrastructure, R&D, and education, among others, while innovation followers have made important investments in their input pillars but there is room for improvement and emerging innovators are facing important challenges such as weak framework conditions and insufficient investment in innovative activities, among others. There is a sharp contrast among these countries with regards to the scientific and technical resources, and the knowledge gap. South Korea is an innovation leader, Croatia and Spain are innovation followers and Argentina, Brazil and Mexico are emerging innovators according to our own classification.

4.2.1. Innovation enablers: how much have they invested on innovation?

Innovation enablers are the main drivers of innovation performance. In Argentina, the regulatory (129th) and business (124th) environments are weaknesses, as well as, investment (136th) and innovation linkages (133rd). Brazil has a weak business environment (137th) and tertiary education (120th). In both countries knowledge absorption is their most important strength (22nd and 25th, respectively). Mexico has weak innovation linkages but a strong business environment (27th) and in trade and competition (23rd) Croatia is weak in market sophistication (113th) and investment (139th) and strong in education (17th) and

ecological sustainability (16th). Spain has weak innovation linkages (79th) and knowledge absorption (85th) and good infrastructure (16th), market sophistication (15th). South Korea's weakness is trade and competition (103rd) and is strong in human capital and research (3rd), R&D (1st) and ICT (1st). In Figure 3, the innovation inputs of selected countries are presented to illustrate some of the efforts of their governments.
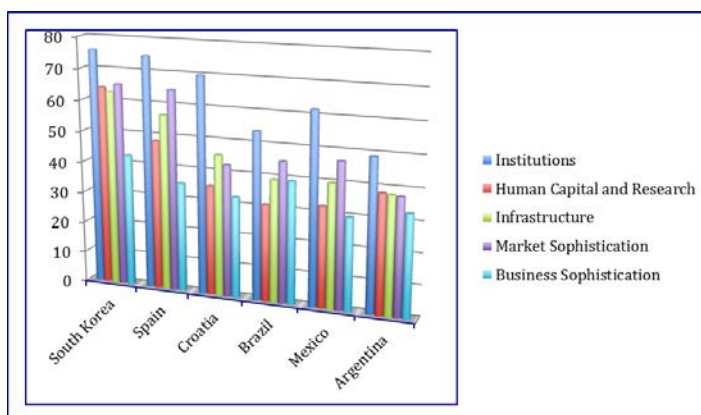

Figure 3 Argentina, Brazil, Croatia, Mexico, South Korea and Spain's 2014 Innovation Inputs

Source: Author's with data from the 2014 Global Innovation Index

        In Figure 3, South Korea, an innovation leader, has an ecosystem that enables innovative activities. Spain and Croatia, innovation followers, possess elements in their national economy that facilitates innovative activities. Argentina, Brazil and Mexico, emerging innovators need to invest more in infrastructure and strengthen their institutions. South Korea is a good example of a country that has been successful in their innovation policies and strategies. The role of government is important and the country has achieved economic growth through innovation.

4.2.2. Innovation outputs: more than the usual suspects

        Innovation inputs may result in measurable outputs such as patents and scientific publications. However, innovations are not only technological and these traditional outputs do not always reflect other types of innovation like business model, organization, social innovation and marketing, among others. The 2014 GII not only considers these outputs but also includes creative outputs such as intangible assets, creative goods and services and online creativity. South Korea and Spain have higher knowledge and technology outputs than creative outputs.

Croatia, Brazil, Mexico and Argentina have higher creative outputs than knowledge and technology outputs.

In Figure 4, the innovation outputs of selected countries are presented to illustrate the extent to which innovative ideas have been successful; policy makers can also use it to help them identify policy failures. These results could be explained by the type of innovations that are more prevalent in countries that have not invested adequately in infrastructure, human resources, R&D, and technology. As a result process innovations are more common than product innovations.
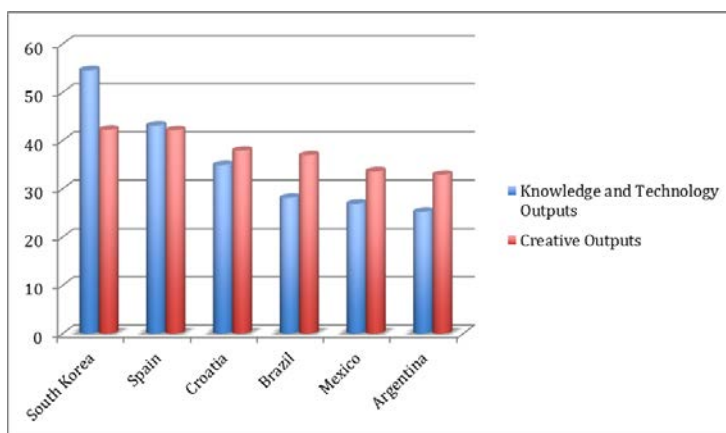

Figure 4 Argentina, Brazil, Croatia, Mexico, South Korea and Spain's 2014 Innovation Outputs

Source: Author's with data from the 2014 Global Innovation Index.

The ability to transform innovation inputs into outputs is key. The Innovation Efficiency Ratio (IER) is calculated as the ratio of the output over the input sub-index. The IER ranks Croatia in 36th, Argentina in 43rd, South Korea in 54th, Spain in 60th Brazil in 71st, and Mexico in 79th. In Figure 5, the Global Innovation Index score vs the Innovation Efficiency Ratio in selected countries is presented. All of the selected countries except Brazil and Mexico are efficient innovators. Countries can have an enabling environment to innovation but they are not able to translate it into innovation outputs.
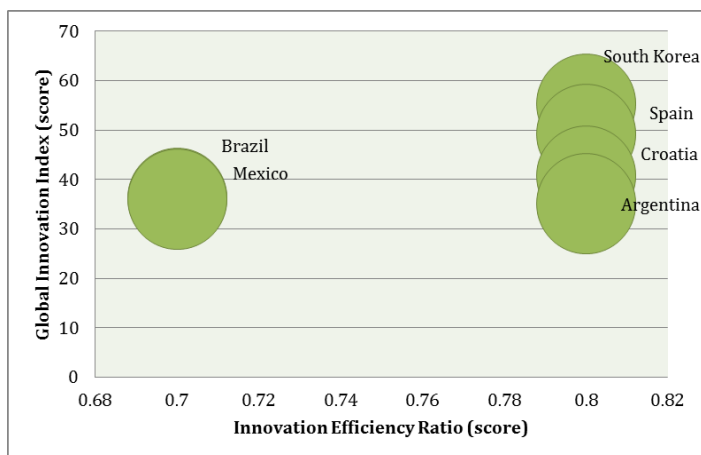
Figure 5 Global Innovation Index vs Innovation Efficiency Ratio in selected countries

Source: Author's with data from the 2014 Global Innovation Index.

One of the goals in this paper is to compare the selected countries innovation using the data from the 2014 GII to foster learning and help improve performance. We compared the inputs, outputs and innovation efficiency ratio of an innovation leader (South Korea) and two innovation followers (Spain and Croatia) with three emerging innovators (Argentina, Brazil and Mexico) highlighting their strengths and weaknesses. The results are clear; countries that have invested in innovation activities outperform those who have made inadequate investments. Strong institutions, human resources, research and infrastructures that enable innovative activities are key.

Governments need to establish clear and feasible innovation strategies and set measurable goals connected to the outcomes they seek (e.g. economic growth, job creation). Human resources are important but more than quantity, quality should be the goal (e.g. analytical and IT skills). Strengthening institutional capacity for innovation should be a priority in Argentina, Brazil and Mexico. Innovation policies should address systemic problems, each country is unique and it is not recommended to imitate innovation leaders but to adopt and adapt to their specific needs the best practices. Innovations to solve local challenges can emerge from within the country if the required innovation enablers are present and can produce innovative solutions.

4.3. Democratic Dimension

Political theory linked, in the middle of the 20th century, democracy with economic development. By taking the references of the capitalist economic

conditions and merging them with procedural institutional processes of the liberal Theories School of democratic pluralism is generated.

The pluralist model is built on the idea that there are two requirements to be able to speak of a democratic system: (a) an established capitalist economy and (b) a rule of law that allows the adjustment of the institutional life of the society.

The first aspect that is covered is the development of conditions of economic well-being, because if they do not exist, the population may undergo a process of disaffection in terms of democracy, or, they may even legitimize an authoritarian political system by which then democracy leads to conditions of a market economy and where conditions of well-being for society arise in general.

In the second aspect, the system must comply with a number of requirements for the conditions of participation in organized and institutionalized channels that ensure the development of a society with a degree of consolidation for its democratic political practices, this under the presence of the rule of law.

There is a degree of consolidation in terms of the presence of the rule of law and the degree of democratic consolidation in the selected countries, in this case, in the variable of the corruption, the ranking of countries (see Table 2).

Table 2

Corruption Perception Index, ranking for selected countries 2012-2014

Rank	Country	2014 Score	2013 Score	2012 Score
37	Spain	60	59	65
43	South Korea	55	55	56
61	Croatia	48	48	46
69	Brazil	43	42	43
103	Mexico	35	34	34
107	Argentina	34	34	35

Source: own elaboration with data from Transparency International 2014 http://www.transparency.org/cpi2014/results

If we analyse country by country, we would find that the treatment of cases of corruption is different. For example, Spain has faced a series of clear corruption cases, in 2014 the Punica operation cases, the Black cards used by senior officials of the Spanish Government for their personal expenses, the case Urdangarin, the husband of the Infanta Cristina of Spain (still on-going). The constant in all these cases is that even though some of them are not yet in prison, in most of them, there are senior officials who have been held responsible for and are in prison. This has been very positive for the establishment of the rule of law. The same situation ensued in Croatia, where senior officials have been

imprisoned such as the Major of Zagreb, Milan Bandic, on suspicion of abuse of power and corruption, and the former Prime Minister, Ivo Sander. In 2015, the Prime Minister of South Korea, Lee Wan-koo, resigned after suspicion of having accepted bribes from a businessman.

However, in the selected Latin American countries the situation is entirely different, since the cases of corruption not only are increasingly noisier, they are handled with a high level of impunity. In Brazil the scandal of the oil company Petrobras, who presents pictures of corruption with an embezzlement of almost $1.6 billion dollars, product of bid-rigging scheme. Nevertheless, it should be mentioned that at least in this case Brazilian prosecutors have accused more than 100 people of corruption, money laundering and other financial crimes, while investigations on-going.

Both Mexico and Argentina represent dramatic examples in terms of corruption cases or scandals, impunity and the lack of the rule of law. For example, according to the 2014 Corruptions Perception Index, Argentina has fallen consistently for the third consecutive year ranked 107 of 175. In Mexico, the case of HIGA group and the conflict of interest with President Enrique Peña Nieto and the Minister of Economy, Luis Videgaray, where this group has obtained very important public contracts and has granted houses for less than 46% of market value.

The application of the rule of law, responds directly to the degree of functioning of pluralist democracy parameters (i.e. as a system of checks and balances) where there must be clarity in the separation of powers and in the management of accountability, showing a social value in the case of countries where there is a fuller democracy applied more widely the rule of law (Spain and South Korea) while in other countries applied reservations or even detected cases of corruption (Brazil and Croatia) that where investigated and punished by the authorities, and in others it was handled with impunity and even cynicism on behalf of the politicians involved (as they might be the case of Mexico and Argentina), and this corresponds according to the scores of the 2014 Democracy Index of The Economist Intelligence Unit as shown in Table 3.

Table 3

2014 Democracy Index (Full Democracy: FD, flawed democracy, fd)

Ranking	Country	Score	Index
20	South Korea	8.13	FD
25	Spain	8.02	FD
44	Brazil	7.12	fd
50	Croatia	6.93	fd
51	Mexico	6.90	fd
52	Argentina	6.84	fd

Source: own elaboration with data from The Economist Intelligence Unit, 2014.

After this analysis, we can infer that countries with a high Human Development Index (HDI), also have less corrupt governments. Spain and South Korea are countries with full democracies. In this sense it becomes necessary to understand that a country can create optimal conditions to generate development and a national system of innovation. It is necessary to build a stable and consolidated institutional environment under an embedded democracy. This means that there is a relationship between the consolidation of institutional indicators, such as democracy and the rule of law, an effective distribution of the economic surplus, transforming them into tangible satisfiers for the quality of life of citizens.

Table 4

2014 Human Development Index for selected countries

Country	Ranking (2014)	Human Development Index (2014)
South Korea	15	0.891
Spain	27	0.869
Croatia	47	0.812
Argentina	49	0.808
Mexico	71	0.756
Brazil	79	0.744

Source: own elaboration with data from UNDP, 2014.

Thus, as seen in Table 4, Spain, South Korea and Croatia have the greatest potential to consolidate their economic growth with social wealth distribution, and enhance their innovation system, since they have optimal conditions for economic competition, certainty and security for investment and have a system that guarantees more effective conditions for the implementation of the rule of law that tackles corruption and impunity. This environment attracts investment and makes more effective the scheme of a democratic system with an advanced and stable capitalist environment allowing the effective development of the countries.

5. CONCLUSIONS

Overall, Brazil, Argentina and Mexico are ranked below South Korea, Spain and Croatia in innovation, democracy and economic growth. Latin American countries share certain characteristics that imply that they do not generate creative destruction, because they have monopolistic and oligopolistic structures in their markets (among other things) and generate **hierarchical** economies. On the other hand, the lack of innovation in the region explains that economic growth in the period 1993-2008 has been low compared to other countries. In addition, the **hierarchical capitalism** in the region has prompted a slow democratic progress.

Although Latin American countries share certain features, we have mentioned that the Mexican case presents the lowest levels of economic growth, the lowest indicator of efficiency of innovation and is considered a failing economy, this can be explained by the type of capitalism it employs. The variety of Mexican capitalism is regarded as "sub-contracting international and disarticulated" and the government has prioritized strategies abroad as a means to achieve development, however that economy is disconnected from its domestic market, which has generated high levels of inequality. In the case of Brazil, the government has focused on a strategy that prioritizes the domestic market, which has led industrialization and not completely dependent on international markets. Argentina since 2003 follows a strategy like that of Brazil (not equal), and that has generated economic growth.

South Korea has found a strategy that has enabled it to have economic growth through innovation and strong government support of domestic conglomerates groups that are characterized by being large exporters. Spain based its economy in the sectors of construction, tourism and banking, allowing it to have economic growth, with a strong presence of the State as a regulator. However some of these sectors became vulnerable to Spain in the 2008 financial crisis. Croatia transformed its economy after its war of independence, from an economy with a strong industrial sector to one based on services (with a strong tourist activity). Croatian capitalism has been considered "clientelism" due to the government's relations with the various economic actors.

Overall, economic growth, innovation and the level of democracy should go hand in hand, although it is not always the case. With the comparison performed among the Latin American countries and a group of countries with different characteristics (South Korea, Spain and Croatia), we can conclude that **hierarchical capitalism** produces low economic growth, inhibits creative destruction and impact negative to the democracy, due to the existence of monopolies and oligopolies.

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