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States and Markets in Latin America: The political economy of economic interventionism

Colin M. Lewis

Department of Economic History
London School of Economics

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Department of Economic History
London School of Economics
Houghton Street
London, WC2A 2AE

Tel: +44 (0) 20 7955 7860
Fax: +44 (0) 20 7955 7730

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> The state is conceptually distinct from both economy and society, with inherent interests in expanding its scope for autonomous action, asserting control over economic and social interactions, and structuring economic and social relations. These interests derive primarily from the state's concern to establish and maintain internal and external security, to generate revenue, and to achieve hegemony over alternative forms of social organization. … States assume empirical reality through regimes that attempt to establish political order, set terms for political interaction, allocate leadership positions and power resources, and determine the representation of interests within decision-making contexts. Regimes attempt to negotiate and impose formal and informal rules about how the state will relate to the economy and to the society; durable and legitimate regimes have greater capacity to achieve these goals than do those that are less institutionalized.[1]

The experience of economic interventionism in Latin America since the late nineteenth century can be presented as a sequence of phases of growth and development, or of growth and crisis. First, a phase of state construction and largely passive government associated with export-led growth, c.1870s-1920s. Secondly, of the economically and socially active state from the 1930s to the 1960s, characterised by interventionism, welfarism and 'forced' development. Thirdly, since the 1970s, a phase of international re-insertion (and crisis) depicted as culminating in the `hegemony' of the neo-liberal consensus. Specific 'state' and 'market' cultures can be attributed to each of these periods. The oligarchic state, of the decades around 1900, that was responsible for the formation of markets. The populist state of the middle third of the twentieth century that presided over import-substituting industrialisation (or stabilising growth) and which `set ' prices - of factors, commodities and products. The market-friendly (or neo-populist) state of the late twentieth century

[1] Grindle, (1996) pp.3-4.

which, based on a popular-business alliance, is depicted as either restoring market mechanism or, for the first time in Latin American history, creating conditions in which unfettered markets function. Underlying this phraseology is a larger, vital question. Namely, to what extent was the `state' a nation-state, potentially embracing all sectors of society and polity, or a particularist project? While oligarchic states of the late nineteenth century engaged in the contemporary liberal discourse, implying a potential diffusion of rights to all citizens, political rights were highly circumscribed and access to politics rigidly controlled. Similarly, around the middle of the twentieth century, populist regimes employed the language of inclusion, but important sectors of society were excluded – or considered themselves to be marginalised – by authoritarian administrations. Was the privatising state of the late twentieth a more inclusive polity? Or did ideology, the social pain associated with constructing a market system, and growing inequality confirm the enduring, particularist nature of the state in many Latin American countries?

Despite these apparent shifts and ruptures, this paper will argue that since the late nineteenth century Latin American states attempted to 'embed enterprise'. In the latter part of the nineteenth and early twentieth centuries this was done through external economic opening and pragmatic intervention in domestic markets. After the 1930s, and more especially the 1940s, government intervention became more explicit, the state sector grew in size, and domestic production and external economic relations conditioned by state policy. In Latin America, as elsewhere in the post-Second World War period, states thought that they could – and should – shape the pattern and rhythm of economic change. Nevertheless, the quest to foster business was sustained throughout this period, even if the policy rhetoric became more nationalistic and statist. To what extent this succeeded in creating 'national' enterprise capable of competing in a global environment when Latin American states 'retreated', and 'closed' economies, opened in the 1980s remains a subject of debate. Yet, by the 1990s, the market was being projected as the source of legitimacy: the state was legitimised though delivery of growth with macroeconomic stability, a condition that could only be guaranteed by the market. From the pragmatic liberalism of the late nineteenth century, through the interventionism of *cepalismo*, to the market friendly model of the late twentieth century, governments have guided the invisible hand. Arguably, it is precisely these characteristics that make the study of Latin America particularly interesting for students of global history. The continent represents the 'other' Europe overseas, offering a different trajectory to that of the USA and other regions of recent settlement, notwithstanding the anomalous position of the River Plate region. In addition, the continent can be depicted as a region of 'state competition' that – in distinct periods – fostered the formation of both growth-inducing and growth-limiting institutional arrangements.

The Economics and the Politics of Forming the Oligarchic State

The oligarchic state, in place by the 1870s in most regions, remained the main expression of political organisation at least until the 1910s. This period saw the establishment of institutions formally modelled on those of Western Europe and the United States of America, broadly based on ideas of constitutionalism and republicanism promoted during the French Revolution and wars of American independence. The economic culture, and stance of the state, notionally conformed with concepts of *laissez faire* and *laissez*-passer promoted in late-eighteenth century Britain, supposedly responsible for the English Industrial Revolution and the rapid pace of US economic expansion in the nineteenth century.

Institutional building during the early national period (1810s-1860s) had been messy, involving contending ideologies and no little violence. Dignified by references to competing philosophies, politics was essentially a crude, personalist struggle amongst regional factions. These contested to occupy space vacated by Iberian authority. Elite groups were also anxious to pre-empt the threat of social revolution or ethnic violence from below. Liberated slaves, Indian communities (politicised during struggles of the revolutionary period), and those of mixed race (mobilised by the promise of greater social and economic freedom by insurgents and royalists alike) were considered a serious menace. Issues of economic reconstruction and state building were secondary to those of elite survival and the establishment of a monopoly of economic and political power. Legitimacy was hardly a consideration. Nation-states hardly existed in Latin America in 1850. Boundaries were ill-defined, administrative units separated from each other by distance rather than precisely demarcated frontiers. Few in the continent would have understood the concept of nationality or citizenship – formal political rights hardly existed, slaves were neither citizens nor subjects but property and, in many regions, Indian communities survived as societies apart, subject to distinct legal and fiscal arrangements. For most, the landed estate, rather than the nation-state, constituted the 'political universe'. Linguistic and ethnic divisions, as well as the form of economic activity, isolated groups one from another. Nevertheless, by the third quarter of the nineteenth century, more institutional political structures were displacing regimes associated with regional bosses (*caudillos* or *caciques*), save in Chile and Brazil, where modern institutions were already in place, and in Central America, where the process took longer.

A mix of domestic and external factors helped secure the oligarchic state and shaped its policy agenda. Factional success, or exhaustion, in local and regional conflicts that characterised the post-Independence decades ultimately facilitated a reconstitution of elite solidarity. The rapid growth of the world economy after the 1840s provided new power resources for state building. Producers and merchants benefited from a privatisation of economic assets. During the middle third of the century there was a massive transfer of factors from public and corporate to private hands. Nominally implemented in accordance with liberal precepts, this involved the disposal of public land, the secularisation and distribution of assets of the Roman Catholic Church, the break-up of communal Indian estates and the seizure of territory occupied by nomadic Indians. One-off disposals of land, labour and capital were monopolised by producers supplying commodities to overseas markets. There were contemporaneous attempts to configure domestic practices with international norms is areas such as fiscal, monetary and banking policy. The assumption was that a correspondence with economic policies being applied in the USA or Western Europe was appropriate for Latin America and would secure for the countries of the continent a process of economic expansion similar to that occurring in the North Atlantic world.

The history of state-formation in the half-century following independence demonstrates that institution building proved most problematic in those areas where the revolutionary wars lasted longest (for example, northern South America), where there were large indigenous populations (such as the Andes and Mexico), and where silver mining had been an important element in the colonial economy. In Brazil, where the struggle for independence was short and occurred 'late', and in Chile, where military conflict was short-lived, stable administrations were fairly rapidly and successfully established. National consolidation was sustained by economic growth. The relatively smooth nature of the Brazilian transition from colony to co-Kingdom, when Rio de Janeiro became the capital of the Portuguese world, and to independent empire should not be exaggerated, but the early development of coffee exports, which rapidly out-performed the ‘colonial’ staple, sugar, generated new opportunities and resources that forged the state. Chile benefited from its strategic location as a West Coast entrepôt, producing and shipping grain to neighbouring republics (and, after the 1840s, to California) and copper to mainland Asia and Great Britain.

This raises the question of whether domestic institutional order conditioned the ability to seize economic opportunities resulting from international economic growth, or whether external commercial openings - and the resulting increase in resources - fostered regime consolidation? Many of those who promoted Independence assumed that it was the former. The reality may have been different: the growth of the international economy after the 1840s fostered domestic institutional consolidation and state modernisation. The market made the state rather than the state the market[2]. The emergence of greater opportunities for Latin America in the world economy was illustrated by the buoyancy of primary product prices throughout the middle third of the nineteenth century. Export growth valorised local assets and generate additional power resources, notably for the central state or groups strategically placed to capture a disproportionate share of extra resource flows. Increased openness to the world economy removed factor-supply and market-size constrains to growth: savings and labour could be imported and products exported. The most critical economic organisations in late-nineteenth century Latin America were railways and banks, sectors where the national state was active as promoter or operator or both. Railways and banks were market-making agencies as well as legitimacy-enhancing public goods. They were both asset-generating mechanisms and

[2] This remains a matter of controversy. Writing about mid-nineteenth century Peru Gootenberg (1988) p.88 maintains that trade may have made the state but the state was thwarted in its efforts to embed the market. For Salvatore (1999) pp.30-5, also writing about free trade (ideology and practice), international insertion facilitated state-formation but markets societies only followed after a considerable lag.

symbols of greater state competence - the tangible manifestation of a growth in state outreach and capacity to deliver, at least to favoured regions and groups.

With export expansion came imports, a convenient source of taxation. Import duties appeared to promise a secure source of revenue, and one that could be mortgaged to underwrite foreign borrowing. Capacity to borrow and a 'commitment' to repay similarly implied greater state competence and credibility. In addition, the growth in fiscal resources – and fiscal responsibility – suggested greater market institutionality. Thus states were able to expand the supply of public goods - political order and economic and social 'consumables' such as transport and education facilities. If the growth in the foreign trade sector did not broaden the fiscal base, at least it deepened the purse into which government could dip. Inflows of foreign funds reduced the cost of borrowing and may have weaned administrations off a dependence on inflation as a means of financing the state[3]. External borrowing, however, was not costless. It carried implications for domestic monetary policy and the threat - and sometimes the reality - of supervision by foreign banks.

It is no coincidence that around the third quarter of the nineteenth century there were further efforts at `market-embedding'. Perhaps the most notable were attempts to impose capitalist norms on land and labour 'markets'. Overtly driven by liberal precepts of property – and property rights, mechanisms such as the *Lei da terra* (1850) in Brazil, the *Ley Lerdo* (1856) in Mexico and similar projects in the Andes, were designed to promote free holding and prohibit corporate/collective land-holding. In

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[3] The ability of a government to borrow implies a capacity to tax. In this instance, to capture a share of rents generated by commodity exports. Taxation and borrowing also involve credibility and commitment – an ability on the part of the government to repay and a willingness on the part of taxpayers to contribute to the fiscal burden. Hence, the shift from inflationary financing, `discovered' during the early national period (see Amaral, 1988), to borrowing (coupled with a credible capacity to tax) points to the embedding of the state and market relationships (see Bordo & Vegh, 1998, pp.33-4; Bin Wong, (1997) pp.83-8).

the Argentine and Chile, the so-called ‘desert campaign’ against nomadic Indians had a similar effect. Despite the liberal rhetoric, land holding became increasingly less ‘democratic’ between the 1860s and 1880s[4]. Legislation relating to ‘labour’ was more piecemeal. In plantation economies like Cuba and Brazil, the massive surge in export production undoubtedly strengthened archaic institutions such as slavery. Yet even in these areas there were subtle changes in labour relations. From the 1860s to the late 1880s (when slavery was finally abolished), immigration, the freeing of different categories of slaves, the use of Asian contract labour (in Cuba) and the recruitment of domestic non-slave labour made for greater complexity in labour markets. During the last decades before abolition, and despite the concentration of slaves on *paulista* coffee *fazendas* and Cuban sugar estates, the majority of rural workers in these regions were technically free. And, slaves were capable of resistance. Similar controversy surrounds other mechanisms - debt peonage, sharecropping and contract labour (*enganche*), prominent everywhere but especially associated with the Andean and Central American countries, and Mexico. Were these devices the means of prolonging slavery or did they constitute a phased transition to a ‘free’ labour market?[5] Mass

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[4] In various parts of Latin America, progressive land projects were debated around the middle of the nineteenth century. Often these were connected with schemes to attract immigrants. Increasingly, the schemes and discussions were influenced by policy and practice in the USA, as reflected in parliamentary debates in the Argentine, Brazil, Mexico and elsewhere. For example, there were proposals to issue land grants in order to foster railway construction and colonisation (see Dean, 1971; Barry, 2000; Gallo, 1984; C.M. Lewis, 1983). Little came of these projects. The plausible explanation, advanced convincingly by Coatsworth (1974) for Mexico, is that export opportunities valorised land. What had previously been viewed as a low value asset that could conveniently be sold to gullible immigrants or foreign speculators became a resource from which substantial rents could be squeezed. Domestic institutions (see da Costa, Gootenberg and Mallon) conditioned disposals: at this stage, either states were too weak to implement `development projects’ or massive transfers of resources were narrowly conceived as mechanisms to consolidate regimes – for example the *paz rocista* in the Argentine or the *porfiriato* in Mexico.

[5] Much of the new scholarship dates from the pioneering collection of Duncan & Rutledge (1977). For subsequent work on the Andean economies, González (1985) and Mallon (1994) emphasises resistance to coercion. González (for Peru) and Miller

immigration effected a more obvious change in the labour market and to labour relations. Between the mid-nineteenth and the mid-twentieth century, the Argentine received around seven and a half million immigrants, Brazil something less than five million. They were, respectively, the second and third most favoured destinations of European emigrants after the USA. Other countries, notably Uruguay and Cuba, also received substantial numbers of immigrants. Indeed, virtually every country attracted immigrants. Given that these countries were competing with the USA and other areas of recent settlement, the mass movement of people implies economic opportunity and a semblance of political order. Again, controversy surrounds the long-term consequences of mass immigration. Did subsidised and contract labour depress wages or did subsidies represent a 'savings' advance to would-be settlers, thereby contributing to individual/family welfare as well as to macroeconomic efficiency by increasing factor availability?[6] Did immigrants provoke socio-political change?[7]

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and Katz (for northern Mexico) also demonstrate that *enganche*/debt peonage (a) imposed obligations on both parties and (b) that labourers were able to bargain for changes in contract terms and conditions. Similar arguments have been made for *colons* on São Paulo coffee plantations – see Holloway (1980) and Stolke (1988). This research suggests both the operation of a labour market (albeit at local/regional level) and the existence of institutions – formal or informal, capable of imposing sanctions in the case of contract violations by either party.

[6] While almost 70 percent of all immigrants entering Brazil remained there, only a little over 50 percent did so in the Argentinian case. This may have been due to the nature of immigrants. For several decades Brazil offered free or heavily subsidised passages for families. The Argentine only provided assisted places for a very limited period in the late 1880s. By this time the seasonal entry of single male workers represented a large proportion of gross immigration to the River Plate. There is a large literature on the economic and social impact of immigration in Brazil, notably on the transition from slave labour, especially in the São Paulo coffee zone. The classic demographic study is that by Merrick & Graham. Lamounier had written most extensively on `transition'. Stolcke (1988) provides the most complete account of social conditions on coffee *fazendas*. She details the limits (and the capacity) of immigrant efforts to establish `market' rule and the ability/willingness of the state to enforce contractual obligations on planters and workers. Holloway and Leff stress migrant economic and social mobility, again suggesting the functioning of a labour and a land market, and of the market economy – at least in São Paulo.

[7] The modernisationist (`melting pot') approach – immigration, assimilation and

Monetary reform was another area where institutional change can be observed. The early monetary history of independent Latin America was largely one of inflation and turmoil. The cost and method of funding revolutionary and post-independence conflict, coupled with a decline in silver production, undermined the currency in many areas. Additional pressure was placed upon money supply, and the exchange, by an adverse balance of trade. Thereafter, imported doctrines and export earnings – along with foreign investment - facilitated greater order. By the 1870s, the Gold Standard was in the ascendance and many policy-makers peddled the orthodoxies of fiscal discipline and state creditworthiness. The route to monetary order was painful, not least for regimes incorrigibly wedded to the 'developmentalism' of un-backed paper currencies or mining regions that favoured silver as a 'national' metal. These were sensitive matters of domestic political economy for regimes balancing sectional and regional interests. Governments of small, `open' Latin American economies with shallow domestic capital markets faced huge problems in accumulating (and conserving) reserves. The political costs of monetary virtue could prove greater than the supposed economic advantages. Nevertheless, the provision of monetary order can be presented as an indicator of state competence - an ability to tax (rather to inflate). Did this also signal a new 'contract' between state and citizen - the provision of public goods in exchange for fiscal exactions? The impetus to market consolidation provided by monetary stability should not be under-estimated.

Economic liberalism was tempered by pragmatism and subject to sectionalist special pleading. For example, by after the 1880s

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structural change – is best captured in the writing of Germani (1968, 1971) and de Imaz (1974). Solberg (especially, 1974) is much more sceptical about the diffusion affects of immigration across society. For a sample of recent work, which tends towards a societal modernisation/welfare enhancement view, see Adelman (1992) and Armus (1990). For a concise statement of social modernisation theory and assessment of empirical data, see Germani (1981, pp.173-202).

industrialists in Brazil, Chile and Mexico could count on a significant degree of protection even if the tariff was still primarily regarded as a fiscal device. Less consistent tariff protection was available to manufacturers in Peru and Colombia. The ability of industrialists to influence policy depended on connexions with the dominant export oligarchy and a capacity to press conjunctural or strategic advantage - governments were invariably more responsive to the clamour for protection when short of cash[8]. Politically influential sectors, like hard-pressed Argentinian and Brazilian sugar producers, could always rely on special assistance[9].

Only after the turn of the century was the export-led growth model associated with the oligarchic state seriously challenged. The process and programme was questioned by those segments of the elite who had not benefited directly, or were adversely affected by increased instability in world commodity markets, and by intellectuals who questioned the economic efficiency and social implications of a system based largely on the production and processing of a limited range of commodities for external markets. This suggests that the oligarchic state was hardly `national'. Others were exercised by societal change triggered by export-led growth, notably mass immigration and urbanisation (in Southern Cone countries) and by the prominent role assumed by foreign companies in

[8] For a business history view of state-firm relations, see Cerutti & Marichal (1997) Dávila & Miller (1999), not least approaches to protection, state assistance and monetary and credit policy. Both of these collections also stress the need for a Chandlarian (see Chandler, 1990) approach to firm-levels studies of enterprises.

[9] By the beginning of the twentieth century, with commodity prices weakening, demands for state assistance multiplied. Hence, it was hardly surprising that during the inter-war decades price support schemes and commodity boards proliferated. Schemes of this period covered exports and domestically consumed commodities and sometimes entailed the corporatist representation of producers, consumers and the state (Gordon-Ashworth, 1984). The most audacious price support scheme was the self-financing coffee valorisation scheme launched in Brazil in 1906 with the assistance of European creditors: for a conventional, economic assessment of the scheme see Peláez (1961); for an institutionalist analysis, see Bates (1997). (The distinct approaches of Peláez and Bates highlight methodological contributions to political economy by the new institutionalism.)

strategic sectors. Nationalist and radical criticisms were also articulated by aspiring middle class groups and some segments of organised labour clamouring for greater access to politics and a welfarist stance in state policy. From these criticisms and concerns, a populist challenge would emerge.

Between the Oligarchic and the Populist State

In a number of countries, the oligarchic state was under pressure by the early decades of the twentieth century. Were demands for change triggered by societal modernisation associated with the production of linkage-rich ‘democratic’ commodities? Or was the re-ordering of political institutions a reaction to those demands? Alternately, did increased external volatility undermine political arrangements created by insertion into the world economy?   Undeniably, the international economic environment was changing. Commodity prices were softening, the rate of growth of the volume of exports was slowing and capital flows becoming more erratic. Even without the First World War, price instability, changes in global polarity, and new institutional and ideological developments within the continent would have led to demands for greater economic and political accommodation.

The most potent forces working for change were nationalism and demands emanating for the largely urban middle classes for greater access to power. Sometimes these demands were triggered by macroeconomic instability. Certainly, economic volatility made it difficult for oligarchic regimes to accommodate these pressures. At this stage, nationalism and populism were to become especially pronounced in the Southern Cone and Brazil, most precisely – and precociously - epitomised by the administration of Batlle Ordóñez in Uruguay, the Radical ascendancy in the Argentine and the Alessandri presidencies in

Chile. Later expressions were *varguismo* and Peronism in Brazil and the Argentine, respectively. Perhaps because they were articulated earlier, populist programmes seemed to have been most easily accommodated in Uruguay. In the Argentine and Chile, export sector crisis made for messier political adjustments. Urban groups were pressing for accommodation in the political market place precisely as the rhythm of economic growth was faltering. Politics became a zero-sum game. New groups could no longer be accommodated by re-distributing the proceeds of future growth: accommodation implied re-allocating existing resources, a more delicate operation that challenged the very existence of a regime and even of the state itself.

Nationalism, associated in some countries with *indigenísmo* and *hispanidad*, heightened concerns about statecraft, and challenged previous concepts about the role of the state. Nationalism also served as a cement for proto-populist alliances in some countries and assumed a more overtly anti-liberal and anti-internationalist tone by the 1930s. Nationalist and developmentalist regimes of the 1930s were framed by economic dislocation provoked by the First World War and the inter-war depression. In addition, they were conditioned by criticism of the economics and politics of export-led growth voiced earlier by conservative-nationalists and radical thinkers. These ideas were seized upon by sectors such as the military, bureaucrats and industrialists. All argued for a more pro-active stance by government to ensure greater local consumption of commodities for which overseas demand had contracted, domestic production of items that could no longer be imported and, occasionally, the application of *ad hoc* welfare measures to pre-empt further social discontent.

Policy debates and institutional developments of this period had an influence on post-Second World War strategies of import-substituting industrialisation. The relatively speedy recovery of most Latin American economies from the worst affects of the depression by the early/mid 1930s similarly influenced later thinking, creating the impression of bureaucratic competence and macroeconomic management efficiency. Yet it would be a mistake to project back into this period expectations and programmes of the post-Second World War decades. During the 1930s economic policy was piecemeal and directed towards export substitution - 'economic internalisation' - rather than industrialisation *per se.* Increased domestic industrial production was an important element in this process but it was a part rather than the whole. Moreover, particularly in the early 1930s, Latin American policy-makers were by no means convinced that overseas demand for exports would not recover nor foreign capital markets not re-open[10].

Many contemporaries viewed developments of the period as signalling a heightened degree of 'economic' sovereignty, and greater state competence. If the oligarchic state had been exercised by internal challenges to sovereignty emanating from recalcitrant provinces and the real threat of ethnic violence, the populist state was more concerned about class relations. Hence an emphasis on diffusing `social representation' within the state. Paradoxically, and running counter to contemporary assumption, increased internal sovereignty may have been countered by a decline in 'external' sovereignty. Volatility in world commodity and financial markets provoked attempts by foreign business

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[10] For an early consideration of these issues, see Thorp (1984) Abel & Lewis (1991) and Bulmer-Thomas (1994). Examining the Vargas period, Hilton (1975) argues that there was a major policy change in 1930: exploring the political economy of industrialisation, most writers point to a conscious, coherent application of a new development model in the late 1930s – see Draibe (1985), Suzigan (1986), Villela & Suzigan (1973), Wirth (1970). In the Mexican case, Cádenas (1987 & 1994) also sees pragmatism (or policy instability) as policy-makers responded to demands for reconstruction and stability following the Revolution while coping with a succession of shocks imported from the USA during the late 1920s and the early 1930s. However, for Chile, Palma (in Abel & Lewis, 1991, and Thorp, 1984) and Muñoz G. (1968), argue convincingly that there was a trend towards industrialisation throughout the inter-war period, either as a result of early instability in the external sector or due to conscious efforts by government to promote manufacturing.

interests, aided by their governments, to defend assets in Latin America in the face of nationalist demands, economic contraction and increased international rivalry. This interplay of domestic forces and external pressures posed problems for a number of regimes. Responses to these challenges varied across the continent. From these responses, three categories of states may be identified. First, those that adopted a Gerschenkronian position, employing 'ideology' or 'national project' in order to up-grade state competence and in so doing came to project an image of efficacious management of domestic and external relations. These states obtained greater legitimacy. Secondly, regimes that implemented only limited modifications to the institutional *status quo* – perhaps due to a perceived lack of need, or an inability to do more. Finally, states that surrendered a substantial degree of sovereignty in order to survive in the colder climate of global recession, and rising internal and international tensions.

Countries such as Brazil, Chile and Mexico were representative of the first group. In Chile and Brazil, programmes of industrial growth and regional economic regeneration gave the central state enhanced domestic authority and, apparently, greater competence in the management of relations with domestic actors and external agents. Internal economic regeneration in Mexico culminated in the radicalism of the Cárdenas *sexenio* that witnessed massive state action in the rural and urban sectors. In all three countries - though to a much greater degree in Mexico - domestic sovereignty appeared to have slipped in the 1920s. National and regional politics had become more violent in Brazil and Chile during the decade as challenges to the central administration proliferated. This instability was not unconnected with weakness in key export sectors. Possibly, this made the task of re-establishing central authority more urgent. It is instructive that, although starting from very different positions, the central state in Brazil, Chile and Mexico became highly interventionist. Welfare programmes - education reforms, an extension in social insurance provision and labour legislation - were stressed in all three. There was too a proliferation of commodity boards, often exhibiting distinctly corporatist tendencies involving the ‘representation’ of workers and employers, producers and consumers, as well as the state. Greater state action in the banking sector also facilitated more adventurous monetary, exchange and external debt management strategies. As intervention in these areas often displaced foreign agents, governments were depicted a ‘re-capturing’ control over monetary policy and adopting a nationalist stance in negotiations with foreign interests – and their domestic clients. (The adoption of the Gold Standard in the nineteenth century implied that governments had surrendered control of money to the market.) The Argentine and Colombia best typify the second group of countries. Despite similar developments in the banking sector and commodity marketing, there was less ‘ideology’ and less ‘project’. In the 1930s, the commitment to economic liberalism and the prevailing pattern of economic activities was more entrenched or, possibly, less challenged. There may have been less pressure for a radical re-definition of the reach and composition of the state. Or domestic politics may have been too riven, rival blocs too evenly balanced, to permit the emergence of an opening for change. This may be the lesson of the up-surge in political violence in Colombia in the 1940s, and the rupture in Argentinian history represented by Peronism after 1946. The third group of states is probably best represented by Nicaragua and Cuba. These states might have acquired international recognition by the twentieth century and a degree of domestic sovereignty but they had hardly secured the exclusion of external authority. In the inter-war period, elements of statehood were ceded (or re-ceded) to US pro-consular officials and/or business as overt external assistance was vital to sustain the regime and/or the state.

‘Populist’ Developmentalism

As indicated, in many countries during the inter-war period, the economic position of the state shifted from minimalist regulation (based loosely on liberal tenets conditioned by the experience of crisis management) to more explicit attempts to influence the availability of key goods and services. Later, several regimes attempted to combine entrepreneurial and macroeconomic management functions, processes that were associated with a re-structuring of state and economy during phases of ‘forced’ economic development. Government policy initiatives, which had been *ad hoc* and pragmatic, became increasingly pro-active and focused in response to changing attitudes to both the role of the state and the efficiency of the market. Did official economic policy become more coherent and effective, or did it merely appear to be so?

Economic policy was shaped by many groups and organisations, the influence and weight of which changed over time. Some of these originated within the state itself, others emanated from traditional producer bodies, relatively recently constituted segments of the business sector, the military and more diffuse social constellations including politically vocal urban middle and working class groups. The diversity of lobbies acting upon the state explains both a re-scheduling of policy priorities and the ideological eclecticism (or inconsistency) of strategy during the period. The sheer diversity of these configurations may also have contributed to state autonomy – that is, the ability of the state to command resources and select policy options that ran counter to the interest of powerful blocs. There was a tendency for a widening spectrum of prices - of factors, services, commodities and products - to be ‘administered’ or ‘indicated’ by the state. These features were not peculiar to Latin America. Indeed, with the rise of Keynesianism and socialism, by the 1940s governments in many parts of the world considered not only that they were able to manage the economy – but that they should.

Nevertheless, amongst the supposedly capitalist economies, the countries of Latin America were something of an exception. Only in the non-market economies of Eastern Europe, Africa and Asia was the size of the state sector larger than in Latin America. In many countries, politics also became increasingly 'administered'. There were political parties (and trade unions) *of* the state and political organisations that behaved as if they *were* the state. Economics and politics became statist and nationalist: boundaries between the public and the private blurred - perhaps even more so than in the early nineteenth century. These tendencies assumed a near continental dimension. In larger and more pluralistic societies, the processes were institutionalised and formalised: in the case of Central American and Caribbean kleptocratic regimes, they were personalised. Under pinned by the research and theorising of ECLA, forced industrialisation became *the* policy goal of many administrations. However, Latin American statism entailed a partnership between government and the private sector. Initially, confined to domestic private business, the alliance subsequently included trans-national corporations. The balance of power between state and business varied across the continent and changed over time. The private sector had greater influence in Colombia and Mexico, while government assumed a stronger directive role in Brazil, certainly in the 1970s.

Cepalista analyses and prescriptions fell on fertile ground after 1948 when the Commission was established in Santiago. Negative views about the terms of trade likely to be encountered by commodity exporting economies - that price differentials between primary products and manufactures were locked into a downward trend rather than following a cyclical pattern - seemed to be validated by the recent historical experience[11]. The Second World War also confirmed structural changes

[11] In 1934 Prebisch published a seminal challenge to theories of comparative advantage and the gains from trade: see Love (1994) p.406. See also, Prebisch, 1950.

in the global economy that exacerbated problems confronting primary producers. The world economy was now centred on the USA, a mature economy with a huge productivity advantage, and a rising propensity to export, coupled with limited import requirements reinforced by strong protectionist tendencies. The congruence of experience and theory was a winning combination that contributed to the rapid diffusion of ECLA developmentalism amongst policy-making elites. If assessments of the external environment were negative, there were grounds for domestic optimism. Following a process of learning-by-doing during the Second World War, and a sense that many republics had coped with the problems of the depression more effectively than governments elsewhere in the world, several administrations were prepared to embrace interventionism. ECLA provided both the justification and the design to do so.

The main policy instruments of developmentalism are well known: exchange control (multiple exchange rates that gave preference to manufacturing); protectionism (non-tariff barriers to trade and exchange regulations were employed in conjunction with, sometime in preference to, discriminatory duties – again discriminating in favour of preferred segments of industry); forced saving; and market expansion/deepening. Overvalued, but not necessarily stable, exchange rates prevailed for much of the period and were consistently applied to the advantage of the industrial sector. Accompanied by windfall taxes on exporters, repeated devaluations did not benefited producers. This was consistent with *cepalista* trade theory which argued that markets for commodities were not price responsive. Devaluation windfall taxation was also consistent

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Spraos (1980) offers a robust appraisal of the terms of trade debate that is generally supportive of the Prebisch-Singer thesis that there was secular decline in the terms of trade of primary exporting economies. The counter proposition was that the terms of trade between primary products and secondary goods moved in long swings (or cycles) and that *cepalistas* had mistaken a cyclical downturn for a trend. For data on cyclicality versus trend, see also W.A. Lewis (1979) and Forman-Peck (1995).

with the regime of exchange and export profit 'nationalisation' and the distortion of the domestic terms of trade in favour of the urban sector. As the principal source of foreign exchange, the export sector was consistently squeezed by state agencies. Inflation was the main, but not the exclusive, mechanism of forced savings. Social insurance was another mechanism: so long as funds remained in surplus, they represented a significant source of accumulation[12]. Periodic extension of the insurance systems, in the 1940s and 1960s, increased the scope of forced savings. Subsidies, that targeted producers and preferred borrowers, sustained business confidence while select consumer subsidies and an extension of hire purchase served to activate demand. This was an alliance of government, segments of the `national' bourgeoisie, and foreign corporations with a pronounced urban bias. From time-to-time, organised/co-opted urban labour was also brought within the scope of this state-protected `development alliance'. Yet, for the continent as a whole, it still remains to be explained whether this was a state-business, or a business-state, alliance[13]. Few would deny the success of the state in capturing economic resources: the ability of the state to cream-off financial resources was not at issue, debates centred on the efficiency of credit allocation and capacity to promote `national' capitalism.

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[12] Mesa-Lago (1991) p. 186. There is little consensus in the literature about the reasons for the growth of social insurance systems in Latin America (see Abel & Lewis, 1993). Mesa-Lago (1978, 1994), for example, argues that the expansion of coverage was driven by demands emanating from organised groups: Malloy (1979) offers a `top-down' explanation, namely that social insurance was used by the state to co-opt strategically placed groups. This emphasis on the political ignores fiscal consequences of social insurance fund growth – see Lewis & Lloyd-Sherlock (2002).

[13] Perhaps reflecting the influence of the Alliance for Progress, authors writing in the 1940s and early post-Second World War period – for example, Mosk (1950), Wythe (1941) - were inclined to see the arrangement as (predominantly) business-directed. Later authors, such as Evans (1979), Sikkink (1991) and Schvarzer (1991), tend to place more emphasis on the influence of the state, not least due to the fragmentation of the `national industrial bourgeoisie'.

As stated, *cepalismo* may have been interventionist and statist: it was neither anti-market nor anti-business. The role of the state was to insulate and nurture domestic entrepreneurial talent. The state was to serve as an intermediary between new businesses and an unfavourable external environment, sheltering firms from unfair competition and providing access to essential inputs, not least capital and technology, and serve as a conduit for aid from external sources. There may also have been a presumption that some countries might emerge as exporters of basic wage goods[14]. Theoretically coherent, these expectations acknowledged that re-structuring the Latin American economies would remain import-dependent in the medium-term. Moreover, although they only assumed concrete form subsequently, the market-orientation of ECLA developmentalism was also confirmed by projects such as regional integration and agrarian reform. Regional integration, pressed with some success on amenable Central American republics in the 1950s, was rooted in concepts of efficiency and competitiveness. Economic integration would facilitate the emergence of large-scale, efficient firms exposed to the rigours of competition from producers in neighbouring countries but still protected from unequal competition in the regional market place by overseas conglomerates. Isolated in small, national markets, businesses were unlikely to achieve optimal size or efficiency[15]. The emphasis on agrarian reform also reflected, among other concerns, recognition that growth and efficiency were market-size constrained,

[14] Popularised in the 1950s, the W.A. Lewis (1954) concept of growth assumed a `closed-economy': unlimited supplies of labour facilitated accumulation in the `modern' sector. These ideas dovetailed with ECLA pessimistic thinking about limited external inflows of capital, evidence of an incipient `demographic explosion', and the experience of a growth in trade in locally produced manufactures in the 1940s. For some policy-makers and analysts, prefiguring what would later be depicted as the East Asian path, this combination of circumstances suggested the possibility of industrial expansion based on the export of basic wage goods (Prebisch, 1961).

[15] To quote Prebisch, `The development of industrial exports among Latin American countries will lead to a reduction in the costs of production and provide certain industries with the possibility of exporting to the rest of the world.' (Prebisch 1961:34).

though in this case the emphasis was as much about qualitative deepening as quantitative expansion. Agrarian reform would bring more producers and consumers into the market and would ease supply-side bottlenecks on food staple availability. Reform was also envisaged as slowing the drift from the countryside to the towns.

The results of classic *cepalismo* were easily disparaged. Yet the achievements were substantial. Between 1950 and 1974, annual average rates of growth in industrial added value were 6.2 percent: for Brazil and Mexico, the rates were 8.7 percent and 7.4 percent, respectively. Indeed, high rates of industrial growth were sustained in these economies throughout the 1980s[16]. Moreover, the performance of the continent compares favourably with that of other areas before and during the `classic' period of forced industrialisation. For example, between 1929 and 1983 Asian GDP per capita increased at annual average rate of 2.24 percent: the Latin American figure was 2.63 percent. The best performing Asian economies were Korea and Taiwan, with rates of 4.89 percent and 3.80 percent *per annum* respectively: Brazil, the best performing Latin American economy achieved 5.32 percent; Mexico, the second ranking economy registered 3.30 percent. The worst performing Asian and Latin American economies were India (1.43 percent *per annum*) and Cuba (1.25 percent)[17]. Latin American growth rates also compared favourably with those of Western Europe and the USA.

[16] Benavente, Crespi, Katz & Stumpo (1996) p.57.
[17] Urrutia (ed.) (1991) p.vi. The validity of `continental comparisons' may be questioned and the adverse impact of war in the 1930s and 1940s on annual averages of some Asian economies must be taken into consideration (though balanced against aid in the post-Second World War period). Nevertheless, this data offers new insights into the 1980s and early 1990s debate that contrasted East Asian and Latin American `development model', vaunting the role of the `Asian state' and disparaging the Latin American: see, for example, IBRD (1993) and Amsden (1989), Evans (1995), Gereffi & Wyman (1990) and Jenkins (1991), for a more nuanced view. While `Asian' and `Latin American' growth rates diverged in the 1980s, the strong recovery registered in parts of Latin America during the early/mid 1990s, coupled with the Asian currency crisis at the end of the decade, may yet preserve the post-1930 *economic* performance record of Latin America.

Between 1913 and 1950, annual average compound rates of growth for Latin America were almost double those of the North Atlantic economies: from 1950 to 1973, the Latin American figure was virtually within half a percentage of the average of these countries; from 1973 to 1980, about 60 percent higher[18].

Dismantling Populist Political Economy

Nevertheless, the process of import-substitution began to encounter problems by the late 1960s. Criticisms of ECLA policy prescriptions multiplied. *Dependistas*[19] maintained that import-substituting strategies intensified underdevelopment. Manufacturing was unbalanced, externally rather than domestically integrated, capital-intensive, skewed towards the production of consumer durables, and depended on inequitable patterns of income distribution. The sector was dominated by an oligopoly of TNCs that, importing technology and components, financed operations on the basis of local accumulation and siphoned profits overseas. Nationalists[20] were also antagonised by the import-dependence and low endogenous multiplier associated with foreign dominance of the industrial sector, complained about `inappropriate' patterns of consumption and incensed by the crowding out

[18] Maddison (1991) p.17.

[19] For a limited, but fairly representative, selection of contemporary and recent comments on dependency thinking (from within and without the approach), see O'Brien (1975, 1991) and Palma (1978, 1991) – their writing charts the origins and evolution of dependency thinking, Kay (1989) - who establishes cross-connexions between *cepalismo* and *dependismo*, Chilcote (1982) and Kalmanovitz (1983) – who, respectively, examine the links between dependency and Marxist thought and a Marxist criticism of dependency, and Fishlow (1988) and Haber (1997) - who provide an orthodox polemic. The classic definition of dependency is provided by dos Santos (1970) and the most cogently argued historical analysis by Cardoso & Faletto (1979).

[20] While there is no formal `nationalist' response to structuralist theory (for Fishlow, structuralism is *the* `nationalist' paradigm), insights into a `nationalist critique' of policy outcome are captured in the theoretical writing of Hirschman and Sunkel and the later substantive work of Furtado: see, for example, Hirschman, (1971 & 1981) and Sunkel (1993) - see also Ianni (1963) and Tavares (1972).

of local businesses. Liberals (and later neo-liberals) observed rent seeking, a product of over-zealous regulation, and macroeconomic instability triggered by demand creation - monetary expansion and easy credit, notoriously reflected in inflation and balance of payments crises. Liberals stressed the competitive failure of forced industrialisation and pointed to the misplaced pessimism of *cepalismo*: world trade had grown rapidly after the 1940s and international liquidity increased after the 1950s[21].

Criticism of *cepalismo* is telling but also somewhat misplaced[22]. ECLA predictions about the post-Second World War global economy were wrong, though the analysis was not entirely illogical given the climate of the time when they evolved. Assumptions about the scale and quality of Latin American entrepreneurship and state competence were certainly optimistic. Yet the development strategy formulated in Santiago de Chile was more cogent than has been recently allowed. Negative criticisms of ECLA developmentalism are over-conditioned by the outcome of import-substituting industrialisation and neglect the larger corpus of strategies within which forced industrialisation was located. The *cepalista* development project involved more that simply import-substitution and autarky. It assumed an enduring - if reduced - connexion with the global economy and was not unconcerned about efficiency and competitiveness. ECLA strategy was flawed more in the application than in the inception[23]. *Cepalismo* was a policy framework that was argued in

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[21] Haber (1997) offers a neoclassical rebuttal of structuralism (and dependency) – as an intellectual approach and `school' of historical analysis. See also Fishlow (1988) and Foxley (1982) for orthodox analyses of the conceptual content and policy outcomes of structuralism-dependency.

[22] For recent, sympathetic assessments of *cepalismo*, see Sunkel (1993) and Sunkel & Zuleta (1990).

[23] In the words of Sunkel (1993) pp.28-33, 45-8, the problem lay not with *cepalismo* but the *cepalistas*. Love (1994) shows that some *cepalistas* were already expressing anxiety about the outcome of forced industrialisation strategies by the late 1950s. However, it took another twenty years or so before a *neocepalismo* paradigm was formulated. Acknowledging criticism and accepting the need for theoretical

the right place at the wrong time. Foreign aid was not forth-coming in the post-Second World War period, notwithstanding the expectation of 'good neighbour' countries like Mexico and Brazil and a widespread a clamour for a Marshall Aid programme for Latin America. Things might also have been different had the 'third' Bretton Woods agency been established. The General Agreement on Tariffs and Trade (GATT) was but a pale shadow of the International Trade Organisation that was to have stood alongside the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD/World Bank). There would be no World Trade Organisation (WTO) for another fifty years. Had Latin America obtained funding from the USA on a scale commensurate with Western Europe in the early years of the Cold War, or received aid and soft agencies loans similar to East Asian economies in the 1950s and 1960s, or had the developed economies in the 1940s been prepared to grant to Latin American exporters of manufactures the access to their markets granted the Asian tiger economies in the 1960s, 1970s and 1980s, circumstances would have been very different for proponents of 'authentic *cepalismo'*.

Post-1940s regimes, struggling to accommodate the demands of urban sector interests, notably the middle classes and to a lesser extent urban labour, and balance the conflicting claims of pressured exporter and aspiring domestic businesses were inevitably inclined to apply parts of the developmentalist programme and not others. Keynesian style demand management was applied in contexts that lacked in-built constraints against inflation and at a time when many economies were operating at full capacity. Favouring the production of durables addressed the demands of middle class consumers starved of imports

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refinements, renewed emphasis was placed on efficiency and international competitiveness – see Prebisch (1981, 1984). Excellent analyses of the metamorphosis of structuralism into neo-structuralism are offered by Sunkel (1993) and Lustig (1991): see also ffrench-Davis (1988).

and won the approval of emergent business lobbies and offered the prospect of immediate political returns in terms of job creation. While it might have been economically logical – in some countries – to concentrate effort on heavy industry, the political pay-off would have been less in the short-to-medium term. Accordingly, in the 1950s and 1960s, horizontal, import-substituting industrial expansion was easier to sell than other elements of the *cepalista* ‘package’. Agrarian reform antagonised still powerful rural interests: regional economic integration, critical to the viability of the *cepalista* project, was opposed by nationalists, the military, and vested business interests.

‘Retreat’ to the Market

If government economic strategy from the 1940s to the 1960s was influenced by a determination to promote structural change, issues of efficiency and international competitiveness dominated the policy debate thereafter. By the 1980s, a questioning of state-directed development was giving way to the neo-orthodoxy that became the hegemonic paradigm of the 1990s. The pro-active state was being displaced by the market-friendly state. In the late1990s, the discourse shift again - from the `minimalist’ to the `capable’ state [24]

[24] Grindle (2000, pp.29-30) states that neo-liberals dominated the academic and policy debate in the 1980s. Responding to the intellectual challenge associate with the writing of North, greater emphasis was placed on the role of institutions (as mechanisms capable of fostering or inhibiting growth). The were `good’ sets of institutions and `bad’. Hence the need for `capable’ states - and research effort in the economic history and development literature devoted to concepts such as transaction costs and property rights and scholarly concern with the legal reform, fiscal reform, privatisation and central bank independence. Hence, too, the new language of the debate: `transparency’, `credible commitment’, `accountability’. See Grindle, (1996), Harriss, Hunter & Lewis (1997), Naim (1995) and North (1990): specifically on state `credible commitment’, see North & Weingast (1996). Recent emphasis on the impact of the `new’ institutionalism neglects the earlier, informative efforts of Glade (1969).

With hindsight, two distinct responses to the exhaustion of the easy phase of import-substituting industrialisation (and the economic and political instability that resulted) can be distinguished - neo-structuralism and neo-liberalism. In some countries there was a firm commitment to one course of action from the outset, in others policy lurched first in one direction and then the other. Nevertheless, for much of the 1970s and 1980s, Latin American economies would be neatly categorised as neo-liberal or neo-structuralist – a dichotomised classification that ignores early uncertainties and neglects shared characteristics. Initial uncertainties as to the ultimate direction of policy are best illustrated by the Argentinian military regimes of the 1960s and 1970s. Although the term was not used, the Onganía military government (1966-69) was committed to industrial deepening. It spoke of the need for structural change and greater efficiency. It also indicated that economic and social 'reform' would take precedence over political 'reform' and that a return to civilian rule would only be contemplated when the results of economic restructuring would ensure stable, disciplined democracy[25]. The ethos - and much of the language - of the regime prefigured that of the 1976 military clique which instituted the notorious *proceso de reorganización nacional* – another set of rules for the re-ordering of economy and society. However, while the Onganía regime had favoured neo-structural industrialisation, partly thought the medium of TNCs (in the teeth of opposition from nationalist officers), the *proceso* advocated neo-liberal remedies.

And, there were substantial similarities between neo-liberalism and neo-structuralism. The first common characteristic, as implied above, was neo-authoritarianism. It was assumed that the shift towards a more accumulationist model could best be accomplished in a closed, highly regulated political environment, thereby de-politicising economic decision-

[25] Hirschman (1992. pp.13-14). See P. Lewis (1989) and Di Tella & Dornbusch (1989).

making. Repression served various purposes: opposition was cowed and economic policy formulation isolated from special pleading and compromises that had typified so-called 'inclusive populist' regimes of the past. The second characteristic was wage compression[26]. Wage compression assisted accumulation (of critical significance if inflation could no longer to be used as a mechanism of forced savings), and lowered production costs. By reducing domestic production costs and demand, wage contraction made a double contribution to global re-insertion - international competitiveness and export availability. Hence, the third characteristic, international reinsertion, most clearly manifest in massive external indebtedness and export growth.

There were also differences. Neo-structural remedies were applied in slightly less violent political frameworks than the neo-liberal. Moreover, while all neo-authoritarian regimes justified recourse to coercion in order to promote growth with stability, administration adopting a neo-structuralist stance often sought to construct a new political consensus in favour of change. Growth was not the only source of legitimacy, there were explicit references to social policy and promoting 'responsible opposition' - 'social pacts' sometimes re-appeared on the agenda[27]. In

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[26] The most dramatic contractions in wages were observed in Chile and the Argentine during the early-mid 1970s when real wages were virtually halved. Elsewhere cuts were less savage and trends more obscure. Nevertheless, from the mid/late 1960s, there was a general tendency for wages and salaries to fall and the share of national income accruing to wage- and salary-earners to decline – see Foxley (1982), Ramos (1986)

[27] Mexico provides several illustrations of `social pacts'. These took many forms, ranging from formal agreements amongst government, business and workers (for example, the war-time accord during the Ávila Camacho *sexenio* and more structured arrangements of the De La Madrid and Salinas de Gortari presidencies), to specific projects, such as those designed to subsidies the distribution of basic necessities or tailored to the needs of a particular sector or social group. Recent examples include: the Mexican Food System (SAM/Sistema Alimentario Mexicano); (CONASUPO/Compañía Nacional de Subsisténcias Populares); the National Solidarity Programme (PRONASOL/Programa Nacional de Solidaridad); Economic Solidarity Pact (Pacto por Solidaridad Económica); Stability and Economic Growth Pact (PECE/Pacto por la Estabilidad y Crecimiento Económico). Arguably, `stabilising development' may be presented as a `grand social pact', constructed by government to

addition, while both approaches were designed to remove distortions, neo-liberals extolled the virtues of shock therapy to change structures and expectations: neo-structuralists favoured phased reforms. Neo-liberal strategists argued that state policy should be confined to micro measures, and the excision of mechanisms that inhibited the impact of real price signals. Neo-structuralists were more concerned about sectoral imbalance and institutional inefficiency and argued that markets were far from perfect, pointing to examples of market failure in Latin America. Thus, while neo-liberals and neo-structuralists accepted the need for an efficient state, the former assumed that government economic action should be minimal and neutral: neo-structuralists envisaged a continuing, indicative role for government. 'Social cohesion' remained a policy issue for neo-structuralist, hence the concern about `social pacts'. Neo-liberals acknowledged that high levels of absolute poverty constrained market growth and represented systemic inefficiency, but saw social progress resulting from the 'trickle down' affects of growth[28]. Above all, neo-structuralists viewed industrialisation as essential for economic development.

Support for neo-structuralist heterodoxy in the 1980s can be explained by the domestic political and international economic contexts in

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embrace segments of business and labour. Other examples are the 1973 Three Year Plan in the Argentine and the 1994 Social Pact in Colombia. To borrow from, and extend, Dornbusch & Edwards (1991, pp.1-2), social pacts have a vital role to play in processes of economic reactivation with social redistribution within the context of macroeconomic stability, namely of squaring the circle between accumulationist and consumptionist strategies in order to sustain structural modernisation – both economically and politically. In this sense, classic examples of `social pacts' are presented by the heterodox *plan austral* (the Argentine), the *plan de emergencia* (Peru) and *plano cruzado* (Brazil) of the 1980s. For the first time in the history of those countries, a wages and salaries freeze was accompanied by a price freeze, with wages and salaries being set to take account of residual inflation. However, as the experiences of the plans demonstrates, while `entering' a `social pact' may have not been easy, `exiting' was much more problematical – see Roxborough (1992) and Machinea (1993).

[28] There is now a very large literature on the impact of structural reform on poverty and income distribution – see, for example, Altimir (1982 & 1997), Berry (1997), Bulmer-Thomas (1996), Maddison (1992), Thorp (1998).

which it was applied. Looking back to orthodox stabilisation packages of the 1950s and 1960s, promoted by the IMF, and neo-liberal measures of the 1970s, associated with military governments, proponents of heterodoxy saw critical lessons. Reducing state expenditure (not least by cutting subsidies to consumers and producers) and charging real prices for public services, factors and foreign exchange had provoked 'corrective' inflation and recession. Earlier stabilisation packages had failed to resolve short-term disequilibria in the fiscal and external accounts. The resulting protest compromised the commitment to pursue stabilisation packages to their logical conclusion: political will had collapsed in the face of popular discontent or sectional special pleading. These were not attractive propositions for new, democratic governments, nor for authoritarian regimes attempting to negotiate a return to the barracks. Although heterodox policy-makers shared with their orthodox predecessors the received wisdom of the need to stabilise the economy, the task they set themselves was stabilisation with growth rather than stability through recession. Heterodox analysis also viewed inflation somewhat differently from proponents of orthodoxy and structuralism. Structuralists argued that inflation was occasioned by supply-side bottlenecks. Orthodox economists envisaged inflation as (almost exclusively) driven by excess demand. Heterodox analysts viewed inflationary expectations as the principal factor driving price movements by the 1980s. Mechanism such as indexation had institutionalised inertial inflation: attitudinal expectations of inflation had become built into the system. Inflationary expectations, or inertial inflation, could not be tackled by orthodox remedies such as cutting expenditure, reducing subsidies, and raising taxes and utility charges. Yet, borrowing from neo-liberalism, shock measures were seen as the most effective means of dealing with in-built inflationary pressures[29].

[29] For a comment on indexation and inflation (involving theoretical and historical

There were lessons to be learnt from the initial success and ultimate failure of heterodox stabilisation. First, as with later successful stabilisation in the 1990s, the return of confidence did not trigger an up-surge in savings, as policy-makers assumed, but a consumption splurge that strained both domestic productive capacity and the reserve position. Neo-liberal reformers of the 1990s were thus made aware of the need to strengthen the reserve position in advance of stabilisation. Substantial reserves facilitated both investment in productive capacity, and an 'import cushion' to dampen inflationary pressure associated with a demand surge. The second lesson learnt from the failures of the 1980s was the need to take prompt action to resolve the fiscal deficit. Regimes applying heterodox policies in the 1980s were more concerned with the political and social deficits than the fiscal position and looked to expand social and economic investment.

From the perspective of the early twenty-first century, the hegemony of the neo-liberal (or neo-conservative) New Economic Model can be confirmed[30]. The defining characteristic is fiscal discipline. State expenditure must be covered by revenue (or limited borrowing), not monetised. This implies fiscal and budget reform. The tax system has been simplified in many countries and the efficiency of tax gathering improved. There is also the assumption that public expenditure should be directed towards fields offering high economic returns. The second major characteristic is de-regulation. Internally, this has meant returning price determination to the market. Externally, it has meant opening the

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comparisons), see Williamson (1985), Bruno, Di Tella, Dornbusch & Fischer (1988) and Love (1994). The definitive structuralist riposte to orthodox analyses of the causes of inflation is Prebisch (1961).

[30] An informative check-list-cum-wish-list (including an historical record of what had been accomplished up to that point) may be found in Williamson (1990), especially pp.358ff. Fanelli, Frenkel & Rozenwurcel argue that the New Economic Model is a fusion of the Washington Consensus (the term was coined by Williamson) approach, based on neo-classical notions of growth, and remedies for short-term stabilisation devised by the International Monetary Fund. See Fanelli, Frenkel & Rozenwurcel (1994) p.103).

economy: reducing tariffs and simplifying tariff regimes and removing non-tariff barriers to trade; and easing controls to establish real, sustainable rates of exchange. The third most obvious feature is privatisation: the size of the state and its role in the economy has been considerably reduced by the disposal of state corporations. Privatisation has also removed one of the principal expenditure pressure points - the operating deficits of state corporations accounted for a substantial portion of the overall fiscal deficit. And, where state enterprises have been purchased by foreign consortia, privatisation has reduced the debt burden strengthen the process of economic opening. As implied above, global re-insertion has been the fourth main feature. This process has been institutionalised not so much by unilateral tariff reform, but through privatisation and international treaties - including membership of the WTO and adhesion to regional free trade blocs such as the MERCOSUR/L, Andean Group and NAFTA[31]. A final, more recent characteristic has been social policy reform - modifying social insurance and healthcare regimes and changes to the labour code[32]. Social insurance `reform' was also intended to deepen domestic capital markets[33]. If there is another, defining feature of the current paradigm, it is that neo-liberal policy is

[31] For Thorp (1998, pp. 226-7) there was a shift in the neo-liberal discourse in the 1990s, that is from an initial focus on fiscal orthodoxy, state retreat and international re-insertion to a greater concern with structural reform. Hence, the evolution and inter-connexion of these elements of neo-liberal strategy was neither seamless nor inevitable. There was much learning by doing along the way.

[32] By the mid-1990s it was finally acknowledged that policies of poverty and inequality reduction were also essential to embed to the new model – politically and economically. Expanding the private sector and making the state more efficient were necessary but could be compromised by high transitional social costs and enduring poverty and inequality. The former could destabilise the politics of the reform process: the latter limited market expansion. There are no examples of sustained growth and successful reform when accompanied by a massive rise in poverty. See Fanelli, Frenkel & Rozenwurcel (1994) p.102-3, Grindle (2000) p.20 and Vergara (1994) p.253.

[33] While most of the literature on pension reform focuses on aspects such as savings and capital market deepening - see, for example, Barrientos (1998), Lewis & Lloyd-Sherlock (2002). Mesa-Lago (1994, pp. 89, 90) insists that social policy has a vital role to play in easing the economic costs of structural reform. The IDB (1996) argues that efficiency (and financial stability) is the key to efficient social policy delivery.

being applied in a democratic (or, at least, an electoral) framework. Inevitably, the nature of democratic/electoral participation, particularly in neo-populist regimes applying neo-liberal programmes, has triggered a discussion about the re/construction of civil society, citizenship, civil rights and the forging of a political market place – alongside the economic.

There is little doubt that macroeconomic stabilisation, not least policy elements such as privatisation, has radically change the environment within which business operates. However, the road to stabilisation, structural change, and sustained growth was far from smooth and linear. There was much backsliding (ideological and actual). This is highlighted by apparent similarities in the Chilean and Mexican experiences, notwithstanding their otherwise quite distinct political economies (and histories) of structural reform. The Revolution and the 1917 Constitution marked a new role for the Mexican state, principally by investing the state with the task of up-grading the economic infrastructure and promoting social welfare, at least until the 1970s)[34]. The symbiotic relationship between the public and private sectors began to unravel in the 1970s, a period of increasing monetary indiscipline. Business confidence, already eroded by macroeconomic mismanagement, was shattered by land expropriation in the north at the end of the Echeverría presidency (1970-76) and bank nationalisation towards the end of the

[34] The significance of the 1917 `settlement' is acknowledged by many and has been sustained in the recent literature: see, for example, Glade & Anderson, 1963, p.98; Lustig, 1992, p.243; Tello Macías, 1989, p.27. For structuralist/radical discussion of the inter-action between the public and privates sectors, see Tello Macías (1989) and Casar & Peres (1988) for how this experience – in theory and practice - influenced the privatisation debate of the 1980s. Ayala Espino (1988) offers a survey of the rise and consolidation of `stabilising development'. The early debate about state-led/directed development and the relationship between the public sector and private business (much of which is indebted to, or influenced by, structuralism) is best captured in Glade & Anderson (1963), Hansen (1971), Solis (196), Vernon (1963); recent re-assessments (many influenced by the `new' institutionalism) appear in Lira Humberto (1989), Moreno & Ros (1994). Cypher (1990), Medina Peña (1994), Lustig (1992), amongst others, chart the early stages of policy efforts to establish a new balance between business and the state.

following López Portillo *sexenio* (1976-82)[35]. Hence, since the 1980s, there have been efforts not so much to restore the former state-business partnership but to construct a new public/private arrangement, largely based on privatisation. Yet, official commitment to the `reform of the state' was doubted (and opposed) in many sectors, and proceeded fitfully. Although, during the early years of the De La Madrid presidency, more than 700 state enterprises out of a total of 1155 were included in the privatisation programme, the macroeconomic and business impact was minimal[36]. Nevertheless, momentum increased during the final years of the Salinas de Gortari *sexenio* (1986-92) with the sale of the government stake in the state telephone monopoly[37]. By 1990 the number of enterprises still in government hands had fallen to 280, but these included PEMEX, and similarly `strategic' enterprises and agencies[38]. The landmark event in Mexican privatisation occurred in 1995 with the disposal of various PEMEX ancillary operations, including chemical plants

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[35] Land expropriation and bank nationalisation may have been the most obvious shift in the stance of the state, Cypher, 1990, p.122, Maddison, 1992, pp.119-20, Luna, Tirando & Valdes, 1987, pp.28-39. They were not the only signals. In 1973, the Echeverría government introduced a policy of Mexicanisation and implemented the first full-scale piece of legislation regulating direct foreign investment. In the same year, a new patent and trademark statute was established to promote technology transfer. The legislation created regulatory agencies and laid down new boundaries between the public and private sectors. Although much of this legislation was enacted due to local business pressure, the agencies that resulted were granted broad powers and may have exceeded their original brief. The populist/neo-populist language of the period also disturbed business. Although there was often more rhetoric than substance, and the language was anti-foreign rather than anti-business, the regulatory framework became increasingly discretionary. There was a spillover affect: uncertainly in one sector was rapidly construed as likely to infect others. If the government had taken powers to regulate foreign enterprises, might it not also invoke them against segments of the Mexican entrepreneuriat?

[36] Medina Peña (1994) p.254; Mexico, Secretaria de Hacienda y Crédito Público (1992) p.15.

[37] The sale of TELMEX in 1995 was a landmark in the history of privatisation. It neatly demonstrates the conflict between `market discourse' and corporatist legacies/tendencies of the Mexican state. As in other countries, privatisation was fiercely resisted (initially fairly successfully) by workers. However, although the state was ultimately prepared to confront `corporate labour', disposal created a virtual private monopoly, pointing to enduring official support for `corporate business' – see Clifton (2000).

[38] Banco de México (1991) p.119.

– the core oil business was to remain under in state control. Unsurprisingly, the initial beneficiaries were Mexican-owned firms, friends of the regime, who acquired `rent licences'. As in the late nineteenth century, the Mexican state effected a massive transfer of public assets to the private sector, on this occasion to the *grupos económicos* rather than the Porfirian oligarchy.

Few would dispute the commitment of the Pinochet regime to neo-liberalism and to state economic retreat. During the 1970s this objective was pursued in the face of an unfavourable external environment and residual domestic instability, but there was an underlying paradox. Notwithstanding the dominant neo-liberal discourse, the military government held on to profitable, strategic sectors and continued to intervene in factor and product markets. The financial crisis and recession of 1982/3 brought about private sector bankruptcies (leading to a relative and absolute growth of enterprises in the hands of the state) and the nationalisation of private debt[39]. Both before and after 1982/3 subsidies remained the norm. Arguably, the regime of private sector subsidies became even more pronounced after 1986, with renewed growth and another round of privatisation (largely based on the sale of assets acquired during the state bail-out of businesses during the banking collapse). Massive financial aid for the private sector and a raft of re-distributive fiscal measures, consciously favouring upper-income groups,

[39] Many writers view the 1982/3 recession as a turning point in the political economy of the Chilean `model'. For the first decade of the Pinochet regime, doctrinaire monetarism held sway. After the crisis, there was much pulling of macroeconomic levers to promote exports, to reduce external indebtedness, to deepen the domestic capital market and to regulate – not least, the financial sector – in order to restore confidence. For some, these changes represented a pragmatic policy adjustment, involving substantial elements of continuity in underlying strategy. For others, the crisis produced a rupture – a realisation that the market could not resolve structural problems and that `targeted' state action was necessary, not least to promote indigenous entrepreneurship, and that a new, less repressive, social stance was required in order to construct a consensus to sustain reform . See: Barton (1999) pp.68-70; Fanelli, Frenkel & Rozenwurcel, (1994) p.106; ffrench-Davis & Muñoz G. (1992) pp.304-5, 312-4 ; Martínez & Díaz, (1996); Meller (1990,)pp.56-7, 70-2.

coupled with the repression of labour organisations and wage-fixing represented an effective defence of domestic business confronting the long transition associated with `shock' opening and the gradual liberalisation of credit. The difference between pre- and post-1973 subsidy regimes seems to be that while the former was sectoral, the latter tended to be almost firm-specific and did not discriminate in favour of manufacturing. As in Mexico, privatisation in Chile led to the consolidation of domestic business/financial *grupos* which, integrating finance, production and commercialisation, rapidly strengthen links with foreign corporations.

The history of stabilisation and structural adjustment in Mexico and Chile, as in other countries, suggests that macroeconomic stability and the creation of more space for the private sector was welcomed (in principle) by virtually all sectors of the domestic enterpreneuriat. However, the consequences of fiscal discipline (namely reduced state subsidies) and economic opening were not always as warmly embraced[40]. And there was the issue of timing and sequencing. How much support was government prepared to offer the domestic business community to modernise before liberal financial and trade policies were fully implemented and how far was the state prepared to become involved in social re-engagement to `fix' support for the market in a period of continuing uncertainty?

[40] Writing on the Argentine, Kosacoff (2000, pp176-7) itemises the gains, challenges and costs of privatisation for business. Stability reduced market uncertainty, often resulted in fairly rapid growth and promised future wealth gains. However, stability also implied new uncertainties – competition. Prices became real – for consumers (who became more discriminating) as well as firms. Competition meant that mechanisms previously employed to limit the old uncertainties (for example, price-fixing, and good, old-fashion corruption or `capture' of the state) no longer work. Echoing Chandler (1990), Kosacoff argues that enterprises have to adjust in scope and organisation to meet the challenges of the market. Do changes in scope and scale signal the emergence of a dynamic industrial capitalism? `

Conclusion

Institutionalists present two scenarios in which change may occur. The first assumes a profound shock to the system: either an endogenous shock, for example the Mexican Revolution, or a shock from without, such as the First World War and the inter-war depression. The second scenario occurs when organisations agree that an institutional arrangement is no longer working and that change is essential. In the latter case, restructuring may result from a reconstruction – from within - of relationships amongst existing organisations, possibly involving the inclusion of new groups. The formation of the oligarchic state in the middle third of the nineteenth century may be depicted as resulting from the formation of a new consensus amongst existing groups. The construction of the populist state after 1930 has traditionally been presented as signalling rupture: the old order was destroyed by the inter-war depression, which undermined oligarchic organisations and allowed new social formations to establish a novel structure. This view may be challenged. The proto-populist state should rather be seen as an internal adjustment of the old order as existing groups accommodated/absorbed elements challenging the system. There was an *appearance* of change in institutional arrangements but the constellation of players remained much the same, at least initially. How may the neo-authoritarian order (which gave way to the neo-liberal) be viewed? Arguably, the neo-authoritarian order reflected a last-ditch effort to preserve the substance of the old system while neo-liberalism represented a realisation amongst extant organisations that the old institutional structure could not be sustained and that a new arrangement had to be agreed upon.

In the second half of the nineteenth century, effective integration into the world commercial and financial system transformed Latin America, promoting institutional change on several fronts. The gains from international insertion were not, however, shared equitably by all sectors nor by all countries. Was this because some areas were but imperfectly integrated into the world economy, because international markets were inherently unstable and moving against Latin American producers or were the rules of the game rigged against Latin American players? There were certainly considerable differences in the export and general economic performance of the Latin American economies during the period of oligarchic liberalism. It is equally clear that economic 'liberalism', as practised in end-of-the-nineteenth-century Latin America, was far from orthodox. States intervened in the economy both to promote the formation of markets and to influence them – and to favour individual enterprises.

The inter-war depression had a profound impact on the Latin American economies. The immediate consequence was not a policy revolution nor a quest for novel solutions. On the contrary, orthodoxy prevailed. Yet what passed for orthodoxy was itself open to interpretation. The abandonment of the Gold Standard, bilateralism, and the displacement of a mature lender, Britain, by an immature creditor (lately net debtor), the USA, signalled structural stress and ideological confusion. Set in this context, the economic policies pursued in many republics during the early 1930s were not so much orthodox as *passé*. By the end of the decade, policies were more original, more coherent and more consistently applied. In many cases, policy regimes were increasingly counter-cyclical (though deficit spending was not a continental phenomenon), designed to promote aggregate domestic demand growth – to reactivate economies so as to prevent market collapse. Interventionism was welcomed by most business groups, notably those producing goods for the domestic market.

Between the late 1940s and late 1960s, industrialisation was the principal objective of government. The main policy instruments of Latin American developmentalism were distortion of the domestic terms of trade in favour of manufacturing, an overvalued (unstable) exchange rate, negative or low real rates of interest and protectionism. The principal results for most economies, were fairly rapid growth, absolute welfare gains and inflation. The language of policy was nationalist and statist but economic policy was not anti-capitalism nor autarchic. Increasingly, the exchange rate was allowed to take the strain of development strategy. Opportunities for rent seeking multiplied, to the benefit of preferred sectors of the business community – at least in the medium term.

Volatility in the external and fiscal accounts under-wrote the lurch towards neo-structuralism and neo-liberalism in the late 1960s and early 1970s. By this stage, 'stabilising development' was perceived to be giving way to socially destabilising political protest. It had proved impossible to move from `unbalanced growth' to `stabilising development'. The emergent appeal of neo-liberalism after the mid-1980s was also associated with violence, not least economic violence triggered by failed heterodoxy. Hyperinflation, even more than the institutionalised terrorism of the late 1960s and 1970s, destroyed the alliances that had administered the post-Second World War developmentalist and neo-developmentalist projects. By the end of the 1980s, the international environment had also changed. The apparent ending (or easing) of the debt crisis and the collapse of communism in Europe and Africa seemed to validate the vitality of the global capitalist system. The influence of the 'Washington agencies' increased.

Whether the new economic model can be sustained remains a matter of debate. Neo-liberalism has demonstrably survived in Chile and the Argentine – that is, following the `retirement' of Pinochet and the collapse of Convertibility. Nevertheless, the recent Bolivian and Brazilian experience (respectively early- and late-comers to the club) demonstrates that powerful forces can still be marshalled against the new consensus. The dominance of the neo-liberal (or neo-conservative) economic model in the 1990s derived from the failure of heterodoxy - the last attempt at neo-structural solutions to the loss of dynamism exhibited by strategies of ‘easy’ forced industrialisation - and the debt/loan crisis that consolidated international re-insertion. Proponents of the new economic model maintain that inflation is the principal cause of poverty and inequality. If so, it follows that ending inflation has prevented conditions deteriorating further. Echoing early nineteenth century liberals, the new orthodoxy presents the market as a force for social peace, political harmony and material abundance. Hence, the shift from `supporting business’ to `supporting the market’ and facilitating the social and economic incorporation of the poor into the market. In this sense, similarities between some of the rhetoric of late nineteenth-century and late twentieth-century liberalism mask a fundamental difference. The market is now conceived in terms that are much `larger’, relatively and absolutely, and engagement with it more inter-active or participatory. If nineteenth-century liberalism was pragmatic and (largely) concerned with the economic, at least in terms of the language of the discourse of the 1990s, there have been efforts to connect the economics and the politics of participation. In short there is an emphasis on the necessary proximation of engagement in the economic and political market places.

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