Structure, Development and Underdevelopment: Interpreting Contemporary Latin America through the Hypotheses of Institutional Political Economy

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Abstract

This paper analyzes the causes for the weak economic performance of Latin America since the end of the Import Substitution era, emphasizing the structural impediments that led to the dissipation of opportunities for sustainable economic policies that arose during the latest commodity boom, 2002-2012.

The theoretical/analytical framework for this paper derives from the developmental hypotheses of Veblen, Gerschenkron, Innis, Abramovitz, Amsden, and Chang. All addressed, in their related but varied approaches, the 'catching-up' problématique—with Veblen and Abramovitz analyzing 'falling-behind'. In Latin America—where acquiring the means to hurdle some of the barriers to development has largely proved to be an ever-receding pursuit—the theoretical formulations regarding catching-up have had minimal explanatory power, for reasons explored in this paper.

Pioneering institutionalists, modern 'revisionist' institutionalists (e.g. Amsden) and the Latin American Structuralist (e.g. Furtado and Prebisch) often converged regarding their confidence in the efficacy of rational, operative, developmentalist policies and programs. However, only those drawing from the work of Veblen—including Innis with his analysis of the 'staples trap'—seriously considered the 'falling-behind' hypothesis.

Falling-behind has been associated with the failure to consolidate a developmentalist elite in the work of Amsden. This arises from an incapacity to operationalize/institutionalize a 'productionist' policy, rather than a 'circulationist-exchange-based' policy framework as

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prevails in orthodox neoclassical economics and the new institutionalist theory. Although embedded in this 'circulationist-exchange-based' policy framework, Robinson argues that falling-behind is due to the persistence of elite-maintaining institutional structures and practices. The ideology of emerging elites is conditioned by the legacy of previous embedded elite rule. An industrializing/developmentalist elite may realize 'minimal institutional dislocation'.

Latin America's elite during the latest commodity boom failed to exploit favorable circumstances to diversify from low-value added, volatile, commodity production due to pre-Import Substitution (i.e.19th Century) institutional legacies. Endogenous industrialization was fragile, the agro/mineral export elite persistent.

I. Introduction: Development Fades from Development Economics

As an institution itself, the origins and scope of development economics—most particularly its origins in terms of traditional or original institutional economics—has received insufficient attention (Cypher 2012).[2] As Chang and others have argued, regardless of the yet-to-be carefully scrutinized origins of development economics, it is nonetheless demonstrable that 'development' was, for several decades from the early 1940s, conventionally taken to mean—in the first instance—the structural transformation of the sphere of production (Chang 2009: 2). Of course, there were many who could be considered precursors of the productionist approach of the early developmentalists (Reinert, 2009).

Here, the work of Veblen should be noted—particularly his classic studies of the U.S. economy which underscored the evolutionary tensions between the dwindling role of the 'captains of industry' (here encapsulating the theme of the dynamic of productionist forces) and their the rise of their nemesis, (encapsulated in the term 'the predatory animus') as best represented by the

[2] Hereafter, all references to institutional economics, institutionalism, etc. will reference only that which is sometimes referred to as 'traditional' or 'original' institutionalism. Neo-classical efforts to incorporate that which is referred to as "New" Institutional Economics is outside of the methodological scope of this paper largely due to the fact that, as Dugger has argued, it is neither new (in terms of political economy) nor institutional—it is merely an effort to bolster Neo-classical economics by attempting to address one of the many analytical areas that cannot be using the methods and constructs of Neo-classical analysis (Dugger 1990; 1995). While the focus of this paper is on the political economy of New Developmentalism, it shares nothing with the underlying precepts that were once advanced by neo-classical economists who endeavored to launch something known as the 'New Political Economy of Development' in the late 1980s. For an analysis of this unmoored, decontextualized misadventure see (Toye 1991).

ascendency of the 'captains of finance' as resulting from the twisted historical path pursued by oligopoly capitalism from the 1870s. In adequate detail, Veblen undertook such an analysis in his seminal sequential accounts, *The Theory of Business Enterprise* and *Absentee Ownership* (Veblen [1904] 1958; 1923).[3] His peerless—if deeply complex—explication of the rapid ascendency of Germany, *Imperial Germany and the Industrial Revolution*, complimented his distillation of the U.S.'s transmogrifications (Veblen [1915] 1942). Uncredited and rarely understood—particularly in the context of the crystallization of developmentalism, Veblen too must be considered one of the important precursors of this newly-formulated, postwar, policy-based ideology (Cypher 2012).

The foregoing notwithstanding, by the 1970s development economics as then conventionally construed was unable to maintain its focus on productionist issues as the relentless attack of Mont Pèlerin members Lord Bauer, Anne Krueger led the charge into neoliberalism (Mirowski and Plehwe 2009; Stein 2008). Neoliberalism rapidly rose to hegemonic status as consolidated in the 1980s under John Williamson's 'Washington Consensus' decalogue—shaped too by a Mont Pèlerin member—and nowhere more so than Latin America (Plehwe 2009: 9). As Chang (2009: 2) has noted:

> …during the last quarter of a century, at the more formal level, 'development' has come to mean something quite different from what it used to mean. …'development' has come to mean poverty reduction, provision of basic needs, individual betterment, sustenance of existing productive structure – that is, anything but 'development' in the traditional sense. In other words, it has turned into *Hamlet* without the Prince of Denmark!
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> …some of today's key 'development' discourses [present] a view of 'development' that lacks a vision of transformation in productive structure (and the development of social and technological capabilities that are both the causes and the consequences of such transformation). They are, consequently, unable to promote development, and can even be anti-developmental. At most, today's mainstream view of development is that of an *ersatz* development, which relies upon uncoordinated individual initiatives (italics in original).[4]

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[3] By 1904 when Veblen published the *Theory of Business Enterprise* he had concluded that the dichotomy between the contending 'captains' had lost its crispness, conclude: "Veblen anticipated the dominance of Wall Street because of the very nature of the modern business corporation. Moreover, the distinction between a captain of industry and a captain of finance is not very important for Veblen to the extent that their interests are directed by the prevailing culture and institutions of the time. A captain of industry, like J.P. Morgan, can also be a captain of finance, or one "mutates" into another. A captain's primary interest lies in the making of "pecuniary gain" by means of (or the disruption of) productive activities or financial capitalization" (Jo and Henry 2015: 25).

[4] Chang elaborated on the possessive individualism imbued concept of *ersatz* developmentalism as embodying: " the belief that, if you educate them better and make them healthier and give them security of property rights, rational self-seeking individuals will exercise their natural tendency to 'truck and barter' and somehow create a prosperous

Chang's critique of the fading away of original development economics—in order to superimpose and embed a neo-classical, Walrasian, general equilibrium-based fantasy regarding the structure of underdeveloped nations, designed to address only 'dis-equilibrium' problems—has been buttressed by subsequent research, including, recently, Aroche Reyes (2013).

Recent empirical evidence referencing Argentina and Brazil—as well as an extremely broad study by Rodrik (unfortunately, bereft of any theoretical context)—continues to provide support for the prioritization of the sphere of production as the prime potential catalyst of development as originally theorized by Verdoorn (Rodrik 2013; Verdoorn 1998; Vilela Vieira, et. al. 2014). The significance of Chang's critique is not aimed at the resuscitation of productionist approaches to development, but rather as a required point of departure in the construction of 'New Developmentalism'. In contrast to the path-breaking analyses of the 'pioneers of development', in his view the construction of New Developmentalism would require the incorporation of a focus on (1) institutional structure and change, (2) the establishment of endogenous technological capabilities, (3) the incorporation of an analysis of "the complexities of the modern political process" (here Chang's comments are, at best, cryptic), (4) the acknowledgement of the centrality of environmental sustainability as a first-order condition in regard to the pursuit of developmental policies, and (4) the ready acceptance that development must also entail 'humanistic' development, as best highlighted by the components of the UNDP's Human Development Index (and its several recent emendations) which concentrate on the political economy of inclusive, distributional aspects of structural change (Chang 2009, 9-10).

Combining points 1 and 2, above, would suggest the promotion of an institutional political economy approach to development. Here, the corpus of institutional economics—never strongly directed to elucidating the social formations of the Global South—would be welded to a form of 'political economy' wherein a theory of the state was taken as a requisite, endogenous, element of the analyses of New Developmentalism. Which is to state that—far from limiting the scope of enquiry to the "political process"—an analysis of socioeconomic power, in the context of market formations,

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economy. However, this vision is fundamentally at odds with the reality of development. In reality, development requires a lot of collective and systematic efforts at acquiring and accumulating better productive knowledge through the construction of better organizations, the cross-fertilization of ideas within it, and the channeling of individual entrepreneurial energy into collective entrepreneurship (Chang 2009, 9).

national policy formations, and so on, would focus on elite strata an their methods of preserving extant economic structures built to pursue their objectives.[5]

Thus, as a point of departure, the analytical core of the approach advanced in this paper rests on a historically contextualized analysis of four *peak* institutions within the social formations of Latin American nations: (1) The Elite, (2) The State, (3) The National Industrial Base and (4) The National Innovation System, or 'National Technological Capacities'. (This listing of the institutional quartet of peak institutions is not intended to be an all-inclusive representation—certainly, a serious case can be made for supplementing the foregoing by inclusion of The Educational System, easily followed by The Public Health and Welfare System, The National Agricultural Base, etc.).

The approach offered in this paper could best be described as an Institutional Political Economy analysis of contemporary Latin American socioeconomic structures and dynamics. The usage of the term 'Political Economy' is neither intended to evoke the pre-marginalist economists who constitute the Anglo-Saxon 'canon', nor to recall Chang's provisional expedition into the construction of Institutional Political Economy (Chang, 2002). Rather, it is based in a focus on the evolution of peak socioeconomic institutions wherein the prime causal determinants of national economic policy necessarily arise from the contested matrix of interdependent forces and factors within the terrain commonly understood 'political' and 'economic' phenomenon comingle.

The evolutionary dynamics of Latin America's socioeconomic structures conform well to the Foster-Bush theory of institutional change: In brief, Institutional economics freights technology as "a new

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[5] For Veblen there was no real line to draw between an analysis of the state and an analysis of the ('business') elite—the one demanded the other. As Henry noted, "Veblen, while not averse to government intervention, was not sanguine about the possibilities for effective government action. A necessary assumption for effective government action is that, at a minimum, such an organization must be neutral in setting policy…" (Henry 2014: 34). However (as cited by Henry) Veblen' s theory of the state was straightforward:

> […] modern politics is business politics, […] This is true both of foreign and domestic policy. Legislation, police surveillance, the administration of justice, the military and diplomatic service, all are chiefly concerned with business relations, pecuniary interests, and they have little more than an incidental bearing on other human interests (Veblen [1904], 1958, 128).
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> Representative government means, chiefly, representation of business interests. The government commonly works in the interest of the business men with a fairly consistent singleness of purpose (Veblen, [1904] 1958, 136).

Given that much of institutional economics is rooted in the work of Veblen, it is notable that of the approximately 150 entries in the comprehensive two volume survey *The Elgar Companion to Institutional and Evolutionary Economics* there are no entries for either 'The Theory of the State' or 'Political Economy' (Hodgson, et. al. 1994).

factor of production"—embodying the forces and factors that underlie the evolutionary process that tends to transform the morphology of society (Veblen 1923: 280). To the degree that dynamics are to be identified, they arise both from social tensions and from endogenous technological change. Bush examined the mechanisms through which technological change was contained and conditioned by the remaining institutional matrix. Using J. Fagg Foster's threefold division between (1) the causal force of the 'technological dynamic', (2) the cumulative interactive external social interdependencies that spread the force of technological change (in unpredictable ways) through society's institutional matrix, and (3) *the combined resistant 'backwash' effects that permit only 'minimal dislocation' of the institutional matrix* as a result of technological change, Bush presented a coherent theory of institutional change (Bush 1994: 294). To the above concepts of Foster, Bush added a fourth structural element to the theory: the interacting result of the above three elements results in a 'drift' toward 'ceremonial encapsulation' where the instrumental causal force of technological change is eventually constrained by and delimited by the 'ceremonial' status quo hierarchy of social power. Veblen made the same point regarding the structurally confined role of the newly emerged 'technological system' (Veblen 1923: 280-83).[6]

The following four sections of this paper analyze the four peak institutional components (i.e., 1. The Elite, 2. The State, 3. The National Industrial Base, and 4. The National Innovation System) which arguably constitute the developmentalist matrix under conducive conditions. Conclusions are drawn at each point where it is relevant to do so, and very briefly, once again, in the final section.

II. The Past-Binding Persistence of the Agro-Mineral, Financial Elite

Aside from a brief, very poorly understood, interlude the Agro-Mineral, Financial Elite that emerged shortly after Independence in Latin America has held sway up to the present moment. These elite components constituted, in the first instance those closely-tied to the Spanish crown (*peninsulares)* as well as the comfortably ensconced Latin American born offspring of the agents of the crown (*criollos)* with the foresight to abandon this sinking Spanish regime shortly before or during the Wars of Independence (1809-1822). With the onset of the Second Industrial Revolution (1870-1914) Latin America entered a golden age of sorts due to the double-edged

[6] Regarding institutional change and technology, this paragraph is an extreme condensation of a more detailed argument in (Cypher 2014: 36-38).

impact of a long-term rise in both the terms of trade and raw materials exports—to furnish the materials-intensive process of rapid European capital accumulation, particularly in Britain (Bétrola and Ocampo 2012: 81-137; Cortés Conde 1992). As opportunities arose during this period, large waves of immigration supplemented the consummate land-grabbing elite as then composed from the *peninsulares/criollos* strata. Far from the comforting mythology of the 'new' institutional economists the 'property rights' of this nativist elite were largely based on what Veblen referred to as 'force and fraud'—most particularly during the Second Industrial Revolution when vast 'unclaimed' lands and 'public lands', frequently conceded to indigenous groups via hazy accords many years before, were rapidly converted into marketable private 'assets', usually with the full-support of a compromised judiciary proceeding as the appointed state-agents fulfilled their responsibilities to the elite that had appointed them (directly or indirectly). As Glade noted, the precursory institutional trajectory structurally defined in a clearly path-dependent fashion the consolidation of the nodal elite elements: "[T]he relations of production obtaining in agriculture were the socially decisive relations of production in [colonial—J.M.C.] Spanish American organization as a whole and played the major role in the national policies which governed the social utilization of resources during the [post-colonial—J.M.C.] republican period" (Glade 1969: 116). Glade further noted that: "After independence several countries substituted the individualistic property norms of liberalism for the Spanish crown's traditional recognition of the validity of collective holdings. Few changes were to affect more radically the distribution of rural assets. Since the institution of fee simple individual ownership was neither customary nor well understood among the Indians, the *hacendados* were able to profit from the confusion by buying or simply seizing the individual parcels from their new holders" (Glade 1969:200). [7]

[7] The word 'buying' is inadequate since every form of force and fraud was used to transfer public lands to private ownership (Bétrola and Ocampo 2012: 104-107). The conventional use of the word 'buying' implies the existence of a clearly established set of market institutions, including some ability to reach agreement between buyer and seller as to the discounted present value of land. Absent this, a monopsonistic *hacendado* 'buyer' would generally offer a meaningless price, under the implied-threat of expropriation by some combination of force and fraud, and 'legally' abscond with the land title. This process of fraudulent transfer was then *re- institutionalized* and at the close of the ISI era nearly all the public property—mostly industrial, rather than agricultural (built at great expense in terms of social commitment to a developmentalist project) was transferred *en masse* to the private sector—a considerable portion went the new business elite which had been constructed during the ISI era in the vain hope that some within this group might prove to be 'entrepreneurial'. The remainder was received by transnational capital. For a well-constructed analytical account see Teichman (1995; 2001). For the most recent example of pillaging—the turnover of Mexico's PEMEX to private interests—see Cypher (2014b). Following this period when the business-based elite absconded with the jewels of the industrial sector, the commodity boom commenced in 2002, if not

But true impact of this new arrangement was only to be located a half-century after Independence: Coatsworth offers a brief summary of the revolutionary acquisition of land during the Second Industrial Revolution:

> Though living standards rose, inequality also increased. Modernization appears to have produced a massive new concentration of land ownership provoked, inter alia, by railroads that brought opportunities for commercial exploitation to once isolated regions; technological change (especially in sugar) that created economies of scale; the rapid development of large banana plantations in the tropics; and *the sale of public lands in large blocks to land and survey companies and well-connected entrepreneurs.* The new concentration of land ownership provoked violence in the densely populated indigenous provinces of central and southern Mexico and later in parts of the Andean highlands. In Argentina, land ownership tended toward concentration much earlier, as the government rewarded friends and Indian fighters with vast tracts starting soon after independence and lasting through the "Conquest of the Desert" in 1879. The effect of these giveaways on the concentration of wealth and income was limited, however, because land values stayed low until railroads and refrigerator ships created opportunities for profitable commercial exploitation on a large scale. The trend toward concentration of wealth in the countryside coincided in many countries with rising rewards for owners of capital, land, and skills relative to the wages of unskilled majorities (Coatsworth 2005: 130-131).

He then further develops the argument that the predator past-binding institutions were largely engineered by the nativistic elite rather than arising from the long arc of the Spanish colonial period—thereby rejecting the hypotheses advanced by Engerman and Sokoloff, Haber, Acemoglu, Johnson, and Robinson, among others : "The late-nineteenth-century political economic rupture came after prolonged turmoil and struggle in which the balance shifted decisively in favor of economic elites, but this shift could only have occurred in an era of export-led globalization" (Coatsworth 2005: 130-131). Bétrola and Ocampo (2012: 105) conclude that: "This process paved the way for landholders to gain entry into other elite groups made up of persons who had amassed their wealth through trade and mining and even of high-ranking members of the military and political chieftains, as well as foreign [capitalists]". As Carmangani demonstrated, in case after case, large landholders were frequently (1) mine operators as well as (2) wholesale/retail operatives and (3) commonly financial operatives to

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slightly before. This caused a rapid rise in land-based assets which then provoked a new wave of turnovers of public lands—effectively resulting in a another epoch of privatizations, given leases of 20 or more years—for mining, oil and gas drilling and extraction, as well as forestry and agribusiness pursuits has been experienced throughout Latin America (Bebbington and Bury 2013).

boot (Carmangani 1976; 1984). Thus large landholders (often *hacendados*) had no need to 'gain entry' into any circles of power since they were part of all of them. Leaving aside the complex events that led to the Mexican Revolution, these structures of elite power were socially reproduced and deepened until a historical rupture occurred, caused largely by the onset of the Great Depression in 1929—but WW I was an equally important catalyst for change, if not more so (Glade 1969: 277, 349).

Galde (1969: 201) summed up this dynamic process of cumulative and circular causation of land concentration wherein "the single most counterproductive institutional aspect of colonial times continued to exert a dominant influence in the economic structure of the new nations of Spanish America". After reviewing the various specific forms this process entailed he emphasized that by the close of the 1870-1914 period:

> …the commercialization of agricultural life induce by the convergence of international economic forces on Latin America strengthened the system of large landholdings and led to extension of the latifundia on a scale far greater than the colonial period had ever known. *Tens of millions of acres passed as a subsidy into the system of large estates*, and, by the end of the period, in most countries, nearly all of the most useful lands, or potentially useful lands, had been appropriated by private ownership, either for immediate use, for reserve acreage, for purposes of capturing a labor force, or simply for long-term speculative holding. Though comerical gains was, in a sense, the motivating force, actual commercialuse and economic efficiency had comparatively little to do with the process of distribution and subsequent use in many cases (Glade 1969: 239, *italics added*)

Apparent Reversal, Yet Unswerving Elite Persistence: From the ISI era to the Present

The brief interlude mentioned in the first sentence of this section was known as the Import Substitution Era (ISI) although, more accurately, it should have been understood as the Era of State-Led Development (Bétrola and Ocampo 2012: 138-197). The State-Led era fell under concerted attack across the left-right political spectrum as specious arguments accumulated—which presumably was comforting to the Agro-Mineral Elite during the high-water years of ISI (1940-1980), as further discussed below.

By the 1980s the dead-weight of neoliberalism had reached hegemonic policy-making status under the guise of the *ultra-laissez-faire* dogmas of the 'Washington Consensus' (Cypher 1989).

Independent of their orientation on the left-right political spectrum the Latin American governments were witness to and avid facilitators of the clear reemerge of this past-bound institutional constellation of socioeconomic forces and factors. Struggling to give some form to this concept, Maristella Svampa originated the term "Commodity Consensus" to evoke the acritical drift on South America into a resurrected export-led growth model based in rapidly rising commodity production, first promoted in the 19th Century as Latin America's 'destiny' based in the 'irrefutable' and 'scientific' doctrine of comparative advantage (Svampa 2013). Utilizing this stinging rhetorical term, Svamapa evoked the long-embraced economic quackery that Latin America governments readily embraced from some time in the 1980s—with devastating consequences that cannot be recounted in this brief account. If anything, then, the term "Commodity Consensus" is intended, quite accurately, to evoke a regressive restructuring of the production process even when measured against the lethargic—poverty-inducing—free trade era of the Washington Consensus years, during which policy makers both in the Center and Periphery followed the policy guidelines of the so-called 'new' institutional economics (NIE).[8] To make sense of this it is useful to recall some of Amsden's last analyses (2012), when she turned most forcefully to frontally addressing the issue of elite persistence—which in the current context would refer to the persistence of the AMF elite in Latin America. As Mistree (2013: 30-31) noted (in a review of her 2012 book on elites and on her epic books and articles on Asian development):

> As those who are familiar with this literature recognise industrialisation in countries like Japan, South Korea and Taiwan was the product of elite-driven enterprise, whereby a small group of technocrats and business leaders navigated the state towards high rates of economic growth.
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> Coming at a time when scholars and policymakers were convinced that ideologies and factor endowments determined development outcomes, Amsden's work brought the messy field of politics– and elite-driven politics in particular – back into focus. In doing so, she called into question the prevailing neo-liberal consensus at the time that freeing markets is central for development. …

[8] Regarding a comparison of the impact of the commodity boom in the 19th Century with that of the 21st, see (Cypher, 2010; Pérez Caldentey and Vernengo. 2015). Regarding North's NIE-based attempt to capture the institutional dynamics of late 19th Century Latin America—certainly an accurate and representative gauge of the depth of the NIE (as well as the scope of its hubris)—note J. Coatsworth's comments: Coatsworth, a towering eminence of Latin American economic history, found North's intervention to be risible. He notes that that North's attempt to analyze the chestnut 'how Latin America fell behind" was based on egregiously getting the facts wrong, making a "bizarre" and "anachronistic" presentation and misrepresenting virtually the entire corpus of previously published of Latin American political economy (Coatsworth 2005: 132).

> [Here] Amsden hammers home the message that elites deserve further scholarly attention. As she does in much of her other work, Amsden accords a healthy amount of agency to the elites, exploring how different kinds of elites respond to similar-yet-unexpected challenges. Comparing the indigenisation of German companies in Argentina, and Japanese companies in Korea, she argues that national elites failed in Argentina but succeeded in Korea. For a variety of historical reasons, Korean elites possessed a tacit knowledge and a skill set over their inherited industries that Argentinian elites lacked. As a result, the Korean industrial elite were more cohesive in their orientation towards spurring industrialisation. This elite-level cohesion resulted in the positive growth outcomes that are a hallmark of the classic developmental state.

It was to be anticipated that Amsden's comparative analysis would center on industrial strategies and development—her long-standing strong suit. However, as will be detailed below in terms of several references to Brazil's AMF elite, Latin America's relative lack of elite cohesion in the industrial arena does not translate horizontally to the AMF elite, and particularly to agribusiness, (as a more detailed study of Argentina, Bolivia and Chile—all beyond the scope of this paper—would reveal). Thus, in Latin America one could invert Mistree's conclusion: '*This elite-level cohesion resulted in the regressive restructuring outcomes that are the hallmark of [Myrdal's] soft state'* (as discussed in the following section).

Amsden (2010:1) argued that:

> While stable property rights are necessary for everyday business, unstable property rights that result in major institutional changes (such as land reform) may have a positive impact on economic development. When are the 'wrong' property rights right? Institutional changes have a positive impact on economic development when a country's elite can manage them.

Yet, in Latin America it was the AMF elite that also could (and did) block what they deemed adverse institutional change. The AMF elite *could* have 'managed' land reform, but were not forced to do so (except in the extreme case of the Mexican Revolution). Amsden, here, and elsewhere writes with an underlying premise in mind in regard to developmentalism based on her research findings in Asia: '*a small group of technocrats and business leaders [can navigate] the state towards high rates of economic growth'*—as stated by Mistree, above. Yet, as argued below, Latin America never achieved this level of elite cohesion; rather, the elite that emerged in the ISI period of intense and successful industrialization (1940-1980) was a *'coalesced bourgeosie'*. The industrial elite never achieved hegemonic status and the AMF elite only was willing to coalesce to the degree that they were the key members defining the parameters of ISI

policy.[9] They eventually were the prime movers behind the destruction of ISI, the onset of Neoliberalism and the plunge into commodity re-specialization from the 1990s onward. Amsden (2010: 8) claimed that "manufacturers in Ricardian England had to demonstrate their value-creation skills to win the support of the landed aristocracy". At best, in Latin America, the AMF elite has at times tolerated fledging industrialists and at times moved some of their liquid capital into industrial activities unrelated to resource intensive production—but there is no real sustaining evidence that the turnover of power relations championed by Ricardo in 19th Century England was ever a feasible structural shift, given that it would deracinate the strongest side of the AMF triangle (i.e. its base). While countless accounts of the ISI era in Latin America suggest that it was a teleological result of an evolutionary economic process destined to mimic in some crucial ways that of England, it is a major hypothesis of this paper that ISI should be best understood as an interlude. During this interlude the long drift toward *circular metamorphoses and path-dependent processes* was momentarily suspended. However, this Veblenian tendency was resumed in the 1980s and has now been re-embedded with a vengeance due to the opportunistic, rentier approach that the hapless soft states of Latin America adopted in the face of the significant potential developmental opportunities that the commodity boom offered to launch into Innis-style 'staple thesis' industrial policies (Cypher 2015).

III. The State and Development Economics, then and now

Mainstream economics, has never risen to the challenge of beginning to create an adequate theory to explain the political economy of the State. Nor has Keynesian and Post-Keynesian economics. Surprisingly, with the rarest of exceptions—such as the brilliant work on the 19th Century Chilean State as analyzed in Ánibal Pinto's *Chile: Un caso de desarrollo frustrado*—the Latin American structuralists as a group under the lasting guidance of Raúl Prebisch failed to engage the theme of the State and development (Cypher 1990). Furthermore, Institutional Economics has failed to rise to meet this challenge, in spite of the entry into this theme as scattered through Veblen's many analytical presentations (see footnote 5). The NIE cadre, at

[9] For an extremely well-researched study of the industrializing elite in Argentina, Brazil and Mexico in the 1920-1970 period, which parallels Amsden's analysis without negating the argument presented here, see: (Perissinotto, et. al., 2014).

least, attempted to seriously engage with the theme—particularly as presented in the work of Anne Krueger. Yet, the end result was simply preordained given the axioms of neoclassical economics: Here the State could never be more than the 'Predatory State' model as outlined by Evans, and encapsulated in NIE caricature as merely the ever-inept 'rent seeking' State (Evans 1995).

Of the pioneers of development economics, Myrdal was nearly unique in his willingness to present a theory of the State and Development. As Stein (2008: 115-116) noted: "The last economist to generate an alternative development vision based on original institutional theory was Gunnar Myrdal". Myrdal, like Veblen and many institutional economists, rejected the idea of 'universalism' and as a consequence any attempt at constructing a 'theory' of the State would have to be bound by time, place and prevailing institutional constructs. Summarizing and citing Myrdal, Stein notes that his point of departure was to reject the idea of 'spontaneous' development as particularly advocated by Bauer and his denizens in the Mont Pèlerin Society: "Development will arise from policy-induced 'changes in the social and institutional structure,' not from spontaneous means. His approach, in particular, and an institutional one, in general, are not teleological" Stein 2008: 115) For Myrdal "state intervention . . . is needed to bring about economic development" (Myrdal 1968, 2:15) Yet, Myrdal found that only the 'hard' state contained the capacity to carry out the necessary planning process and other related policy initiatives to foment development. Too often his research revealed the presence of 'soft states': stong states generate 'Path-Determinate' policy changes that lead to institutional transformation, while soft state are bound by dysfunctional path-dependent structures, often arising historically as a result of embedded, now zombie colonial processes. In the post-colonial period—as was the case in terms of Latin America's land control policies, as analyzed above in this paper—the path-dependent process of cumulative and circular causation condemned many nations of the Periphery to reinvent and strengthen regressive processes of structural change.

As Stein noted:

> Path-determinant change implies significant discretionary intervention, wherein design is fairly open but is also linked to the past. New insights are offered, and doubts about the existing pattern of circular causation are raised. Although the ideas might appear to be

> path-independent, they are well grounded and aim to be self-sustaining and self-correcting. New ideas arise from a causal understanding of historical patterns and relationships with ideational influences. Yet the approach is not contained by the past but builds on and is an instrument of transformation. The path-determinant approach is aimed at not only understanding what is transpiring but what could transpire. Cognition is both expansive and continuous. This is the basis of the circular causation and cumulative change that leads to the transformation of the institutional matrix. (Stein 2008: 142-143).

Writing in the 1960s, Myrdal's overview of the role of the State in the now advanced industrial nations led him to formulate the idea of the 'strong' State, in contrast to what he viewed as 'soft' states in Asia. That is, he wrote before it became clear that Taiwan and Korea were rapidly becoming the prime examples of 'strong' states in Asia It was only one small step from this distinction (plus decades of painstaking research and analysis) that the term 'Developmental' State became widely disseminated and broadly accepted as an analytical construct to be applied to latecomer nation; particularly to seminal cases of latecomer industrialization both in Japan and Korea (Kolhi 1999) as well as Taiwan, and most recently, some maintained, China. The leading analyst was, at first, C. Johnson (1982; 1999) whose framework was greatly deepened and expanded my numerous specialists—in particular in as registered in the classic accounts offered by A. Amsden (2001) and R. Wade ([1990] 1999).

The Developmental State is one that produces and reproduces (on an expanding scale) public policies that are conducive to inclusive economic growth, while being unhesitant to adopt instrumental (i.e. non-populist) redistributive programs. Development States in the Periphery are 'catch-up' states able to leverage the technological and organizational windfalls of followership: That is, as Veblen argued, by consciously deploying 'merits of borrowing' strategies, , huge 'leapfrogging' advances in the national industrial base can be quickly realized without the 'penalty' of the massive sunk costs that are necessary outlays for nations 'taking the lead'. To obtain these positive externalities of followership, the Developmental State is obligated to create and maintain a selected core of ministries filled with a professional cadre whose training has been acquired via objective educational programs that meet first-tier accreditation standards. Employment of this professional cadre requires an institutional structure wherein such occupational positions are necessarily obtained via a competitive, objective, civil service exam. Thus the Developmental State relies on 'niches of efficiency', such as MITI in the case of Japan, or Nafinsa (Áres 2007), Mexico's once lauded national development bank (before the Neoliberal

Era which destroyed it) or Brazil's long-respected national development bank, BNDES. A major task of such states is the provisioning of public-goods—particularly infrastructure and education—that create sizeable positive socioeconomic externalities. As well, such states must show a capacity to incubate and husband new (eventually leading) sectors while retaining sufficient autonomy to maintain forward momentum in spite of inevitable instances wherein sectoral specific Industrial Policies fail. As Myrdal maintained, the state must have sufficient capacity to pursue coherent, cohesive forms of economic planning. As Furtado maintained, all such efforts will require the state to promote endogenous technological learning capabilities. Above all, such states must be able to forge a growth-investment nexus, thereby transforming an embedded economic structure of growth-conspicuous consumption and capital flight. That is, such states facilitate the emergence and reproduction of a broad-based, inclusive, domestic market. As such the growth is driven by policies and practices that meet the expanding needs of Veblen's 'underlying population', rather than by a vertical vector of demand catering to the growing purchasing power of the petite bourgeoisie, middle-class professionals, and the AMF elite.

While in its concrete applications the range of methods used by such states to transform the state apparatus into that of the Developmental State has varied substantially, all such states categorically rejected the idea that development would be achieved as spontaneous result arising from unregulated market forces, as Bauer had argued. Instead they relied, in the first instance, on Industrial Policies (which is an unrestricted concept that could be applied to primary extraction—e.g. using the petroleum industry as a growth pole—and/or to the agricultural sector). Crucially, the successful Asian nations were able to engineer well-timed strategy-switches, overcoming the circular causation tendencies of path-dependence in moving from light, technologically shallow activities to more complex forms of production—always striving for higher value-added activities (preferably those that might generate increasing returns for some period of time). In so doing such states have been able to displace the power of *l'ancien régime;* the power bloc that had been able to use their accumulated assets to control such market forces. In the context of Latin America this step would have entailed the displacement of the AMF elite—a result long-considered to have been consummated with the onset of ISI regimes. Those unconsolidated Developmental States that came into existence in several Latin American nations

from the 1930s were, however, dismantled during the Neoliberal Era—thereby leaving only Brazil which did not fully embrace the policies of Neoliberalism in the 1980s and 1990s (Cypher 2014c).

The Developmental State largely conforms to the idea of the *dirigiste state*: it entails an *entendent* between the historically established unlimited discretionary powers of capital—including agrarian, extractive, productive and financial capital. Within the useful three-part analysis of path dependence advanced by Stein (see above), the Developmental State facilitates 'path-determinate' policy changes that lead to institutional transformations. As Amsden frequently noted, the structural success of this *entendent* entails relationships of *reciprocity* between the 'promoter' state willing to provide a broad range of assistance to economic sectors that are considered crucial to present and future development, but only under conditions of *reciprocity*. Yet, the Achilles Heel to of the Latin America *dirigiste states* was their incapacity to institute—or even, apparently to envision—processes of reciprocity. That is, capital actively pursued the subsidies proffered when the state engaged in its *promotor* role, but generally did not alter its patterns of production, investment and general operation to facilitate those changes which policy makers were intending to attain. The strong states established in the successful Asian nations insisted on maintaining and using their power to 'discipline' capital when reciprocity was absent or insufficiently realized, while the softer states of Latin America failed to recognize that such a policy was integral to the success of state-led development. Insular, focused on a path-dependent, vertical world of Center-Periphery relationships Latin Americas were never careful students of the institutional political economy of the latecomer industrialization strategies pursued by the Developmental States of Asia (Hira 2007a). Crucially, as Cristobál Kay demonstrated, the Latin American nations—even during their most promising moments in terms of exercising the 'promotor role'—were never willing to challenge agrarian capital, in profound contrast to the programs of land reform instituted in the case of the Developmental States of Asia (Kay 2002). As is infrequently recalled, the attempts to introduce modest land reform programs in South America prompted large landholders and their associations to be either the prime movers of (or lend substantial support to) the rightist momentum behind the military coups and the military governments that spread through the Southern Cone—particularly in the cases of Argentina, Brazil and Chile—bringing with them the

installation of national policies of Neoliberalism in all states but Brazil—because military leaders embraced a developmentalist ideology (Eaton 2014: 77, 81).

In spite of the analysis presented in the previous paragraph, the *leyenda negra* regarding the alleged 'failure' and 'exhaustion' state-led, or ISI, policies in Latin America is not a position that can be defended (Cypher and Pérez Escatel 2013; Hira 2007b). It was during this period that Latin America realized—at least in the 6 largest nations, which accounted for the sweeping majority its population—unsurpassed progress as measured by the Human Development Index (Cypher and Pérez Escatel 2013: 116). In spite of very tangible evidence that ISI—even in its soft state version—objectively outperformed the export-led model of the long 19th Century as well as that of the Neoliberal era (1980-2000), national critics on the extreme left found great fault in the model because it was not leading to revolutionary change, as they had argued it would. Likewise, arch-conservative critics viewed *dirigisme* as an affront to their individualistic ideology—as they discreetly championed their Social Darwinist interpretation of the causes and virtues of economic inequality. Undeterred by the extreme levels of wealth inequality, on a scale unknown in the rest of the world, they loathed the inclusive social welfare programs promoted by ISI policy makers. Meanwhile the International Financial Institutions commenced—particularly from the moment that Anne Krueger became the World Bank's chief economist in the 1980s—to decry the willingness of state-led states to frequently defy their 'market knows best' axioms, particularly in regard to a trade policy that considered the need to incubate infant industries and/or to enable established sectors to restructure to achieve higher value-added production capabilities. The disturbing tendency of the soft states to buy and operate 'lemon' private firms as public sector entities was viewed sufficient cause for centering their Neoliberal structural adjustment programs on the forced privatization of *all* public-sector firms without regard to their efficiency or larger purpose within the context of Developmental State policies. Nor was the market value of these public assets a consideration; such assets were (with rare exception) 'sold' in non-competitive 'auctions' at dramatically discounted prices regime-connected members of the national elite at dramatically discounted prices.[10]

[10] Regarding the illustrative case of Mexico see (Cypher 1990b). For further contextualization, analysis and sources see note 7, above.

On the Historical Roots and Limits of Latin America's Quasi-Developmental States

It is important to explore, however briefly here, the historical roots of Latin America's soft states in order to grasp the path-dependent nature of their present construct. In the conventional view, these post-Independence states fully embraced laissez-faire doctrines, passively facilitating the new international economic forces arising from the Second Industrial Revolution. However, the Latin American states were more than passive facilitators—they actively sought and enabled foreign capital's search for new resources to fuel the new productionist structure, particularly in Europe:

> [D]uring the 1850-1914 period when the pull of foreign markets was dramatic and triggered a sizable foreign investment boom, the new wave of foreign investment activity, led initially by railway construction…, got underway with strong assistance from supporting state intervention. Given the substantial amounts of external resources that were transferred to the public sector by government borrowing, between 1850 and 1914, given the generous use of public subventions for various enterprises, and given the franchise nature of many foreign investments (in rails, utilities, shipping lines, and other concessionary ventures), it is clear that much more was involved than mere routine business transactions carried on by free private enterprises in a pure market context (Glade 1969: 235).

Glade here, and elsewhere, convincingly argues that the late 19th Century commodity boom states were not, in essence, devoted to the doctrines of Economic Liberalism, as is commonly asserted. Thus, the soft states during this period were dedicated to an activist national policy, but not in terms of promoting endogenous growth-inducing capacities. They were, then, 'Dependent-Interventionist' states, substantially linked to their origins as colonial states—but now deeply engaged with two successive, rival, hegemons (Britain as a declining hegemon, the U.S. as an emerging hegemon, particularly in Latin America). Thus, from the colonial period to commodity boom era "… there does not appear to have been any radical departure from a *dirigismo* [state] of one sort or another … a certain basic continuity in policy tradition can be detected throughout the history of the area in the role of the state as an active participant in economic processes" (Glade 1969: 235). To this an important qualifier is immediately added which precisely evokes Myrdal's theme of the soft state: "It does not follow, however, that the

governments of the region were necessarily performing their development functions effectively" (Glade 1969: 235).

At this historical juncture, across much of Latin America the positivist ideas of Auguste Comte were frequently coupled with those of Saint-Simon—to the degree that positivism was more strongly pursued in policy making circles in Latin America than elsewhere. There were many who espoused the virtues of laissez faire and or libertarianism, yet positivist doctrines—which propounded a activist role for the state—giving it pride of place as the predominant means of restructuring the socioeconomic structure—in the pursuit of a catch-up strategy encapsulated as 'order and progress'. In particular, under positivist guidance, Latin American governments used their leverage in burgeoning international financial markets to engage in surfeit borrowing strategies, after which a portion of these funds were deployed in development bank fashion; selected areas of priority where national economic activities were to be promoted received channeled state funds to promote privileged private sector entities. This approach was so widespread and indiscriminate and of such deep consequence that "it would be misleading to construe the era in terms of a simple laissez-faire version of economic liberalism" (Glade 1969: 242). In pursuit of a national industrialization agenda initiatives extended to, in some instances, activist fiscal and tariff policies and even the creation of parastate and/or state-owned firms—particularly with regard to rail systems. However, all were conceived within the broader context of export-led growth.

But with the onset of WWI—which altered drastically the underlying structural conditions that had matured an calcified during the long commodity boom driven by the Second Industrial Revolution a historical turning-point was reached: from this point onward until the onset of the Neoliberal era in the 1980s, the primary focus of national policy turned to the promotion and development of the domestic economy. Conventionally, this turning point is linked to the crash of 1929—which certainly deepened, both qualitatively and quantitatively, the new turn that began in 1914. One of the fatal flaws of the export-led era was the absence of endogenous mechanisms that would structurally link fiscal windfall revenues to national development (Glade 1969: 261). Instead, windfall fiscal revenues were largely utilized to maintain ceremonial institutions—such as ostentatious public edifices, or to coddle the military caste, and to create a large cadre of ceremonial public sector rentiers. Each nation, however small, tended to pursue

its development strategy in the absence of any cross-national considerations. This resulted in anarchic forms of accumulation where, for example, Latin America ended-up with a large rail system in terms of miles of track, but a disconnected system due to the fact that, between then (and sometimes *within them* e.g. Brazil), these nations indiscriminately laid down three rail gauges—making efficient cross-national transportation impossible in many instances (Glade 1969: 264-266).

With the clear turn toward the national economy and away from the export-led focus, an era of *proto-industrialization* commenced. If 1914 was an important point of inflection, the antecedents to this turn are to be found in the 1890s or somewhat before. As the enclave economy of the AMF elite surged during the long commodity boom immigrants were drawn to Latin America—frequently as a result of generous and extensive state policies. Fully out of proportion to their numbers, skilled and/or highly ambitious immigrants in particular began to fill some of the interstices of the enclave economies with national production and national services. The pervasiveness of immigrant owned businesses was surprising as well as an indicator of the extensive range of abilities and the educational preparation of many immigrants: the 1914 Argentine census, for example, indicated that fully 62% of all business establishments were the property of immigrants, although they accounted for only 29% of the total population (Glade 1969: 208, 608). Immigrants were also associated with a burst of innovative activities, which then died away as they used acquired wealth to climb the social ladder (López 2006). Their progeny inculcated an generation-spanning affinity for leisure class indolence—nowhere moreso than in Argentina.

Thus began a nascent, undirected, process of import substitution in a limited range of activities. As a consequence, when the flow of manufactures was interrupted by WW I, the elasticity of supply response of the fledgling national industrial base was much than anticipated. As a few firms took the lead in seizing the opportunities then presented the relative gains were so sizeable that their attainment of new levels of skilled production created, facilitated and then reproduced into the present moment a oligopolistic/monopolistic structure as family-owned ‘grupos’ (massive conglomerates) emerged, normally with an in-house bank that gave the grupos crucial access to financial liquidity in a region where little had, or would, exist. Thus, those who now occupy the commanding heights of the national industrial base are frequently rooted in the distant past era if *proto-industrialization.* This newfound economic power was then, as now,

readily transposed into political power; either directly through carefully cultivated political or policy making access, or somewhat indirectly through corporatist business associated whose omnipresent participation in national policy debates is frequently seen by the underlying population (to the degree that they take note) as 'simply the way things are'.

The significance of these brief comments regarding the turning point of 1914 is located only later, with the emergence of developmentalism in the 1930s. As Ross Schneider has noted:

> The triumph of developmental discourse is difficult to date with precission. …. Overall, the period between the eclipse of liberalism in the 1930s and the emergence of a coherent developmentalism backed by both theoretical elaboration and by state and societal actors in the 1950s is best characterized as one of contending discourses. But the core ideas date back to the 1930s (Ross Schneider 1999: 295).

The importance of the *proto-industrialization* process is that it demonstrates the initiation of a prolonged and complex institutional transition from a laissez-faire dominated socioeconomic configuration to that which was largely its opposite. As a bridge concept *proto-industrialization* fills an undiscussed gap in this transition—which is too often portrayed as one of a near-instant reversal of the tension between the, as presented, state-market dichotomy. Nonetheless, it is important to not exaggerate *proto-Industrialization* efforts. They were pursued with diffidence in some nations, and most extensively in Brazil, but did not in any case constitute an epistemological break with the dominance of comparative advantage precepts, or the intellectually hegemonic position of laissez faire conceptualizations. The influence of Comte, Spencer and 'positivism' on national policy formation cannot be altogether discounted: it signaled a modest degree of discontinuance in economic policy formation, insufficient to effectively dislodge path-dependent institutional structures until the 1930s (Ardao 1963).

As Topik detailed, even in the case of Brazil such interventions and efforts at limited diversification took place within the strict confines of a *liberal* political economic regime:

> The republicans who wrote the 1891 constitution sincerely wished to remove the impediments to development which they believed that the imperial state had erected. By allowing the free reign of the marketplace, they hoped to exploit the country's riches. But they were not dogmatically bound to a [laissez faire] model and reluctantly allowed frequent concessions to the necessities of an underdeveloped country….[They] insured, however, that the responses remained faithful to liberalism's underlying principles (Topik 1980: 615).

By the late 1930s this liberal political economy regime had been—according to accounts too numerous to mention—crushed. State-led development—arising rapidly due to the antecedent processes initiated during the process of *proto-industrialization*—quickly attained presumed hegemonic policy status by the 1940s. Once taken seriously, with the rise and consolidation of Neoliberalism in the late 1970s and early 1980s ISI was almost universally dismissed as no more than a series of errors.

In spite of falling completely out of fashion at this point in time because it was presented as both a theoretically flawed ideology and policy by its opponents, state-led development in Latin America must be understood as neither attaining a highly-effective development policy nor broadly failing as such. That the theoretical validity of ISI was repeatedly demonstrated in the research of Amsden—who carefully document how Asian states had used it to reach the highest tiers of manufacturing production at the very moment when the Latin Americans had abandoned this set of national development policies (Amsden 2001; Amsden 2004). As Amsden, as well as Katz and Kosacoff affirmed, state-led industrialization amounted to a concerted societal effort to construct ''a social organization model which had as its primary objective nothing less than to modify the order of the appropriation of the [economic] surplus generated by the primary sector of the society and channel it to the development of manufacturing'' (Katz and Kosacoff 2003: 82). It was a sweeping effort at restructuring entire societies—it constituted the iterative search for and construction of an inclusive social structure of accumulation. It, therefore, had broad implications in terms of the creation of, and the distribution of, income. It sought to displace the passive open socioeconomic structure of enclave-centered accumulation based upon colonial and neo-colonial patterns of specialization with an active, socially constructed, much more inclusive mode of accumulation.

It was, in its then historical context (and now with adequate hindsight) very far superior in its overall performance to that which preceded or followed it: During Latin America's 'golden age' of state-led developmentalist policies, from 1945 to 1980, real annual GDP growth averaged 5.6%, with manufacturing—growing at 6.8%--leading the process (Kahn and Blankenburg 2009: 356). As such, the portion of GDP arising from the manufacturing sector rose from an average of 18.4% in 1950 to 25.4% in 1980 (Ffrench-Davis, Muñoz and Palma 1991: 357.) In conformance with Verdoorn's Law, from 1950-1973 labor productivity rose faster in Argentina,

Brazil, Colombia, Mexico and Peru than it did in the U.S.—and this occurred during the U.S. 'golden age' (Castaldi, et. al., 2009: 44). Taking into consideration only the two largest nations in Latin America that accounted for the vast bulk of total output in the region, the real GDP growth rate for Mexico averaged 6.0% from 1940-1982, while in Brazil this rate was 7.5% from 1948-1980 (Moreno-Brid and Ros 2010: 347-352; Medialdea 2012: 62). Undeniably, policy initiatives formulated by the 'structuralist' economists at the UN's research center, CEPAL, provided a theoretical framework that promoted a new institutional alignment wherein large state-owned development banks channeled credits to strategic industrial sectors (often partially or wholly state-owned) that were promoted in order to create dynamic and cumulative processes of industrialization-led economic growth. Inextricably tied to these policies were those that promoted social development via mass public education, viable public health systems, limited public housing projects, public transportation and subsidies and price controls for basic necessities. The 'structuralists' argued that economic policy could not be limited to that which would enable the free-functioning of markets. The fundamental structural 'parameters' of the Latin American economies would have to be altered; and they were. It was during this long period that several Latin American states shed their lowly status as 'soft' states and rose to the level of what Evans termed 'intermediate' states (Evans 1995: 60-70). Intermediate states exhibit "pockets" of efficiency" at times, with "sufficient cohesion and coherence to draw industrialists into joint projects with impressive results (Evans 1995: 73). But such states lack "overall coherence and cohesiveness"; they are unable or unwilling to dislodge the path-dependent "tight symbiosis between the state and the traditional oligarchy" (Evans 1995: 73). The traditional oligarchy—composed of elements of the AMF elite—functioned as able saboteurs, employing their honed rent-seeking talents when participating in vast industrialization projects (often via contractor fraud in construction activities). At other moments they were able to profitably unload their failed businesses onto the state sector, or transfer massive debts to the state, receive hard currencies at below market prices under one guise or another. As Amsden stressed, Latin America's intermediate states were unable to 'discipline' capital; least of all in the face of the 'traditional oligarchy' of the AMF elite.

This 'traditional oligarchy' was (and is) comprised of a variety of large mercantile interests (including banking) as well as, obviously, export-agricultural landholders and the full range of extractive concerns: Thus, the AMF elite operated under structural conditions wherein financial

capital, extractive capital and agricultural capital also frequently functions simultaneously in conjunction with trade capital. In this configuration national economic entities may symbiotically combine with transnational capital for the formation and apportionment of the economic surplus: frequently in this instance, but not universally, national firms (including those operating as conglomerates) have done so as lesser associates. During the ISI era, of course, these AMF conglomerates—or national economic groups—were frequently nominally 'industrial', but most continued to have a large share of their capital devoted to commodity-based production, as well as mercantile and financial interests (Leff 1978).

The existence of *fused interests* as hypothesized here through the concept of an adaptive AMF elite in the ISI era, was rigorously explored in the 1960s, using data on the Chilean economic elite: Zeitlin and Ratcliff found (through extensive interviews and questionnaires and other forms of documentation) a deep degree of interconnectedness among landholding interests and others segments of the dominant economic strata (Zeitlin and Ratcliff 1988). They "exhaustively" documented the functioning of a '*coalesced bourgeoisie'*—a "single" and "indissoluble" class of landlords and capitalists—"extensively tied" to transnational corporations (Kay 1989: 407-408). As Kay then stated: "The authors find that the dominant segment within the upper class are the landed capitalists who personify the coalescence of large landed property and corporate capital" (Kay 1989: 407).

Because ISI policies eventually began to result in the transference of significant portions of the economic surplus away from the traditional oligarchy and to both the state and an emerging strata of national industrialists, the AMF elite first sought, largely unsuccessfully, to partially assimilate into the new social structure of accumulation as part of the coalesced bourgeoisie' . However, wariness of, contempt for, and hostility to modest degree of social leveling of state-led development—that (1) effectively increased the leverage of organized labor to contest labor conditions (which then would spill-over to the entire workforce to some degree) and (2) redefined the nature of the implicit *ex ante* social contract that heretofore reflected (in the first instance) the priorities of the traditional oligarchy—culminated in outright rejection of the policies, largely as a result of a modest drift toward land reform in the 1960s as well as in reaction to nationalizations in extractive industries (where economic rents were extreme). In many instances this rejection took the form of military coups largely instigated by the AMF elite.

In other instances, such as Mexico—prompted in great degree by President Echeverria's bid to reinitiate land reform in the early 1970s—large national capital used its leverage in the context of the debt crisis to successfully reconstitute the long-ruling PRI into a Neoliberal regime wherein large capital reset national policy. As a result Mexico's vast mining resources were denationalized, the financial elite surged into new, highly-profitable, activities, agribusiness sought approval of NAFTA and the long-march to reprivatize Mexico's oil began with piecemeal privatizations of petrochemicals.

In a innovative study which casts these issues in a larger context, Naseemullah and Arnold (2015) introduced the idea of Developmental State *persistence* based on a detailed analysis of Pakistan and Turkey attempts to embed an ISI regime. They concluded that in these nations, as was the case in Latin America, the pursuit of ISI objective proceeded without regard to the priorities of the AMF elite. However, as a result of AMF *persistence,* the Developmental State was effectively undermined. Arguing that the main analytical emphasis should center on *institutional* persistence, they found that:

> …the persistence of developmental state institutions is contingent on the absence of articulated opposition from agrarian actors and provincial capitalists against regimes of industrial promotion. …[T]he politics of developmental state persistence are analytically distinct from the origins of developmental states, thus enabling a more dynamic understanding of the relationship between the politics of developmental state institutions and late industrialization (Naseemullah and Arnold 2015: 121).
>
> …the social coalitions undergirding the Turkish single-party regime rested upon a fundamental compromise: the Turkish state could adopt modernizing reforms, so long as the proposed changes did not disturb the agrarian social order in the provinces (Naseemullah and Arnold 2015: 133).
>
> The industrialization promoted by developmental state institutions ultimately relied on channeling a significant portion of a country's investible capital to a combination of state-owned enterprises and relatively narrow national industrial bourgeoisies. Groups excluded from concentrated benefits of industrialization, such as landowners and provincial capitalists, can deal a fatal blow to developmental state institutions when they are organized enough to challenge the regime. In contrast to Taiwan and Korea, where the state successfully demobilized or co-opted groups that could potentially feel excluded from industrialization, in Turkey and Pakistan, social actors were able to mobilize successfully against industrial promotion. Ultimately, then, the politics of developmental persistence were contingent on the absence of groups like agrarian and provincial actors to challenge the state (Naseemullah and Arnold 2015: 133).

The research of Naseemullah and Arnold has clear application to the demise of the Intermediate States that were formed during the ISI era. They were not, presumably, as threatening to the prerogatives of the AMF elite as a fully-formed Developmental State would have been. But, nevertheless, a tension always existed—sometimes veiled, sometimes overt—between the AMF elite and these states even after the *coalesced bourgeoisie* formed. Zeitlin and Ratcliff (1988) based their conclusions on a detailed study of elite Chileans in the late 1960s. It was only subsequently, particularly as land reform loomed large during Allende's presidency (1970-1973) that the AMF elite took a leadership role, thereby demonstrated that lasting institutional role of this oldest portion of the bourgeoisie, in a fashion similar to that found in the cases of Pakistan and Turkey. Robinson (2010: 18) claimed that: "Once established, institutions persist for long periods of time." Based on the research of Naseemullah and Arnold (2015), and our analysis of the relatively short duration of the Intermediate States under ISI in Latin America, this appears not to be the case. Moreover, Robinson's contention that institutional change is a function of elite interest cannot explain the creation of Developmental States.

New Developmentalism

Through a series of military coups or through other means Neoliberalism swept through Latin America in the 1980s apparently erasing developmentalism. The Washington Consensus (WC) now reigned, Intermediate States had been rapidly converted into M. Friedman's ideal type—the 'night watchman' state (basically an institution to preserve status quo property rights of the elite). Williamson asserted that the WC merited intellectual hegemony as "a part of the basic core ideas that we hold in common and do not need to debate" (Williamson, 1998, 111).

Curiously, however, some state interventions—such as large scale export promotion policies—were endorsed by the WC because, the argument went, they were 'market enhancing' programs.[11] This was not convincing, however, because Intermediate States had similarly promoted exports, yet these programs were condemned as inherently inefficient forms of

[11] More recently some analysts have used the term "Open Economy Industrial Policy" (OEIP). Yet, in some nations—such as Brazil—greater emphasis has been placed on Industrial Policy *per se*, creating some national 'policy space' clearly beyond the framework of the WC. Amsden argued that the new accords of the WTO and other agencies that have been viewed as national policy straightjackets were relatively porous and that nations of the periphery could—under developmentalist policy guidance—exercise considerable autonomy regarding national policy (Di Caprio and Amsden 2004).

interference with ‘free’ market forces by those who had then condemned ISI. In any case, export-led growth was viewed as the means by which Latin America could now advance. A plethora of issues regarding export-led growth as a strategy, however, were elided. There was, in the first instance, the issue of the fallacy of composition; if all peripheral nations were now to export—as the WC insisted—would there be sufficient aggregate demand at the global level to absorb the surge? Since what a nation exports is crucial, could the Latin American nations now produce ‘non-traditional’ exports—as the IFI’s recommended—in sufficient volume to sustain a prolonged process of national accumulation? For Latin America, these questions were never addressed. Modest efforts at exporting cut flowers, promoting eco-tourism, producing high value-added non-traditional agricultural crops and other novelties were insufficient , generally, to maintain levels of per capita income as the domestic industrial base declined with the onset of a ‘open’ trade regime. As a consequence, Latin America in the 1980s sunk into the ‘lost decade’ and in the 1990s, into the ‘lost half-decade’. Even in Chile, Neoliberalism did not create the one “success” that WC promoters claimed (Cypher 2005). However, in Chile and elsewhere in the 1990s mining companies began applying new technologies that would generate profitable extraction from geological formations containing minute quantities of precious metals. Transnational mining corporations now had ready access to privatized reserves. The “property rights” claims of the citizenry over national reserves were now systematically despoiled, market-fundamentalist technocratic cadres created long-term leases or engaged in sales of state-held mineral rights without regard to due diligence—even where state-owned mining companies were recognized as highly efficient and fully competitive with private-owned entities, such as in Chile (Cypher 2005).

Thus, in the 1990s—generally unnoticed—large scale, very long-term foreign investment projects commenced in the extractive sector (Bebbington and Bury 2013). Once China entered the WTO in 2001, and India began growing rapidly, the commodity boom began in 2002 as registered by the all commodities index (Cypher 2010). Echoing the 19th Century, a regressive restructuring process of reprimarization commenced throughout South America as the demand for agricultural products, industrial commodities, petroleum derivatives and minerals soared from 2002 to late 2011. A long twilight period then ensued as oil and gas prices remained extremely high—fueling growth in several South American nations and Mexico—until the

spring of 2014. Reliance on export-led growth had once failed to generate export-led *development*. Latin America had, by 2014, fallen into a state of stagnation. For most nations, national development strategies were regarded by the US-trained econometricians who guided economic policy as unscientific nonsense. Thus, as the growth pole collapsed, and as the flows of DFI and liberal financial credits that had been prompted by the commodities boom dwindled, there was no policy response other than austerity.

However, a few nations sought to break somewhat with the passive, market determined, export-led strategy: Of greatest prominence was Brazil from 2003, Ecuador from 2007, and Argentina which broke with Neoliberalism after the devastating crisis of 2000-2001. Of these three nations, Brazil's efforts to create a *New Developmentalism* best demonstrate the possible emergence of a new paradigm for Latin America: In this regard it is important to note that Brazil was controlled by military developmentalist until 1985, thereby forestalling the pressure to conform to the WC. Thereafter Cardoso's presidency (1995-2002) did not usher-in a full Neoliberal agenda because (1) privatizations were limited and legitimate, (2) the state maintained control of much of the banking sector, (3) BNDES and its large, influential, cadre of developmentalist state functionaries remained in power. Still, in reaction to Cardoso's truncated Neoliberalism, the election of 2002 brought the Labor Party to rule, with a neo-developmentalists program backed by unions, some in the Federations of Industry and broad sections of civil society. Neo-developmentalism rested on (1) an active Industrial Policy, (2) the prioritization of long-term production-based development projects, (3)'competitiveness' strategies to accelerate manufacturing exports and strengthen the national industrial base, (4) a major initiative to strengthen the National System of Innovation through the expansion of state-supported programs to foster technological learning and diffusion, and (5) and a massive infusion of funds allowing BNDES (with assets equal to those of the World Bank) to promote a vast array of long-term public, private and mixed projects. The leading sector of Brazil's neo-developmentalist project is the petroleum industry where the State is determined to capture and internalize the massive potential externalities of broad-based industrialization while thrusting into high value added activities. Petrobras, the state-owned oil company, had over 700 projects underway by 2012: the State-led effort in the oil sector is designed pursue that the dynamic potential forward and backward linkage effects.

From Brazil has steadily hewed to a neo-developmentalist strategy that has emphasized, above all, a 'growth with redistribution' policy that reduced the Gini coefficient of income distribution and raised above the poverty line over 30 million citizens by 2012. Simultaneously, this strategy increased aggregate economic demand for national producers, creating virtuous circles in terms of increased production, and rising employment opportunities. Neo-developmentalism, goes well beyond Keynesian-style policies to promote aggregate demand growth, full employment and income redistribution; in fact, it is centered on the sphere of production. By 2012 policy had shifted from a "demand focus"—transfers to the poor, higher minimum wages, full-employment policies, etc.—to a "supply focus" designed to both promote necessary long-term investment and massively lower costs of production. The outsized effort to implement a viable industrial policy and pursue a neo-developmentalist strategy was reminiscent of Rosenstein-Rodan's idea of a 'Big Push'—but this time anchored in shared growth and technological capacity.

The foregoing notwithstanding, Brazil's AMF elite was greatly strengthened by the commodity boom—due in part to massive raw material reserves, but also to a rapidly growing high-tech agribusiness sector.[12] It was further reinforced during the commodity boom by the fact that the neo-developmentalist governments in place largely left monetary policy to the whims of devotees of M. Friedman. Thus the new developmentalist coalition did not exert clear, hegemonic control over national economic policy. Brazil was, in effect, torn between (1) the constellation of powerful landowning faction that avidly sought and received massive ground

[12] Regarding the landowning elite as concerns their affinity for right-wing socio-economic policies and their unappreciated role as the prime elite faction in the determination of the parameters and content of national policy, Montero (2014: 298) noted that:

> Traditional conservative elites in Brazil trace their roots back to the nineteenth century, during which time political machines, landed families, and local strongmen known as 'the colonels' rule over peasants who depended upon these figures for their livelihoods. Conservative modernization of the countryside during the military regime [1964-1985] accelerated the region's economic growth but left unchanged erstwhile patron-client relations. In exchange for their abiding political support, the generals transferred agricultural credit and subsidies to large landholders and channeled capital investment into once-defunct export enclvaes in the sugar zone by creating the sugar cane gasohol program, Proálcool. The expansion of aagribusiness crowed out subsistence agriculture, increased demand for imprted staples and raised average food prices.
>
> …What sustained the conservative, dominant class in these policies *was their continued hegemonic control of the state apparatus*… (Montero 2015: 299 *italics added*).

rents by pursuing the new-found opportunities of the commodity boom,[13] (2) those in the financial sector who were dogmatic devotees of monetarist austerity—particularly at the Central Bank—and (3) those state managers clustered in Petrobras and BNDES, as well as within the central government, and their allies in the powerful Federations of Industry that advocated and implemented an industry-led national development project (Cypher 2014c).

Obviously, a nation cannot move in three, mutually exclusive, directions at once—particularly when the financial oligarchy could, and did, restrain aggregate demand at will. To some degree their repressive monetary policies could be circumvented through massive long-term lending provided to state projects via BNDES. In effect, however, the 'free trader' ideology of the landowners—opportunistic or not—could largely coexist with the austerity orientated financial sector. The industrializing faction thus occupied a position of vulnerability. Since 2013 the Brazilian economy has fallen into a downward spiral—a result of (1) a weak internal market constrained by extremely high real interest levels as imposed by the Central Bank, (2) the 'reluctant investors' syndrome' which has kept the level of private capital formation as a share of GDP quite low, (3) declining commodity exports, (4) burgeoning imports of Chinese manufactured products, and (5) deindustrialization, as a result of the previous four factor cited here.

All of these factors had, by mid-2015, contributed to a profound political crisis, largely fueled by a relentless media campaign of rightist forces intended to delegitimize new developmentalism , effectively nullify the results of the presidential election of 2014, and install a fully-formed Neoliberal regime.[14] In interpreting this very complex dynamic the research of Naseemullah and Arnold (2015) regarding the derogation of the Developmental States of Pakistan and Turkey, as well as their analysis of *institutional persistence* can be applied to contextualize the current conjuncture in Brazil. The evidence to date in the case of Brazil confirms a strong drift toward AMF elite ascendency—and the likelihood of eventual hegemony—over national economic policy suggesting that—at its strongest point—the consolidation of a shift toward a neo-

[13] On agribusiness' duplicitous ability to twist national 'free trade' policy to its own ends in order to shield it from foreign investors while also receiving state support for its own FDI see (Ferrando 2015).
[14] Brazil's well-known penchant for pragmatic resolutions, rather than extreme factionalism, could attenuate the current drift toward polarization and political stasis.

developmentalist paradigm in Latin America is very much in doubt. An institutional political economy analysis of Brazil's conjuncture, then, suggests that in a long-term time frame, reaching back to the late 19th Century and moving forward into the early 21st Century, the *institutional persistence* of the power of the AMF elite—always politically embedded at the subnational level, as Montero (2014) demonstrated—has been a strong conditioning factor in the determination of the parameters within which state-led efforts has been confined in regard to all attempts to formulate and pursue an autonomous national development project. These results are consistent with the emphasis within institutional economics from Veblen to the present on the concept of *circular metamorphoses and path-dependent processes*.

IV. The National Production Base as a Peak Institution

If, as it is argued here, there are well-documented reasons for the prioritization of the national industrial base as an institution when analyzing the theme of economic development from the perspective of institutional political economy, it must be here conceded at the outset that the Latin American school of structural economist who clustered at the U.N.'s CEPAL in its formative years were at a distinct disadvantage due to the fact that their firmly-in-control leader, Raúl Prebisch wrote little about the industrial policies that were needed to create export-generating industries in the first place. Like orthodox economists, his field of expertise was exchange, not production (Amsden 2010: 3). Likewise, Prebisch—who firmly set the agenda at CEPAL (forcing the resignation of other structuralists, such as Celso Furtado, when their research went beyond the limited parameters he maintained)—expressed little interest in, or capacity for detailed analyses exploring the synergies between the promotion of the internal market, the propagation of national industry and the development of endogenous technological capacities. Being the leading developmentalist policy making institution spanning Latin America, CEPAL's rather hazy focus on how Latin American nations could leverage industrial policies to attain production capacities in the sequentially higher reaches of value-added forms of manufacturing was caste into stark relief as some Asian nations leapt ahead from the 1960s while Latin America's national ISI projects (as such) began to confront serious problems. These were frequently of their own making—such as their unwillingness to discipline capital through reciprocity policies (Amsden 2001; Hira 2007a; Kay 2002). Amsden (2010: 4), for example, notes that neither Argentina nor Chile were able to implement coherent industrial policies because of their own "ignorance" of such policies: In Argentina, rather than

finding ways to make industrial policy work, the state assigned policy design to an unexperienced agency that "displayed only rudimentary understanding of what policies to use to make an industry prosper and grow", while in Chile the attempt to develop an auto industry failed because the state did not establish relevant criteria for public-sector promotion, instead "it relied…on the market to stimulate competition and self-select a few winners,…Thus, ignorance about how to target firms to build a new industry ended badly, just as they had done in Argentina."

Still, clearly, Latin America made a paradigmatic shift with regard to economic policy in the early twentieth century: we can term this unconsolidated shift, according to Erik Reinert, as one from exchange-based, or Smithian, political economy to production-based economics (Reinert 2009: 344–345).[15] Within the framework of production-based economics, there is a stated rejection of the neoclassical equality assumption that ''all economic activities [are] qualitatively alike as carriers of economic development'' (Reinert 2009: 344). Returning to our focus on the paradigmatic shift to state-led industrialization strategies in LA, we find at the policy level an abrupt abandonment of *laissez faire* in favor of a singular focus on production-based political economy.

It has been argued that LASA arose in part from formulations first developed by the German Historical School and then utilized, adapted, and applied to numerous national case study research endeavors undertaken at CEPAL. The German Historical School gave pride of place to the National Economy, while the Anglo-Saxon formulations (both classical and neoclassical) emphasize the conceivable tensions between the interacting components of the economy (consumers and suppliers under assumed perfect competition) and a state that must be restricted to an essentially passive watchman role.[16] Unlike the ahistorical Anglo-Saxon variant, the German Historical School shares with Institutional Economics an insistence on the evolutionary processes that demand continual recalibration of economic analyses as national economies evolve through distinct historical moments or phases. It is acknowledged that Veblen's version of institutionalism was substantially influenced

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[15] Instead, Reinert's ''Other Canon'' approach casts back to a distinction made by Francis Bacon whose 1620 *Novum Organum* disputed the three conventional differences cited to explain economic strength or weakness—race, soil, and climate (Reinert 2009, 335). Bacon argued that the variance in conditions of economic well-being were to be explained by what he termed ''the arts.'' By this, Reinert argues, Bacon was essentially focusing on production processes because they are, under constructive and enabling institutional structures, the ways in which new knowledge (the ''arts'' or ''technology'') can be created, adapted and applied.

[16] In contrast, the German Historical School believed that—in the 1893 formulation of Karl Bücher's *Die Entstehung der Volkswirtschaft* (The Origins of Economics)—the focus of economics should be on ''the totality of institutions, measures and processes which are called upon to satisfy the needs of a nation,'' since these are the formative structural elements of the National Economy" (Bücher 1910; Reinert 2009, 346).

both by his affinity for and resistance to key ideas of the German Historical School. It also seems clear that Veblen's analysis of the US economy, particularly in his key works *The Theory of Business Enterprise and Absentee Ownership*, was analytically structured in terms of what has subsequently been termed the era of Oligopoly Capital (as contrasted with the essentially pre-industrial competitive capital era analyzed by Smith).

As two prominent Latin America structuralist economist, Katz and Kosakoff (2003: 58) have argued, the approach taken by the German Historical School—which they define as a structuralist perspective—had a substantial influence on CEPAL's formulation, at least in the early years of this institution. Then and subsequently, a synthesis of heterodox strands of analysis has been propounded, wherein the prime determinants of long-term economic growth are not to be found in assigning of resources via appropriate price signals, but rather in ''the creation and consolidation of new institutions,'' and in ''the development of endogenous technological capacities and competitiveness'' (Katz and Kosacoff 2003: 59). Here, industrialization is seen as a key activity of a viable development strategy since it:

> . . . gives form and content to a vast productive and institutional ''culture'' that permeates throughout a community. Such a ''culture''—entailing just as much technological knowledge as it does managerial capacities and the behavioral habits of workers—constitutes ''social capital'' of great importance that conditions and is conditioned by the path of evolution that a society follows. (Katz and Kosacoff 2003: 60)

Whatever were the weaknesses of CEPAL's ISI strategies, authors such as Katz and Kosakoff have shown, that—prior to the wave of military coups in the 1970s and the forced implementation of numerous failed WC doctrines and structural adjustment policies in the 1980s—these structuralist sought to, and did, facilitate a dynamic process wherein the productive forces extant in Latin American *matured*. What this meant in concrete terms throughout most of Latin America in the period 1940–1970 was that:

> *. . . with the enormous expansion of industrial firms, entire branches of activities and regions, an endogenous technological base, as well as a pool of technical and business knowledge, along with operative capabilities, labor habits and behavior, modes of organization of production, mechanisms of social interaction, forms of mutual trust and interdependence between productive agents. . . relative factor productivity was improved to a significant degree closing the gap that originally separated [Latin America] from the international scene*' (Katz and Kosacoff 2003: 64, *italics added*).

This interpretation of ISI, so radically distinct from either that portrayed by the dependency analysts or the neoclassicals (who equally insisted on the ‘‘exhaustion’’ of state-led strategies) rests on a deep knowledge of the dynamic factors involved in the rapid expansion of productive capabilities in the ISI era. Katz and Kosacoff emphasized a series of factors that have received little attention, including the important role of a broad array of adaptive and enterprising business owners (many of whom had descended from European migrants, as noted earlier), the ability of the state to coordinate large components of capital to finance and develop heavy industry via the creation of public sector (externalities generating) infrastructure projects.

Without regard to the observations above presented in this section, basing development policy in the promotion of the national industrial base was viewed, at the height of the neoliberal era, as the greatest error of the ‘interventionist’ regimes of LA from the 1930s through the 1970s. In spite of the fact that such policies had been pursued by a very broad range of now top-tier industrial nations, technocratic neoliberal policy makers in LA sought, until the recent rise of new-developmentalism in Argentina, Brazil and Ecuador, the destruction of the once-strong institutional matrix that had promoted the national industrial base.

Brazil has since 1999 used state-controlled oil giant Petrobras—which produces more than 80% of the oil and gas—as the main force behind local-content requirements. In some instances, such as the massive shipbuilding-shipyard building program, a minimum of 65% of local content is required (Kasahara, and Botelho 2015: 12). This is part of a much larger strategy to expand Petrobras’ scope of specializations from ‘downstream’ activities such as refining, to ‘upstream’ activities in their most technological manifestation—deep-water offshore drilling, platforms, maritime transportation (including shipyards), pipelines, etc. Petrobras, in managed to make rapid strides in the most complex upstream activities because of its already existent research and development center (CENPES), which provided excellent engineering services with the capacities necessary to achieve the requisite advances in conceptual engineering necessary to provide state-of-the-art technological capabilities. The origins of local content requirements (LCRs) in the oil sector, unsurprisingly, were created when the national industrial elite sought partial compensation for the opening of Brazil’s oilfield to transnational capital in 1997. This step threatened to disrupt an already formed national network of suppliers to the state-owned company. As a result, the Brazilian Association of Machinery and Equipment Industry (ABIMAQ) was a leading force in the gradual move toward

(LCRs) in the 1990s, particularly since the then partially neoliberal central government—guided by the doctrine of free trade—had allowed foreign suppliers to import their products and technologies under the special customs regime known as REPETRO which exempted oil and gas machinery and equipment from import fees and taxes. LCRs were seen as a device to force the transnationals to seriously engage with local manufacturing firms, instead of their own captive suppliers based abroad—the goal being to capture the spread effects of technological learning, as well as achieving economies of scale and other spinoff effects arising from the national manufacturing sector via learning-by-doing processes that would be transferred broadly across the national industrial base. Oil and gas, then, began to be developed rapidly not only because Brazil was a petroleum deficit nation but also because of the broad range of external effects that were anticipated—all in conformation with Verdoorn's Law. Here and elsewhere, the attempt to build a resource-based leading sector followed the lead provided by Scotland and Norway, which is to say that the staples thesis of H. Innis—who originated the concept of forward and backward linkages—was, at least to some extent, a source for a policy shift aimed at rebuilding the national industrial base, now as a peak developmental institution. In this bid to capture oil rents and convert them into practices and processes designed to broadly upgrade production capabilities and engender multiplier, accelerator and spread effects across a considerable range of the national economy particular emphasis was placed upon the promotion of national engineering capabilities. All these trends were greatly accelerated when newly installed President Lula da Silva (2003) appointed Dilma Rousseff as chairman of the board of Petrobras since she was a strong advocate of LCRs who instituted many changes designed to strengthen and broaden the LCRs:

> These changes were directly shaped by inputs of a new forum created during the Lula government to coordinate the industrial policy of the O&G sector: the Mobilization Program for the National Oil and Gas Industry (PROMINP). The program was a forum led by Petrobrás and composed of government officials and business associations with the main goal of facilitating the communication between Petrobrás and the national industry and proposing policies that could increase the participation and qualification of domestic suppliers. The PROMINP… gave Petrobrás an important role in the elaboration of the policies for the sector [because] … foreign oil companies have practically no voice in the PROMINP (Kasahara, and Botelho 2015: 19).

In practice, the PROMINP became a useful arena for the formulation of policies for the O&G sector, generating inputs not only for the changes in the LCR model, but also developing the basis for policies targeting other areas. Since its establishment, it generated three concrete results. First, it produced an online system to inform domestic suppliers about all the projects

> of Petrobrás in the country with detailed information about products and services it would demand. The goal was to allow suppliers to plan better their activities and prepare for bids as they would know what Petrobrás would need. A second important initiative was the establishment of an ambitious training program for manufacturing workers. As the lack of skilled workers has been a common challenge faced by companies in Brazil, the PROMINP established courses to train workers in specializations that would fit the profile of projects to be carried by Petrobrás. Since the first round in 2006, the PROMINP has trained 97.000 workers – mostly to perform activities in shipyards, such as welders, painters, and quality inspectors.20 The third and most controversial result of PROMINP was the consolidation of a methodology for the calculation of local content and its certification after intense negotiations between the government and business sectors (Kasahara, and Botelho 2015: 20).

Thus, in brief, state-led development returned to Brazil, largely via the oil and gas sector where sufficient attention was paid to the staples thesis. This expressed a theoretical inversion of the ever-popular 'resource curse' trope. Note that, consistent with the neo-developmental approach, in each and every step made by (1) Petrobras and/or (2) other government agencies, or (3) private and private/public associations and councils, special attention to policies to enhance technological learning and create endogenous technological capacity were always a requisite elements. In the limited context of this conference paper, the above comments provide sufficient basis for a concrete application of the hypothesis advanced here in regard to the role of the national production base as a peak institution.[17] Note, furthermore, that Brazil was able to move quickly and broadly with the above policies without regard to the assumed national policy straightjacket as created by the WTO and other international regulatory entities. Nevertheless, among the many opponents of Industrial Policy (IP) and of prioritizing through state-led policies the industrial sector—including all neoclassical economists who argue that no sector has any significance in relation to any other—the most powerful have been drawn from the ranks of the AMF elite. It is therefore important to note that at the very moment when the Lula

Although continued implementation of the LCRs has required the elimination of loopholes and the smoothing-out of some weaknesses in the administration of LCRs as originally formulated, advocates of Industrial Policy (IP) have long-insisted that its critics would seize upon such problems, however small, in an attempt to de-legitimate the entire policy of state-led development—which, of course, they have. Furthermore, in LA it is extremely difficult, probably impossible, to institute structural changes in an environment absent and degree whatsoever of corrupt. One of the

[17] Regarding IP in Brazil, further emendation is to be found in: (Coronel, de Azevedo and Campos. 2014).

great ironies of Brazil's attempt to advocate and implement new state-led development policies is that its AMF elite critics—long immersed in a socioeconomic structure where the presence of corruption is ubiquitous (but sometimes, in actual practice, absent; sometimes present but of a 'manageable degree', and sometimes destructively pervasive)—have been able to mount a massive public-relations campaign via the narrow band of media they own to fuel a 'soft coup' against now President Rousseff, after their candidate was defeated in the presidential elections of 2014. Should she maintain her office against a relentless onslaught of defamation—now strongly tied to her prior role as Petrobras' former chairman where, it is claimed, with no evidence, that she has been compromised by alleged illicit activities. Behind this shallow, transparent, morality play lays the larger goal which is that—as in the past—the AMF elite in Brazil is determined to break the Industrial Policy chain at its strongest link, which happens to be, in this historical conjuncture, Petrobras. Matters regarding the future trajectory of new-developmentalist policy has been further called into question with the plan to initiate a strike September 4, 2015 at Petrobras in opposition to massive expenditure cuts (including a 40% drop in capital investments) and layoffs of thousands of non-permanent works as a result of "the new business plan of Petrobras… which constitutes a true disassembling of the company", according to the United Federation of Petroleum Workers (AFP 2015: 29). If no agreement can be quickly reached, a strike at Petrobras a this historical juncture will entail serious consequences including further fueling the momentum to derail IP across all sectors where it has been applied. The deep irony of the Workers' Party (PT)—now at their most critical juncture since taking power in 2003—facing a likely nearly total stoppage of the entire economy due an attempt by the Petroleum Workers union to protect the viability of Petrobras, will register widely, particularly among those who have championed a unrestrained embrace of neoliberal doctrine.

V. The National Innovation System as a Peak Institution

Regarding the role of technology in development, perhaps in no other school of thought has it been considered as central as in Institutional Economics. Anchored originally in Veblen's prolific analyses regarding the institution of technology, Institutionalist have always insisted that technology is one of the prime movers of the evolutionary process—with some nations and regions receiving particular attention in terms of the dynamic role technology is understood to play in the larger process of, as Abramovitz (1986) stated, "Catching Up, Forging Ahead, and Falling Behind". Precisely because, to use Veblen's wording, LA has never nurtured a 'tool-using culture' the "catching up" hypothesis has

generally be understood to have little application, while 'falling behind' has often been understood to be a enduring condition, not least because of LA's generally undistinguished record in regard to the many variables used to approximate technological capacities. Arocena and Sutz (2001) have argued that in addition to a lasting legacy of contempt for manual labor and physical work of any type—a theme widely noted, and frequently understood as a legacy of Spanish Colonialism (which does not explain its permanence 200 years after Independence)—LA has suffered due to the absence of "techno-nationalism" (in contrast to Germany and Japan in their early moments of rapid industrialization) although it has long nurtured a strongly institutionalized form of 'nationalism' in terms of customs and traditions, in the insistence of the virtues of a 'national identity':

> In contrast, Latin American 'technological nationalism' always has been very weak; there are many examples that suggest otherwise, but these are only anecdotes and they fail to indicate any trend or pattern. Periods of prosperity have owed little to endogenous technologies, to the degree that they have never risen above marginal status, as located in cultural tradition. And this marginality is also reflected in dominant ideas regarding development which seem to assume that technological capacity comes incorporated in machinery and equipment under conditions wherein the creation of an industrial base will suffice in order to put into motion a process of innovation. (Arocena and Sutz 2001: 43)
>
> We have suffered from the deeply rooted prejudices arising from a [collective] consciousness that fails to value technology, consisting basically in the inability to believe that all complex, and strategic technological activities could be developed or co-developed locally. This is not a consciousness shared by all: in general the technically trained cadres within the state, for example, frequently urge that there be greater [national] participation in the decisions and implementations of high priority technologies… [Instead of a reliance on suppliers of 'turn-key' technologies]. (Arocena and Sutz 2001: 43).

It was during the Second Industrial Revolution (1870-1914) where the 'marriage of the sciences with the industrial arts' was consummated, that LA lastingly "fell behind", making use of the massive annual economic surpluses attained during this period for conspicuous consumption, without ever considering the need to modernize its technical-productive base (Arocena and Sutz 2001: 42)

According to these authors during the period of 'growth driven by the internal market' of the ISI era, LA nations were capable of building authentic "*national industrialization systems*" but, within this process, there was no prioritization given to "the generation of endogenous technologies" (Arocena and Sutz 2001: 43). As such, of the three elements that must be combined to create a national innovation system—(1) a State that prioritizes long-term commitments to funding the creation and expansion of endogenous technological capacities, (2) innovation-driven factions within the business

sector and (3) institutions that embody science and technology—none specifically arose during the ISI era and progress since in the direction of the creation of a national innovation system (NIS) has been limited to a small number of nations.

The existence of a National Innovation System (NIS) dates, at least, from Germany in the late 19th Century—as Freeman has demonstrated (Freeman 1995). The literature expounding on the concept began in the 1980s, and has continued to the present moment. This approach encompasses a 'narrow' and 'broad' understanding of what constitutes an NIS. Freeman, and those who have worked closely with him, particularly the 'Aalborg Group' have been pioneering advocates of the 'broader' understanding. The 'broader' understanding incorporates a vast array of concepts, yet tends to offer, at best, only a modest focus on state theory.

National Innovation Systems are conventionally understood to comprise three interactive constituent elements: first, private sector firms which are engaged in, or would be engaged in activities that broadly associate with innovation—such as research and development (R&D)—second, university research laboratories and other science and technology research programs undertaken at universities, third, state agencies and/or ministries devoted to or specializing in the promotion of science, technology and innovation. This is the basic triangular relationship which are analyzed in the 'narrow' approach: but, these component parts must operate with a high degree of fluidity, complementarity and "trust" within a broad, interdependent institutional matrix: Innovation does not rely on the performance of individual firms, but on how they interact with each other. Indeed, the number of firms and other organizations is far less important than their habits and practices with respect to learning and investment. As innovation is partially tacit, it is in people's minds or embedded in routines and relationships, thus learning-by-doing matters as well as searching for outside technology. The national level matters, as a country's development trajectory shapes its system of innovation, and firms are embedded within a confluence of economic, social and political factors.

While the point is not often clearly articulated, the State, by default, functions within the NIS by fulfilling the 'promoter' role. This is reminiscent of Gerschenkron's understanding of the State as a developmental financier and promoter. Within the triangle, firms, particularly small and medium firms, will not provide a socially-efficient level of investment in R&D due to risk, uncertainty and an inadequate time-horizon. This is the 'market failure' approach to NIS; heavy reliance on this issues

fits within the context of the 'narrow' definition of the NIS. Likewise, universities, particularly public universities, even when willing and able to 'partner' or cooperate with private sector firms, will have scarce financial resources that would permit large outlays for 'breakthrough' innovations. Thus, as noted, it is the State which, by default, must be the financier of the NIS.

The sizeable literature relating to the NIS approach first arose in Europe. Extensions have been made to the successful East Asian nations, beginning with the case of Japan. Most recently China's efforts to build their NIS have received attention. However, inadequate research has been conducted regarding the degree of transferability of the NIS to developing nations, in general.

In a recent account, using data through 2005, Marín, Stubrin and Gibbons (2014) found that the two likeliest candidates in LA in terms of creating and consolidating an NIS—Argentina and Brazil—had made, modest, selective advances. However, much of this was related to resource-intensive activities where innovations, when they arose, were generally of an incremental 'low-technology' nature. A significant portion of the innovation activity which they could document occurred in agribusiness—in part because the anticipated returns to such activities were high, especially during the commodity boom (2002-2012). Left unmentioned in their account was the fact that it was the AMF elite—operating in their resource-intensive sphere—which was strengthened by state-led support for innovation. That is, the results of empirical studies did not generally point to substantive innovation capacity growth in the industrial sector where large-scale trans-sector spillover effects are generally anticipated (at least by those who entertain the validity of Verdoorn's Law). Another important finding is that growing agri-business activities should not be viewed as merely "extractive"—substantial incremental innovations have been incorporated into production functions and current research has demonstrated that these changes have a tendency to create some trans-sector interdependencies, and therefore spill-over external effects (Marín, Stubrin and Gibbons 2014: 179-180).

For some time, in Brazil, economists such as Antonio Barros de Castro have argued that it is a misconception to label modern agri-business production merely passive 'commodity production'. Rather, deep capacities in science and technology are necessary elements of such production processes. Furthermore, again taking the paradigmatic cases of Argentina and Brazil, rapid advances in agri-business production techniques and technological capacities spill-over into the manufacturing sector when there are endogenous machine-building capacities. Capital intensive, knowledge-

intensive, science and technology intensive agriculture will have notable backward linkages effects in terms of creating a national supplier base in agricultural machinery and equipment.

Regarding the slow, limited and somewhat unexpected nature of LA nation's evolutionary path in terms of the creation of a NIS, Marín, Stubrin and Gibbons (2014) emphasize the adverse path dependent effects of 'unstable situations" in LA: State policy continuity has generally been lacking as have attempts to de-link from or control external forces, rather than passively and opportunistically be conditioned by them. For example, given the commodity boom of 2002-2012, and given the vast experience that LA nations have had with such booms since roughly 1850, what would explain the passive approach adopted? We would hypothesize that the key to understand the approach taken rests with *the institutionalization of circular cumulative metamorphoses and adverse path-dependent processes*. In any case, 'unstable conditions' have abounded and this calls into question all of the required long-term, stable, commitments which are deemed necessary minimal elements in the realization of a viable NIS.

Other considerations that must be taken into account in terms of the creation and maintenance of a NIS in Latin America have been well-presented by Arocena and Sutz (2003: 174), who argue that:

> What matters is the concrete web of interconnections between different types of collective actors. A system does not come into being just by creating organizations to foster innovation. Especially in Latin America, many such organizations have been created but they seldom operate as bridges between actors.
> The [NIS] concept has policy implications. This does not mean that a system can be created by the state, as some Latin American governments seem to believe. Instead, it means that current situations concerning knowledge and innovation can be submitted to deliberate efforts to change them. … This should be stressed in underdeveloped contexts, where usually science, technology and innovation are outside the political agenda and, explicitly or implicitly, it is assumed that nothing important can be done in those areas.
> It is also observed that the theory under consideration needs to pay more attention to conflicts related to innovation processes. It cannot be taken for granted that they are positive-sum games. Not only are there winners and losers, but such processes often look more like battles than games. In any case, different power relations foster or block innovation activities, shape their evolution, and increase or decrease the probabilities of positive outcomes.

VI. Conclusions

This paper has hypothesized that an analysis of the adverse role of the AMF elite constitutes the initial point of departure in deconstructing the institutional matrix that has formed the dynamic

trajectory of the Latin American region. Of the many factors analyzed throughout the course of this lengthy paper, it is further hypothesized that the absence of the will or capacity to overcome the forces that have allowed for "the preservation of a collective consciousness that undervalues [the role of] technology" is a crucial, if yet distant, requisite transformation and deserves prime consideration and prioritization in terms of the creation of viable Neo-Developmentalist State policies. Such a transition necessitates the institutional restructuring and further advancement of the National Industrial Base, not least because it has been, historically, this sector that has been the prime locus for the creation of an endogenous technological creation capacity. Finally, interpreting the dynamics of Latin America in terms of the four peak, interdependent and fully-interactive, institutional components of the development matrix it is necessary to incorporate Bush's theory of institutional change, and in particular the concept of 'minimal displacement'. This paper hypothesized and documented the viability of anchoring a historically-based contextualized analysis of Latin America's developmental *problematique*, while utilizing the concepts of circular metamorphosis, cumulative causation and path-dependent process within the context of evolutionary institutional economics. Nonetheless, the field of analysis is vast, heterogeneous and dynamic. As such, the task of delving deeper into the national specifics of Latin American nations—using the methods and analysis employed in this paper—will require a large commitment in terms of further research.

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