Revisiting Industrial Policy and Industrialization in Twentieth Century Latin America

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ABSTRACT | This brief article seeks to introduce the reader to this special number on industrialization in contemporary Latin America. It does so considering three issues. First, the importance of industrialization in sustaining high rates of economic growth leading to high levels of income per capita. Second, the long-standing debate in global historiography regarding the successes and failures of industrial policy: markets vs. states. Lastly, Latin America’s industrial trajectory through the lenses of four historiographical tendencies, and the ways in which each of the four original papers relate to the extant literature, and contribute to enhancing our understanding of one of the most important economic transformations in the history of the region.

KEYWORDS | Historiography; industrialization; industrial policy; Latin America

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RESUMEN | Este breve artículo busca ofrecerle al lector una introducción a este número especial dedicado a la industrialización en América Latina contemporánea. Para este propósito se consideran tres asuntos. Primero, la importancia de la industrialización para mantener altas tasas de crecimiento económico que conduzcan a altos niveles de ingreso per cápita. Segundo, el debate historiográfico global de larga data sobre los éxitos y fracasos de la política industrial: mercado versus Estados. Por último, la trayectoria industrial de América Latina desde los lentes de cuatro tendencias historiográficas, y cómo como cada uno de los artículos originales de este dossier se articula con la literatura existente y contribuye a mejorar nuestra comprensión sobre una de las transformaciones más importantes en la historia de la región.

PALABRAS CLAVE | América Latina; historiografía; industrialización; política industrial

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RESUMO | Este breve artigo busca apresentar ao leitor este número especial dedicado à industrialização na América Latina contemporânea. Para este propósito, três assuntos são considerados. Primeiro, a importância

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* This text is result of the authors’ reflections following the “1st Workshop Revisiting Latin America’s Industrial Policy and Industrialization in the Twentieth Century”, held at Universidad de los Andes (Bogotá, Colombia) on May 2017, and jointly convened by the Political Sciences and Economics Departments of Universidad de los Andes and Banco de la República.


Ever since Britain first industrialised, other nations followed over the world. Amongst the early successful late-comers to industrialization emerged neighbouring Belgium and the Netherlands. As the nineteenth century came to a close and the twentieth started, others were rapidly catching up with Britain; namely, France, Germany and Switzerland. On the eve of WW1, off-shoots of Europe, such as the USA and Canada, already outperformed it. During the Golden Age of the post-war years, Italy, Norway, Spain, Sweden, and Japan also underwent accelerating industrialization. And in the last third of the twentieth century, late-latecomers in East Asia—South Korea and Taiwan—entered the selected group of industrialised nations. All the above represent successful cases of industrialization. Dozens of other countries in Latin America, Eastern Europe, Africa, and Asia, however, embarked upon industrialising projects and failed (by wide margins) to match the levels attained by the former. Why did so many nations seek to industrialise? How did they attempt and manage to transform their economies? And why did some succeed where others succumbed?

Rapid industrial growth accompanied by economy-wide structural change, i.e., industrialization, has historically proven to be closely associated with rising per capita incomes in real terms. In other words, industrialization seems to be the surest road to riches. As a well-known economic historian, notes: “For real and sustained development there is no substitute for industrialization” (O’Brien 1998, xiv). For decades, economists studying modern economic growth have considered that the key to high and sustained growth lies with industrialization. When industry turns into the leading sector of the economy, driven by advances and applications derived from scientific and technological progress, total productivity rises, manufacturing employment grows, wages increase, consumption expands, and standards of living improve. In short, industry holds the key to the wealth of nations. This explains why over the last two centuries so many have aspired to industrialise.

Schematically, industrialization can take place in three broad ways: as a by-product of wealth in a dynamic primary sector, via Import-Substituting Industrialization (ISI), or through Export-Oriented Industrialization (EOI). The first kind originates from increases in agricultural productivity or by an export boom that boosts incomes, creating demand for domestic manufacturing (Murphy, Shleifer & Vishny 1989, 537). The second, ISI, aims at reducing imports in order to promote the production of domestic substitutes. If pursued fully, this path is often said to consist of two parts: primary ISI, entailing the shift from imports to the local manufacture of basic consumer goods, and secondary ISI, involving the domestic production of capital- and technology-intensive manufactures: consumer durables, and intermediate and capital goods (Gereffi 1990, 17). Lastly, EOI focuses on speeding-up the process of industrialization through exporting manufactured goods for which the economy in question has (or develops) a comparative advantage. It often involves a relatively more open economy than that of ISI, and relies heavily on foreign markets.

Sadly, none of these paths guarantees effective industrial transformation. Markets are imperfect. Markets fail. And states, aiming to correct these failures, are fallible. Thus, industrial policies designed to alter an economy’s structure of incentives, prompting agents to save, invest or consume a certain amount or in a particular manner, are remarkably difficult to implement fruitfully. Diagnoses of, and prescriptions for, industrial policy have recently come full circle in historiographical terms.

According to Shapiro (2007), during the late 1940s and 1950s the arguments posited by Prebisch and Singer on a secular deterioration in the terms of trade (typically set against exporters of primary commodities in the periphery), combined with views about endemic market failure, prompted pro-industrialization policies supported by theories about a ‘big push’ and the need to coordinate investments. But support for interventionism rose and fell rather quickly. By the early 1970s, a resounding theoretical and empirical backlash followed, led by the likes of Krueger (1974) and Balassa (1971) who, emphasising macroeconomic imbalances, inefficient distortions, and extensive...
opportunities for rent-seeking behaviour produced by interventionist industrial policies (particularly guided by import-substitution), shifted the pendulum back to policy prescriptions highlighting free trade and unfettered markets. In short, state failure proved worse than market failure — or so it seemed. Recently, however, the rehabilitation of state activism rolled the debate back, at least half-way, refashioning justifications for intervention in critical areas where markets do not always deliver, mainly technological capacity, and learning and knowledge accumulation at the firm level (Bruton 1998; Amsden 2001; Wade 1990; Chang 1994). The positive reconsidereations about the state and its proactive industrial policies have been inspired chiefly by the economic 'miracles' experienced by two East Asian countries mentioned above: Taiwan and South Korea. In this sense, as market failure returns, and the state is (again) called upon to respond, the debate on industrial policy has come full circle.

Latin America’s history of industrialization in the twentieth century is best synthesised by Love: “Fact before policy, and policy before theory” (1996, 209). A literature review is beyond the scope of the current presentation, yet the recognition of well-known periodizations, the identification of the relevant historiographies for the papers herein, as well as the referencing of both key studies and the most representative authors are necessary to properly locate the contributions of this issue.²

Early industrial growth, often associated (in multiple ways) with the production of agrarian and mineral exporting, has been well documented for the end of the nineteenth century and the beginning of the twentieth throughout most of the region.³ The Crisis of 1929, and the Great Depression that followed, proved a watershed event that transformed both the nature of industrial development and also the pace of the sector’s growth. As governments in Argentina, Brazil, Chile, Colombia, Mexico, Venezuela, and Uruguay reacted to collapsing commodity prices, the disruption of capital inflows, aggravating monetary disorders, and the decline in fiscal revenues for states in early stages of formation, industry and industrialists tended to benefit from changing relative prices and the reassessment of a model of growth and development which had seriously underestimated the vulnerabilities of these economies to external shocks (Diaz Alejandro 1982 & 1984; Thor 1992).

Policies, at first essayed to mitigate the effects of the global crisis, slowly led to the exploration and, later, the consolidation of a development strategy that in practice preferred to look inward. Import-Substituting Industrialization (ISI) came to be decisively sponsored by many Latin American states. Commercial protectionism was the paradigmatic feature of the new model, but this was complemented by extensive access to financing/funding at subsidised rates, overvalued exchange rates favouring industrial imports, direct production of manufactured goods by state-owned enterprises, welcoming of foreign capital under generous terms and conditions, and development of infrastructure projects targeted to the sector — amongst other measures (Baer 1972; Franko 2007; Ffrench-Davis, Muñoz & Palma 1998). At this point, the diversity of interpretations and emphases in the various strands of the literature is most evident. Post-war industrialization in Latin America has thus been construed in distinctly critical and original ways through the lenses of at least four historiographical tendencies.

Dependency theorists, such as Cardoso and Faletto (1979), argue that global capitalism, through direct capital investment, resulted in the persistence of the region’s underdevelopment. Thus, industrialization did not eliminate the dependency problem. Sharing profound pessimism for the industrial development of the period, neoclassical accounts have underscored three aspects of the ISI experience. First, the missed opportunity for Latin America (in growth terms) entailed by cutting itself off from international markets during one of the most dynamic periods in the history of global trade. Second, the ‘legendary’ costs incurred as result of the policies implemented in pursuit of ISI, which distorted prices, particularly in capital and foreign exchange markets. In other words, a serious misallocation of scarce resources. Lastly, excessive and protracted protectionism encouraged inefficient industrial firms, which in turn led to high concentration of markets (cartels and oligopolies), low levels of productivity, and frail competitive forces (Taylor 1998; Solimano 1996; Edwards 1995).

New Institutional Economics has also made significant contributions to the debate. Concerned to a large extent with the political economy of growing state interventionism during industrialization, Haber (2006) questions the coherence and purposive authority of Latin American governments committing to a long-term ISI development strategy, which materialised in carefully thought-out plans. Rather, he claims, states came to support industry because it served the self-interest of powerful groups, that is, industrial unions, industrialists, and public officials. The quasi-permanent ad hoc nature of state interventionism that defined the region’s industrial policies and industrialization led to the same suboptimal outcomes in terms of efficiency, extraction of rents, and productivity, for both the sector and the economy, that neoclassical narratives had identified.

² For a recent publication focusing on the industrial historiographies of six individual countries in Latin America, see Rougier (ed.) 2016.

³ Medium- and large-size nations. For an overview of the trends and the details of the mechanisms linking the external sector with the early development of manufacturing industries see: Bulmer-Thomas 2006 ([1995]); Salvucci 2006; and Lewis 2002.
Lastly, structuralist scholars, for their part, have notably distanced themselves from previous accounts. Anchored to the Centre-Periphery structure as unit of analysis, these authors have offered more sanguine interpretations of industrial performance. Katz and Kosacoff (2000) have emphasised, along with Cárdenas, Ocampo, and Thorp (2000), the technological learning accrued to Latin American industrialisers stemmed from the development of domestic industries. They have also stressed the long-run significance of efforts made at institution-building, intended to support industry, as benefitting non-industrial activities as well. In recent structural narratives, industrialization from the 1930s/40s to the early 1980s, is said to have positively contributed to the highest rates of economic growth Latin America has ever experienced, and the process is unapologetically described as having been ‘state-led’.

The balance of state-led policies adopted by Latin American states and their effects is not entirely conclusive. Although it can be acknowledged that, overall, the expected goals of the industrialization policies were not achieved, some authors rescue some partial or temporary positive effects. In this dossier, we present a selection of articles analysing the central questions mentioned at the opening of this presentation from different angles. Some of them aim at giving a comprehensive interpretation of the economic and political context of the production and implementation of ideas. Some emphasize particular cases and empirical evidence. And others privilege a regional approach through a political economy lens.

Colin Lewis (2019) shows that, in order to better understand and assess the consequences of these industrialization policies, one must adopt an approach based on a novel stylized periodization of the long-term evolution of industrialization in Latin America, as a better framework to evaluate the consequences of Cepalismo. By placing industrialization policies in a longer perspective, one can identify an industrializing ideal whose origins date back to the early days of Latin American republics. The main message of his contribution can be summarized by a feature shared with other papers in this dossier: ideas played a crucial part in the industrialization process and explain the successes and missteps of the various paths followed by each country. Placing ECLAC ideas within an extended history, professor Lewis proposes differentiating between successive forms, and phases, of Cepalismo. Beginning with a form of Cepalismo before ECLAC, characterized by an ideal of autonomous industrialization, followed by a period of a more active role of the state, aimed at achieving an accelerated and “forced industrialization process”. This period, extending from the Great Depression to the creation of ECLAC (1948), created a fertile ground for Classic Cepalismo (1940s-1960s). Finally, the last third of the twentieth century and the first important economic crisis of the twenty-first century (2008) revealed how the ideal of industrialization and the debate between market-led vs. state-led have not disappeared but transformed. This intellectual battle must be reconsidered in the light of empirical facts. But, it is important to bear in mind that the different interpretations of these empirical facts are permeated by the analytical approaches we sketched above. This is a central message of Colin Lewis’ article: aiming at reappraising the main economic and political consequences of the classical Cepalismo requires to avoid a lecture based on a caricatured representation of the 1950s-1970s period as the moment of invention of state-led pro-industrialization policies followed by a pro-market deindustrialization doctrine. This is also an important starting point for professor Mona Lyne’s article.

Professor Lyne (2019) proposes taking seriously the concept of structure that underpins the structuralist ideas of what Colin Lewis calls the classical period of Cepalismo, specifically Dependency theories. The novel contribution of Mona Lyne’s analysis lies in locating the restrictions of political economy and the institutionalist conceptual approach as the most relevant characteristics of structuralist ideas.

Using the conceptual framework developed by Norht, Wallis and Weingast (2009), this analysis allows her to conclude that what characterizes the application of “extreme” state intervention policies in the process of industrialization is that such degree of interventionism was necessary to be able to overcome political restrictions. It was characterized precisely by the institutional forms and in particular the difficulty that states, and therefore politicians, had in establishing a legitimate monopoly of force and the enforcement of property rights. In this context, which Professor Lyne calls a Limited Access Order (LAO), the implementation of import-substitution policies led to the creation of productive privileges and selective protectionism in order to secure the support of various political forces.

Following this interpretation, the drifts of the import-substitution policy that blurred the tools proposed by the structuralist ideals are, paradoxically, the result of what the structuralist intellectuals themselves conceived as deep political restrictions to the social and economic change necessary to achieve industrialization. This idea allows us then to complement professor Colin’s proposal, since it adds new meaning to the ideological transformation suffered by the original Cepalismo and partly explains the abrupt policy changes derived from the wrong course taken by the mechanisms of import-substitution and income redistribution in Latin American countries.

Julia Eder’s article (2019) studies the problems of political economy at a different level. She invites us to think about the political processes of regional integration, beyond the internal policies and the local power...
structure within each country. This work then seeks to analyse to what extent the failure of structuralist policies, and in particular the mechanisms of the ISI strategy, were limited by the difficulty in achieving regional integration in Latin America. This paper shows how the commercial tensions generated by the adoption of protectionist policies were not always present during the phases most clearly dominated by the Dependentist ideas. In particular, professor Eder shows that there was a wave of regional integration fostered by ECLAC and that sought to create a broader market and therefore further economic autonomy, not only on the supply side, but also on internal demand capacity in the region.

The disappointment with regard to industrialization policies also led to a revision of the regional integration approach. Countries turned to a more open integration process outside the region, and external public debt crises ended up giving the final blow to ECLAC’s intentions to promote regional integration.

Finally, this dossier closes with a case study based on a novel interpretation of the transition period between SLI policies and a decrease in state intervention in Argentina’s economy. In this work, Marcelo Rougier and Juan Odisio (2019), not only provide a new interpretation of the facts but also offer new evidence to support it. This final article points out that, in the case of Argentina, some virtuous effects occurred, especially in terms of the performance of certain export-oriented economic sectors, as a consequence of import-substitution and manufacturing promotion policies. Their study shows that this process, which reached its peak in the period 1960-75, was abruptly interrupted by a policy change after the crisis of the mid-1970s. According to the authors, a deliberate policy of deindustrialization was adopted.

The Argentinean example opens the door for an interesting discussion, yet to be settled, about the counterfactuals. More precisely, this analysis invites us to take advantage of periods of abrupt policy changes to analyse the potential consequences of having stayed the course. That is to say, it invites us to evaluate the relative performance between the periods before and after the abandonment of specific industrialization policies. Rougier and Odisio’s analysis does not conduct a broad assessment based on this counterfactual approach, but does invite us to explore its detailed, differentiated effects by sector, opening an additional research path in the study of the history of industrialization and deindustrialization in Latin America. This work invites further comparative studies across countries and sectors.

An interview with Robert Kaufman and Adolfo Meisel (2019) discusses the determinants of the process of deindustrialization, including the role of ideological transformations in state policies and changes in the world economy. These outstanding scholars, specialists in the economic and political history of Latin America, offer their analyses of these phenomena. Some points should be highlighted from these interviews. The first is the need to recognize the heterogeneity of the processes between various countries. They show that it is important to recognize that the chronology of the facts, the intensity and extent of the use of industrialization policies, and the external shocks affected Latin American countries differently. An example of this lies in the peculiarities of the Colombian case, highlighted by Adolfo Meisel. Colombia, unlike other Latin American countries, was not so extensively exposed to industrialization policies, nor did it suffer the magnitude of external shocks and macroeconomic instabilities as other countries. However, the heterogeneity of policies and crashes did not prevent the process of industrialization and economic policy transformations from happening in Colombia as well as in the rest of Latin America, especially towards the end of the twentieth century.

Later, Kaufman and Meisel make a call to understand how external shocks to Latin American economies were not purely exogenous. Much of the vulnerabilities of these economies, and in particular their external debt crises, were the result of their fiscal policies and the blunders in the implementation of import-substitution policies. Finally, Meisel and Kaufman underscore the importance of considering the way in which the political economy of the processes of adoption of industrialization policies and their subsequent abandonment are intimately linked with the difficulties of the Latin American countries in consolidating a market sufficiently consistent with the ambitions of industrialization. This last point discusses the difficulties of Latin American economic and political integration.

References