5. Industrialization and continuity of monopolistic structures

If colonialism introduces the monopoly system in the colonies, making it the main internal production structure, it is from industrialization that these economic structures began to determine the course of the economic and political life of the countries.

This fact is not accidental nor a natural evolution. It is a transformation, conceived over a century in some regions (Latin America) and for more than 150 years in others (mostly Asia), and has not only economic but also political reasons.

Decolonization was, in fact, in most countries, carefully crafted so as not to upset the balance of economic forces that supported the old colonial state. In almost all countries, it was a process of independence in politics but not of economic transformation. With rare exceptions, there really was no revolutionary process in the independence of the colonies, at least in terms of transformation of internal power relations. In most cases, power remained with the groups that held or were entitled with monopolies, granted or awarded by metropoles, which replaced one another. Obviously, within the leading economic group, there was dissension and even fratricidal struggles, but invariably the group with greater economic power ended up dominating, which was, even throughout the nineteenth century in the colonies or former colonies, the one connected to the most significant export interest in each specific period.

This relation of near symbiosis between state power and monopoly was actually a natural consequence of the relations that were constitutive of the colonies themselves as national states. In these, the bureaucratic apparatus appeared to serve an organized and vertically integrated structure of monopolies, ranging from local private agents (large colonial enterprises or owners of the exploration concession) to a monopoly on commerce by the metropole (or in the case of Asia, by the colonial enterprises themselves). It was

only natural that these colonies, once or even to become independent (where the independence process is not, as seen, revolutionary), had to rely on internal groups (dominant *latifundium* owners) who held economic power.

This made independence the moment for these internal groups to shape, in their own way, the economic and state structure. They were no longer linked to the metropole and no longer depended on it for making decisions. The economic interests of the metropole (which no longer coincided with the colonial powers, see, for example, the influence of England in Latin America), though still determining for a long time the economic model, no longer directly intermediated between the dominant internal economic interests and the state. I repeat, these external interests continued to be naturally pursued insofar as they coincided with internal (exporters) interests. But at times when these did not coincide, there may be and will be a rupture. As will be seen, this process was long and tortuous, culminating in the industrial period with substantial changes in economic life and in the form of state action.

1. INDUSTRIALIZATION AND CONTINUITY OF THE COLONIAL ECONOMIC MODEL IN LATIN AMERICA

It is important to understand why, from an economic standpoint, the nineteenth century represents absolute continuity with the colonial model. More than that, it prepares a model of industrialization also marked by continuity, which will enable most Latin American economies to grow and even adapt to new products throughout the nineteenth century and much of the twentieth century with minimal structural change.

The virtuous cycle of productive transformation, be it agricultural or industrial, is one in which the changes in production technique lead to diversification of supply and especially endogenous demand creation. The more alternatives created for consumers and users of a new product, the healthier the process. This is done in more nascent stages by a succession in time of new production techniques which is replaced, when the initial moment of large changes in production technique are exhausted, by the amplification of supply accompanied by sophistication in demand.

Note that this description is different from the current Schumpeterian and neo-Schumpeterian concept of economic development that sees in 'creative destruction' provided by an economic system continually dominated by monopolies the most effective and natural form of economic development. For this to be true, it would require that substantial changes in prior art be produced continuously and substantially. That is not what is observed. In fact, since the Industrial Revolution, capitalism lived early moments of expressive (and even revolutionary) changes in prior art followed by long periods in which the change in the prior art was marginal. In these moments, the economic and legal structures that allow the organization of production become fundamental to development. These structures can then contribute more or less to the development insofar as they permit or do not permit balanced growth of supply and demand. Hence, this is the reason for the existence of various degrees of development, even among countries today considered to be developed.

In the economies of the former colonies of the Southern Hemisphere, this process evidently did not occur. With no endogenous stimulation to growth at the baseline, the internal structures that would be created could not be shaped in order to create a virtuous circle of internal development. During a long period that went well beyond the industrial transformation of these countries (that is, well beyond the transformation of prevalent technical modes of production), the growth process started with a growth of the export sector, which in turn led to a domestic increase in income and demand. This demand was then directed at imported manufactured goods or domestic products, when the process for import substitution had already started (ISI).[1]

Note, therefore, that the internal structures created by colonization constrained (and limited) the evolution of the economic system. As seen above, these structures shaped the economic system exactly because they matched the prevalent colonial and post-colonial interests.

[1] See, regarding the dissemination of this pattern in Latin America, C. Furtado, *A Economia Latino-americana*, op cit., p. 115 et seq.

As seen in Chapter 4, the analysis shall start with the identification of the interest at stake. In post-colonial Latin America, they are very clear. Political post-colonialism was not accompanied by economic post-colonialism.

The economic interest of the exporting sector continued to be economically dominant. More than that, as we saw in Chapter 4, these monopolies were capable of draining resources from the entire economy, which gave them great strength and political influence. The privileged concessions from the kings of Spain and Portugal to the *encomenderos* and sugar lords, respectively, had so shaped the Latin American society and its economic structures that these structures were now independent of these monarchies. They were able to pursue their own interests (exporters), influencing the monarch (as in the case of independent Brazil) or participating decisively in the appointment of rulers (Spanish America and Republican Brazil).

But the framework for the exercise of their power must be well understood. The power conferred by royal concessions was regional (both in *encomienda* as well as the *sesmaria*), yet internally each region assumed the characteristic of a monopoly vertically integrated with the metropole, allowing it to control all economic life. How was it possible, in independent states, to arrive from this regional power to the central power? The structure was actually not that complex and, in many countries (especially in larger countries – Brazil, Argentina and Mexico), represented a constant pattern. This was the organization of the various lords (or *coronels* in Brazil or *caudillos* in Argentina) into regional federations, which, in turn, were united into confederations. Such structures became very powerful, because as they were arranged vertically, they were able to secure political and social support for governments.[2]

[2] See, for a nice description of the form of operation of this system and its social and political consequences, B. Fausto, 'Brazil: the social and political structures of the first republic, 1889–1930', in *Cambridge history of Latin America*, Vol. V, Cambridge, Cambridge University Press, 1986, p. 779 et seq. Interestingly, especially in the Brazilian case, the organization of the *coronels* was so perfected that, in the Republic, in more advanced states and more influential in central power – São Paulo and Minas Gerais, for example – the confederative organization of colonels gave them less local autonomy, while in regions where this did not occur – the north-east, especially – their autonomy and local power were greater. This accounts undoubtedly for the greater

In the Republican periods, this began to translate into votes. It is easy to understand why. That is because these regional monopoly-holders prevented the existence of any economic alternative for the population, considering that they were monopolists in such regions in the 'triple drain' form described above. There was no dynamic economic sector in which they could be employed. Their reliance on regional lords was so complete, which guarantees political support and, when necessary, votes (those few who could vote) for the government supported by them.

This political support was not unilateral. It had as its counterpart state policies that aimed at perpetuating the export model (a classic example is the policy of protection of coffee in Brazil by purchasing stocks in the Old Republic) and, in particular, the dominant exporter group in each historical period.

This peculiar form of functioning of the social and political system derived from a very important feature for the economic system. This was the trend of government policies in regard to exporter interests.

On the one hand, there was very little concern for the creation of infrastructure, even transportation and communication. This only accentuated regionalism of production and the broad effect (triple draining effect) of the monopolist power exercised. If there is no economic integration, there is no way to form a national market. The economy's exporter nature was reinforced, which in turn reinforced the power of local lords, in a vicious circle of harmful economic consequences. As will be seen below, this lack of economic integration was a limiting element in the industrialization process when it started.

On the other hand, technological changes in agriculture were not encouraged. With the gains eminently from export, the concern remained primarily commercial, with policies for the protection of prices for commodities. There was no incentive or external funding for technological improvements.[3] The lack of concern or effective

resistance over time of the power of regional leaders in the north-east – a power which influences and limits its political life until today.

[3] See, in regard to the absence of technological stimulation in agriculture, T. Halperin Donghi, 'Economy and society in post independence Spanish America', in *Cambridge history of Latin America*, Vol. III, Cambridge, Cambridge University Press, 1985, p. 299, seen as a consequence of exchange

possibility of introducing endogenous technological improvements because of a lack of government policies and virtual absence of external financing is another typical feature of the Latin American economic process, which can also be observed in the industrialization process.

The resulting economic structure is a mirror of this framework of economic interests and is a group of common features of the economic structure of most Latin American countries in the nineteenth century. This framework marked the subsequent economic activity, contributing to underdevelopment.

Regional monopolization made these economies maintain characteristics of the archipelago, no matter how important and rich their vast territory was. The occupation was basically the coast (which remains to this day a demographic characteristic of Brazil and Argentina), there was little development and occupation of the interior, where there was no (even today) relevant transport infrastructure. This corresponded to the needs of an export economy based on self-sufficient units (*sesmaria* or *encomienda*) capable of draining income and wealth in the regional sphere in which they operated. This is monopolist power with the triple drain of resources described above.[4]

of values favourable to Latin American primary products (pp. 327–8). Of course, the above text does not mean that the lack of investment in agriculture came only from the mercantilist vocation of the bourgeoisie and the national states. Other economic and political factors influenced these events in each specific state. As the author points out, this is the case of the various wars and rebellions that plagued Latin America in the nineteenth century. According to estimates, politicians and military conflicts of 1850–70, including the Paraguay War, cost Argentina, for example, the amount equal to external credits received by the country in those years. All this substantially diminished the investment capacity of national states in that period.

[4] Both in the agriculture post-colonial period as well as in the first industrialization period (see section 1.b below), the colonial monopoly model with triple drain remains valid. Agricultural units continue to drain resources from the entire economy: (i) of wage labour, kept at subsistence levels until the absence of alternative economic activity capable of attracting large masses of labour from other sectors of the economy; (ii) because the exporting government policies prevented development of other dynamic sectors; and (iii) from consumers, because consumer products continued to be controlled by foreign merchants – now the English endowed with monopoly powers whose interests were linked to major Latin American exporters – still, therefore, a monopoly

It should be noted that this basic feature remained with the change of the main crop and cycle, the change of the economic region in which this crop was grown, and even with the change in the form of labour exploitation. Thus, for example, in nineteenth-century Brazil, coffee replaces sugar as the main export product, São Paulo and southern Minas Gerais replace the north-east as the main producing region and throughout the nineteenth century wage labour replaced slave labour in farming coffee. The economic structure based on the large self-sufficient farm that generates little income for the economy as a whole without producing lasting multiplier effects remained the same. The effects of this monopoly of peculiar characteristics described above were strong enough to resist changes in the form of production.

It is precisely their peculiarity that provided so much resistance to change. Their power to drain resources from the rest of the economy and its self-sufficiency generated enormous power of resistance, just because they helped powerful economic structures to establish themselves firmly in the social sphere (local population depended on regional monopolistic structure and its holder, without an economic alternative for survival), and the political sphere (arising from economic and social powers).

Another important concern of these structures is to protect themselves against any type of potential competition. In the nineteenth century, because of the expansion of the Northern Hemisphere markets and opportunities for new crops, the established monopolies had to cope with other regional power groups whose products vied for supremacy. In these cases, to ensure its prevalence and ensure non-existence of other dynamic sectors or dynamic cultures that can compete with them, they did not hesitate to use their power to delay and obstruct the functioning and organization of other agricultural activities. A well-known example in history is the case of the cocoa crop in the southern Brazilian state of Bahia. Its growth and organization ended up being delayed for years because of the pressures exerted by the farmers from São Paulo and

system with vertical integration. This system only slightly modified its contours in the second period of Latin American industrialization, that is, basically from the 1950s.

Minas Gerais who slowed as much as possible the establishment of a transportation and port structure for the export of products.[5]

The idea of protection against any potential competition determines another important economic feature: the lack of stimulation and even distrust of entrepreneurship. This is manifested in express distrust for industrial endeavours,[6] in the absence of governmental or foreign financing[7] and, sometimes, even in actions directly targeting the elimination of any threat brought by nascent manufacturing activities.[8]

These well-protected and powerful structures generated another important economic trait, economically equal or perhaps more harmful than those already described. This is, in the words of Furtado, the lack of interaction in the dynamic industry (primary products) between supply and demand.[9] Just as in the colonial era, the increased demand came from gains in the export sector and was transformed into consumption also directed abroad (imported products). There continued to be, therefore, insubstantial income formation and consumption capacity within the economy. Weak domestic demand accounted for many of the economic difficulties of the industrialization process in Latin America.

It is noted that those few regions that, for specific reasons, did not reproduce these social and economic characteristics were exactly those that later showed a more balanced economic and social development. A first and good example is the Brazilian state of Rio Grande do Sul, which always distanced itself from the central regions for major products of previous cycles (sugar –

5 See among others W. Dean, 'The Brazilian economy, 1870–1930', in *Cambridge history of Latin America*, Vol. V, Cambridge, Cambridge University Press, 1986, p. 685 (699 et seq.).

6 Mauá attributes his business ruin to this distrust and indifference of the government – see I.E. de Sousa, *Exposição do Visconde de Mauá aos credores de Mauá & C e ao público*, Rio de Janeiro, J. Villeneuve & Co., 1878, p. 153 et seq.

7 At that time, almost all the external funding came from England, which only funded projects related to agricultural export activity.

8 This is what W. Dean reports to have happened at a weaving mill in Alagoas in the nineteenth century, which was acquired by a British company (weaving) only to be disassembled and its parts tossed into the São Francisco River – see W. Dean, 'The Brazilian economy, 1870–1930', op cit., p. 708 et seq.

9 See C. Furtado, *A Economia Latino-americana*, op cit., p.137 et seq.

north-east – and coffee – São Paulo and Minas Gerais) and – influenced by European immigration to Uruguay – developed from the nineteenth century its own economic characteristics with agricultural production based on small property intended for the domestic market.[10] Although it had not created more favourable conditions for industrialization of this state (as this was done with the surplus from the export sector, in the region where it was more dynamic – São Paulo), it undoubtedly had important social consequences, causing the state to exhibit – later and for longer – better social indicators than most states.

A similar situation – with much more serious consequences – occurred in Argentina in the nineteenth century. As seen in Chapter 4 (section 2.a), there, since colonization and as a producer and supplier of products for the mining regions of the north (Peru and Mexico), income was created for the domestic consumer market. In the nineteenth century, this characteristic persisted, even if the economy took on a vocation more geared towards farming and livestock products (especially wheat and meat). As will be seen below, this characteristic gave decisive impetus to Argentine industrialization, which took place earlier and, for a good period, was more robust than for its neighbours.

These exceptions only help to demonstrate the enormous influence of economic and social structures of colonial Latin America in the industrialization process, which gradually advanced in the twentieth century. This is what will be discussed below.

a. The Slow Process of Industrialization in Latin America

The title of this section should come as no surprise, in light of what was said above. Economies concentrated and devoid of a domestic market capable of propelling them to follow a long path of industrialization have a long and slow process of industrialization, which only progresses to the extent that political and economic crisis and wars in importing markets provide an exogenous induction to industrialization.

[10] See in this respect B. Fausto, 'Brazil: the social and political structure of the First Republic', op cit., p. 784.

It is imperative to note from the outset that the slow and low amplitude of the process should be attributed first of all to the structures of consolidated economic power in the region. They are its direct cause. External dependency exists insofar as it takes advantage of the existence of such structures (obviously, in its turn, the external dependency also ends up strengthening these structures, helping their perpetuation). This observation is important because it helps explain many of the problems faced in the 50–80 years of the twentieth century by policies aimed directly at limiting foreign dependence without regard to the internal structures of economic power.

b. The First Stage: The Nineteenth Century until the First World War

The best way to understand the process of industrialization in Latin America is to view it as just a natural continuity of the colonization process. Since the early twentieth century, the growth of Latin American export activity has been accompanied by an incipient emergence of the manufacturing industry. This emergence did not follow its own autonomous logic but rather the logic of the monopoly (export) that directed it. The mention of monopoly is intentional. The growth of manufacturing did not occur, as one might imagine, as a direct function of the results from the primary export in the international market.

Depending on the policies consistently adopted to protect the gains of exporting monopolies, the growth in manufacturing is always a mirror and a result of the type of goods exported.

In periods when the international terms of trade were favourable to goods or raw material produced in Latin America, for example, there is a slight increase in manufacturing, primarily as a result of surplus capital available for investment and certain higher income that generated greater demand at least for basic consumer goods.[11] This movement, which should be sufficient in itself to provide

[11] As noted by C. Furtado, the greater the distribution of income for the labour factor, the greater this effect will be. Thus, in regions such as Argentina and Uruguay, where labour was more scarce – and it should be added, already had income formed by the dynamics of inter-regional colonial trade – the increase in value of agricultural exports resulted in greater growth of domestic

robust growth to industrial production, was extremely weak in Latin America. Specifically because of the existence of export monopoly – able to drain income from other sectors of the economy (the triple drain already seen) – income available for consumption in times of export euphoria was much lower than one might expect, mostly because the monopolist drain prevented substantial income formation and consumption capacity.

There was a peculiar effect even for basic consumer goods. As these economies are concentrated in the production of primary goods and not diversified from an industrial perspective, the percentage of income that was remitted abroad was more than proportional to the increase in demand. The argument provided herein results in the conclusion that the drainage was much greater than that eventually identified by the early structuralist critique of the ECLAC (CEPAL) group to the idea of comparative advantages of Ricardo.

It is not sufficient to point out, as done by the ECLAC school of thought, that income elasticity of demand for manufactured goods is different from the income elasticity of primary goods. If that was the only problem, it would suffice to implement any industry of domestically manufactured goods and, no matter how simple, it would take advantage of these benefits.

What actually happens is that, in the absence of choice and comparison, the income elasticity of manufactured products manufactured with new technologies is greater than the income elasticity of primary products (food and clothing), but also much greater than the income elasticity of manufactured products not based on the same technology.

This result applies even when products incorporating new technologies do not have greater utility for the user than products that do not have such technological advancements. Technological change is presented in such case as a factor limiting the choices of consumers, and not increasing them as expected. The minimum

demand – *The Latin American economy*, op cit., pp. 116–17. Not coincidentally these countries – especially – were those that most likely developed their industry in the first phase of industrialization. Their industrial growth, throughout the first half of the twentieth century, was stable and more self-sustaining than that of other countries in times of both high and low prices for their agricultural *commodities*.

technological change already justifies the presentation of the asset as new, even if this technological change does not mean any effective utility gain to the consumer.

These simple rules, actually a reflection of the existing economic structures in Latin American countries after decolonization, are a response to the disappointing industrial growth from the early century, despite the significant growth of the exchange value of most Latin American *commodities* in the 1890–1915 period.

Note, then, that in fact, and paradoxically, for manufactures to develop it is necessary for an inverse cycle to gain some momentum. In periods of significant decline in prices of exported goods, it is necessary that domestic manufacturers gain strength. The explanation is again in the internal politics of protection to exporter monopolies.

In case of significant drops in international prices, national governments acted to eliminate the effects of low prices on the exporting product, devaluing the currency. This corresponded to the famous policy of socialization of losses of export monopolies throughout the population. This mechanism, only possible in states whose policies were a direct representation of the interests of the monopolies, generated domestic inflation and loss of income for the population as a way to increase exporters' income in local currency.

As a result of this devaluation, the prices of imported goods increased substantially, making its consumption unfeasible by a population already depleted by the inflationary loss of income. Of course, as these movements caused loss of income and consumption capacity of the population, they were also insufficient, during any period of falling commodity prices, to unleash a major development in the manufacturing process. Moreover, the technological factor mentioned above (and the power generated) was always strong enough to make it so that even during specific crises in prices of agricultural commodities produced in Latin American countries (crises occurring frequently at the beginning of the century and for up to 20 years), there continued to be demand for imported products. Therefore developments in manufacturing occurred but always at a rate and speed much inferior than what would be needed.

It was necessary, then, that there was a crisis that not only had a strong impact on the prices of Latin American *commodities*, but that also strongly affected the supply of products manufactured by industrialized countries so that industrialization gained important stimulus in the region. This role was performed in Latin American economic history by the 1929 crisis.

The effect on manufacturing caused by the crisis of 1929 was more long-lasting precisely because of its intensity. The violence of the fall in prices of virtually all Latin American products caused a substantial amount of capital invested in agricultural products to be transferred to the industrial sector. It is true that there were still no structural changes in the form of industrial growth. Since agricultural prices began to recover in 1932, industrialization – though now starting from a higher level of production and share of GDP – resumed its slow growth, dependent (albeit small) on income and (albeit little) surplus for investment generated in the export sector (the surplus was great, but most was allocated either for consumption of luxury goods or investment in the export sector itself).[12]

More than slow, the process was incomplete. The dependence of the economy in regard to monopolies of the export sector led to very little diversification of manufacturing,[13] limited to immediate consumer goods, unable to generate income multiplier effects and much less to distribute income. This reality was not altered, either, by the Second World War which caused the Latin American economy to face a dramatic shortage of imported consumer goods.

[12] See, accordingly, V. Bulmer-Thomas, stating that the growth of Latin American industry during the 1929 crisis did not become self-sustainable, which is why it was important for these economies to recover agricultural prices from 1932, which made the industrial growth again a consequence of gains in the agricultural sector. See in this respect V. Bulmer-Thomas, 'The Latin American economies 1929–1939', in *Cambridge history of Latin America*, Vol. VI, No. 1, Cambridge, Cambridge University Press, 1986, p. 65 (102 et seq.).

[13] Note that even in Argentina, a country at the time by far the most industrialized and developed in Latin America, manufacturing was under-diversified and heavily monopolized – see in this sense D. Rock, 'Argentina from the First World War to the Revolution of 1930', in *Cambridge history of Latin America*, Vol. V, Cambridge, Cambridge University Press, 1986, p. 419 (426). In the Argentine framework, there is a factor that will prove problematic in the following decades, which is the strong foreign domination in certain strategic sectors, such as the oil industry, where interests of British and American companies had significant weight in government decisions in the 1920s and 1930s (see, to describe the political events involving this sector, pp. 448–54).

There is acceleration of industrial growth during this period but without fundamental change in the productive structure of these countries.

The product shortages and economic hardships of these successive periods (crisis of 1929 and especially the Second World War) put these countries in need of reducing their foreign dependency. The stage was set for the second phase of Latin American industrialization.

c. The Second Phase: Post-war until the 1980s – States and Monopolies

The division into phases of the industrialization process is something highly debatable and discussed. If emphasis is placed on import substitution and the moment it gains its own dynamic, it is undoubtedly necessary to identify, as does Furtado, in the 1929 crisis the beginning of the second phase of industrialization.[14]

Since, however, for the purposes of this work, an element regarded as crucial to the economic development of countries is the domestic economic structure, the dividing line should be placed later in the post-war period. Of course, there are important variations from one country to another.

But in general, from the late 1940s, the national states were faced with a major economic dilemma. On the one hand, the exporting agricultural economy lost relative strength within national economic systems. Most Latin American societies had experienced major population growth. The urban population, as a result of industrial growth that had been occurring since the 1920s, gained importance.

Not only that – it was possible neither politically nor socially to keep society confined to the local system of the exporter monopolies, which drained the economy and did not allow sustainable growth outside its sphere of influence. Nor was it possible to maintain the policy of import substitution simply based on lack of available foreign manufactured goods. In the post-war era, they again became available in large quantities, if not also with new technologies.

[14] See *A Economia latino americana*, op cit., p. 123 and et seq.

It was necessary, then, to imagine national development projects, which took into account these realities. But that is not all. There was no internal (or external) economic force[15] that could independently determine the direction of industrial and economic policy as a whole and nor were there institutional and legal reforms. Moreover, social forces applied pressure towards a development policy.

This almost unique moment in Latin American history of freedom in the definition of public policies has broad effects. On the intellectual side, it helps enable the emergence of specific theories, such as ECLAC (CEPAL) structuralism and later the dependency theory. In the field of economic policy, it makes the state an autonomous or more autonomous agent for formulation and implementation of public policies.

Thus, in this period, there was ample stimulus for public growth policies. The investment in the field of infrastructure was important. For example, one can cite public investment in the Brazilian steel industry (creation of CSN on 9 April 1941), and, even more distant in time, the creation, in Chile, of Corfo (*Corporación de Fomento de la Produccíon*), which was assigned the duty to prepare and execute infrastructure projects (electrification of the country, ironwork, and so on).[16]

It is true that state intervention had no uniform direction throughout Latin America. Countries such as Brazil and Mexico had more autonomous industrial policies, while industrial policy in Argentina maintained a close link with the interests of large foreign groups that preserved for a long time their power and influence over infrastructure (especially oil).[17]

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[15] Although there has always been important participation of foreign interests in Latin American economic life, there is no doubt that, particularly in the late 1940s and throughout most of the 1950s, the major focus of interests and political-economic dispute between the two ideologically opposing blocs was in Europe and Asia.

[16] See C. Furtado, *A Economia latino americana*, op cit., p. 130.

[17] This difference is important because it implies different draining levels of domestic income. While the Brazilian and Mexican infrastructure investments transformed fully into domestic income, in Argentina many infrastructure investments eventually ended up being transformed into income (of capital) to foreign countries. This no doubt accounts for part of the difference in growth between these countries in the period. In the early 1950s, the Argentine GDP was 10 per cent higher than the Brazilian and 25 per cent

Regardless, in most countries the major feature was the relative independence of industrial policy in relation to the interests of agricultural and livestock activity. The two interests had separated permanently in Latin American history.

On the other hand, it is a fact that the form in which industrialization had occurred until then (early 1950s) limited the possibilities for future advancement. Here, again, the focus on internal economic structures allows us to see new aspects. It was not only the external dependency (as dependency theorists will say in the 1960s and 1970s) that limited the effects of ISI (import substitution industrialization) policies, causing the inflationary crisis and great recession of the 1980s in Latin America.

It is true that industrial development, insofar as it deepened, required more sophisticated and diversified manufacturing facilities and that, in their absence, the demand for foreign (more expensive) capital goods ended up growing, pressuring the balance of payments and the rate of inflation in these countries. But this did not happen just because of the existence of an intrinsic, unchanging structure of international production. It happens that those countries in the first half of the twentieth century opted to have in industry a mere appendage of the main export activity, that is, industry within the limits necessary for the needs of consumption and production of substituted imported products.

This deliberate choice, motivated by the power of monopolistic agricultural interests in that period, greatly limited the possibilities for further development. A nascent capital goods industry was only possible as a result of a selective protectionist policy, which left Latin American industrial facilities on the fringes of major technological gains for their survival. This comes on top of errors in the industrial policy of that period, which as it was concentrated on producing and selling to the domestic market, did not concern itself with developing the export of manufactured goods. The crisis is then set.

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higher than the Mexican, while in the early 1990s, Argentine GDP accounted for only one third of the Brazilian and half of the Mexican – see a variety of comparative data on the growth of economies in the period in R. Thorp, 'The Latin American economies 1959–1990', in *Cambridge history of Latin America*, Vol. VI, 1, Cambridge, Cambridge University Press, 1994, p. 159 (188 et seq.).

But the worst was yet to come. Latin American economic structures influenced not only the origins of the problems, but also the solutions found for them. Thus, the social and economic disorders caused by structural problems led to acute economic crises. The answer was not given in terms of structural transformation or transformative legislative policies, but in military coups (in the 1990s, no less than 16 Latin American countries had at a given time military governments).

As historiography has revealed, it is simplistic to attempt to identify a single cause and a single interest behind these coups (although American interests in the Cold War have undoubtedly received great attention)[18] – especially because much more important than determining the causes is to identify the outcomes of the process. And these are clear. Gradually, what military governments tried to re-establish were structures of economic power that can control the economy and from which they can derive sustenance and economic support.[19]

These structures no longer took the same shape as colonies and post-colonies and could not have. They were not able to drain all the resources of a region or economic activity alone. They had, however, great powers of concentration of wealth in the same three spheres of economic relationships that were felt in the colonial era.

Thus, in the consumer market, their growing monopoly power caused them to be able to extract extraordinary profits from consumers. In the labour market, a dangerous new social face of monopolies became clear in the second half of the 1970s. The major trade union struggles for wages in the late 1970s and early

[18] See for a critical analysis of the different theories about the military motivations in Latin America the work of French researchers A. Rouquie and S. Suffern, 'The military in Latin American politics since 1930', in *Cambridge history of Latin America*, Vol. VI, 2, Cambridge, Cambridge University Press, 1994, p. 233 et seq.

[19] The 2nd Brazilian National Development Program fits perfectly in this policy – see in this respect, and as an example of its influence on various legislative initiatives, Law No. 6404/76, whose statement of justification makes clear the ideal of consolidation of economic structures through the formation of national conglomerates to cope with international competition (in particular, the topic *Mergers and conglomerates*). On the subject, see M. Carvalhosa, *A nova Lei das Sociedades Anônimas*, 2nd ed., Rio de Janeiro, Paz e Terra, 1977, p. 146.

1980s concealed an incipient reality that came to dominate from the 1990s. The formation of the major economic groups through mergers in the name of efficiency started to generate growing masses of unemployed (see in this regard, *infra*, Chapter 6, section 2.b).

In the competition between sectors, the 1970s marked the heyday of state subsidies to privileged industries. The competition for capital and inter-sectorial drainage was exactly through privileged access to state and international capital.

Thus, in the 1980s, most Latin American economies had returned to their concentrated and stifling economic and social development pattern. As will be seen, this situation only worsened with the liberalization of the 1990s.

2. RECOLONIZATION AND DECOLONIZATION OF ASIA

The nineteenth century is a very peculiar period in the economic history of Asia. Contrary to what was occurring in the rest of the colonized world (where decolonization continued), European colonization gained strength in Asia during this period. In fact, this movement is nothing more than a reflection of what was happening in Europe.

Particularly in the second half of the nineteenth century, the economic dispute between industrialized nations expanded – greatly. In particular, Britain's position of absolute economic supremacy began to be challenged by emerging industrial nations, such as Germany and the United States of America.

At that time, colonial domination came to represent a huge comparative advantage for nations such as Britain, which were its beneficiaries in relation to others (Germany, USA) that were not. They guaranteed to the metropole a captive market as well as obtained valuable raw materials and primary products. The first element (captive market) allowed maintenance of accumulation rates in industry (growth and even maintenance of these rates was very difficult in the second stage of the Industrial Revolution – since 1850 – in which technological changes from the prior art did not occur as rapidly). The second (access to raw materials), besides benefiting industry, contributed much to achieve trade surpluses, as many of the primary products were sold at a great profit in Europe and even the Americas, which in turn helped to add growing capital required to maintain the pace of industrialization.

But for all these effects to be produced, it was necessary to transform the face of colonization. This, administered by large colonial companies, no longer served the interests of the metropole. This was, first of all, for the plain and simple reason that these interests were no longer purely and simply commercial. More than that, the needs of an industrial economy demanded more control over local economic activity than what was or could be exercised by the colonial enterprises.

This new type of control and how it was used to meet the needs of industrialized economies helped root structures that helped to create important obstacles to the development of Asia in the twentieth century. The policy of suppressing and prohibiting even incipient industrialization in the Asian colonies coupled with expansion of agricultural and extractive activities on a large scale (*plantation*) not only inhibited the process of industrialization, but also expanded rural poverty.

a. Industrial Colonialism in Asia

It is important therefore to examine both the basic underpinnings of colonization carried out by the industrialized powers from the late eighteenth century and especially during the nineteenth century: limits imposed on industrialization of the colonies and the implementation of the plantation system on agricultural and extractive activities.

In regard to industrial activity, it is critical to understand the points of departure for colonial policies. There is some consensus in the literature that south-east Asia had, before the colonial period, manufacturing activity, which was comparable to, if not greater than, the European manufacturing activity. Production and trade techniques (navigation, and so on) were well developed.[20] That was

[20] See, in this regard, the classic *Asian drama* of Gunnar Myrdal (Vol. 1, Middlesex, Penguin Books, 1968), p. 453: 'Here it is worthwhile taking a longer look backward, for there is general agreement in the literature that in the pre-colonial era, many sections of South Asia were not inferior to the countries of Western Europe in manufacturing of a pre-industrial character. In quality

the reason why the beginning of colonization was marked by importation from the metropoles of not only extractive products but also manufactured goods for the generation of commercial gains (primary interest, as we have seen, of the colonial companies).

The problem (for the colonies) was that European industrial development provided great technological leaps in the second half of the eighteenth century rather than commerce. Industrial growth, which generated more gains than trade, could not be threatened by the industry of the colonies.

From the late eighteenth century colonial policy helped to avert this threat in different ways. The first followed directly from the gains in commercial activity and the concentrating effects of income and wealth from the exporting monopoly.

The situation here was similar (but not identical) to that seen in Latin America over the past three centuries. The creation of new markets for Asian goods in northern Europe made it so that, especially in the period of 1750–1810, there was significant improvement in terms of trade of Asian agricultural products. In particular, spices and grains gained much in value. The drain of capital for these activities was immense, preventing investment in the nascent industrial activity.

But not only that. The English industrial growth during this period only accentuated the differences in the subsequent period. From 1810 to 1860, the improvement of industrial productivity in England and the cheapening of its products caused the comparative advantage in agriculture and primary production to become even greater in Asia.[21]

It would be a serious mistake, however, to imagine that this situation was merely an effect of free trade and the natural advantages established by it. This explanation is not convincing in the case of south-east Asia, especially India and Indochina, which at the beginning of colonization had manufactures at least as developed as, or even more developed than, those of European colonizers.

and variety of products as well as production techniques, large parts of the region may even have been somewhat more advanced than the West.'

[21] See for an analysis of this process strongly based on the classical theory of comparative advantages J. Williamson, *Globalization and the poor periphery before 1950*, op cit., p. 75 ff.

In fact, the colonial policies of these metropoles and the economic structures that they helped introduce in the colonies were the main causes of de-industrialization. Let's focus on colonial economic policy.

In fact, its biggest flaw is that it did not exist – at least as an autonomous policy in the interest of the colonies. The position of the English *raj* in India was that of a *night watchman.*[22] There was no investment or stimulus to investment, not even in the much needed transport infrastructure (precisely the opposite of what happened in England, where the Industrial Revolution led to and was stimulated by important developments in transport infrastructure).[23] On the other hand, the colonial policy of discouraging local industry was abundant.

These policies were, then, quite specific and, when necessary, interventionist. A good example is the prohibition that prevailed in England for many years between the late eighteenth century and the first half of the nineteenth century of the import of Asian manufactured goods by the *East India Company*. But that is not all. Until 1860, Britain also imposed on its Asian colonies a ban on import of capital goods. Closing of consumer markets coupled with lack of access to technology and capital goods proved insurmountable barriers to Asian industry. The economy could only accept the comparative advantages that were imposed by colonial domination and concentrate on agriculture and mining.[24]

From 1860, the English colonial policy changed the picture and the justification. To ensure its influence on Latin American ex-colonies, it was necessary to elect and sustain 'free trade' as the main trading principle. The defence of this principle was not

[22] See M. Morris, 'Towards a reinterpretation of the XIX century Indian economic history', in *Journal of Economic History*, Vol. 23, No. 4 (1963), p. 606 et seq.

[23] It is not reasonable to maintain that this kind of industrial policy was unworkable in a *laissez-faire* nineteenth-century economy. On the few occasions that it was implemented for specific reasons, it generated great results. This is what happened in the region of Kapur in India between 1860 and 1880, when the conclusion of contracts for the production of military equipment by the incipient local industry generated an important industrial development – see C.A. Bayly, 'State and economy in India over seven hundred years', in *Economic History Review*, Vol. 38, No. 4 (Nov. 1985), p. 583 et seq.

[24] See G. Myrdal, *Asian drama*, op cit., p. 456 et seq.

compatible, however, with a protectionist policy in Asia. This was compounded by a decisive economic element: the protectionist policy towards Asia was no longer necessary.

After more than a hundred years of protection of European industry and de-industrialization in Asia, protection was no longer needed. In a free trade regime, the Asian economies were no longer able to compete with European industry. Their economies could at best be complementary to European economies, never competing in the industrial sector. This meant that the pattern of industrial development was similar to that of Latin America in the twentieth century, that is, industrial growth would depend on the type of extractive products. At times of deteriorating *terms of trade* for extractive products, with consequent deterioration of the balance of payments, or in times of scarcity of industrial products in the international market (wars), industry will grow.

Still, its pattern of accumulation was typical of monopolized economies. There were no income-generating multipliers. The relative weight of the industry was very small relative to the total population. As an example, in India, of the total 350 million people in the late nineteenth century, only 1 million were devoted to industrial activity. This made it so that manpower employed in cities with higher industrial growth in the nineteenth century (which in India were Calcutta and Mumbai) was composed of small farmers or impoverished agricultural workers (by the *plantation* system) going to the cities to obtain minimum subsistence.[25] In addition to reducing the cost of labour, its income was transferred almost entirely to basic subsistence expenses, generating relative demand only in the agricultural market (which, as we shall see, at the time of *plantation* farming basically depended on imports).

But it was not only the economic weight in regard to industry that was small. Also, diversity was minimal. Industrial development only occurred in a few sectors, which did not compete with European industry. No wonder that in this period (late nineteenth century) sectors developed such as jute and textiles, whose growth occurred precisely to satisfy the needs of industrial economies.

[25] See C.A. Bayly, 'State and economy in India over seven hundred years', op cit., p. 594 et seq.

From 1914, it is true that manufacturing facilities broadened, as seen above, mainly because of the shortage of industrial products and crises (demand) that made it so that, just like in Latin America, there was a certain stimulus to industrialization. But even there the growth was isolated and restricted to certain sectors that were soon concentrated. This was the case, for example, in the iron and steel sector in India, whose growth since 1914 was based on oligopolistic supply structure, divided among a few large foreign industries and the nascent Indian *Tata company.*[26]

Without diversity in the industrial park, the profits accrued there were mostly directed abroad in the form of acquisition of capital goods, sending profits or covering of deficits in current business

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[26] This is a good example of the monopolized way in which economic activity developed in colonial countries of the era. The growth of *Tata Iron Steel Company (TISCO)* resulted not only from the entrepreneurship of its founder, but more than that from the concessions obtained by it from the Government since 1901, the same concessions enjoyed by the British company *BISCO (Bengal Iron and Steel Company)*, which also held concessions in south-east Asia. Industrial growth, however, required private initiatives dependent on authorizations and concession of the metropole (or metropolitan governors of the colonies), and therefore carried out in sectors that did not compete with its industry. Based on government concessions, they were activities that were born and grew up monopolized. In contrast to this support to large private entrepreneurial support structures, what is noted is that investment in infrastructure of colonial states was minimal – again, taking the example of India, it is observed that in no period between 1872 and 1947 participation of the state in the gross national product exceeded 10 per cent, which makes it so that the Asian economies of the time are described in economic history as forms of '*private enterprise economy*' (see, for industrial growth data and history, M.D. Morris, 'The growth of large scale industry to 1997', in *The Cambridge economic history of India*, Cambridge, Cambridge University Press, 1983, pp. 553 and 554 – for the historical growth of the steel industry, p. 583 et seq.). Note, finally, that even in the social field and in emergency situations the intervention of the colonial government and the metropole was minimal. This is what was found in several famines that occurred in the period from 1870–1929 in south-east Asia, when the policy of the English Government was limited to emergency and ad hoc deliveries of food without any concern with increasing occupation or income creation – see M. McAlpin, 'Dearth, famine and risk: the changing impact of crop failures in Western India, 1870–1920', in *The Journal of Economic History*, Vol. 39, No. 1 (1979), p. 143 (157) – here again the *laissez-faire* attitude adopted no doubt contributed to persistence of structural conditions of poverty and repeated famines throughout the twentieth century.

transactions. The domestic market, very active up to the start of the eighteenth century, was restricted at the end of the nineteenth century to the surplus income generated in intra-regional trade, failing therefore to constitute an element to boost economic development.

For an understanding of the Asian economic structure, it is still necessary to analyse the main economic activity throughout the nineteenth century, that is, the extensive plantation-type agriculture. Profound economic and social characteristics in this region were rooted and produced through it, and its effects are still felt today.

Firstly, one must understand that the plantation was an exporting monopoly. The large-scale production was dominated by large foreign companies (mainly English). The beneficial economic effects were, therefore, felt primarily in industrial economies. The demand for capital goods for agricultural activity returned to European industrialized countries, holders of colonial possessions in Asia. Much of the workforce, especially the more specialized, was formed by British employees. The profits of the activity, belonging to English companies, were sent (without limit) to England.[27] This is why there is consensus in the literature about the

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[27] Indeed, upon observing the form through which the plantation was introduced, the extreme pursuit of profit maximization by colonizers is undeniable, often in defiance of ethical (and legal) principles today considered to be indisputable. Just note that the products introduced in the form of plantation by Europeans in Asia were tea, jute and opium. In relation to the latter it is interesting to note that the British Government guaranteed the monopoly for the exploration and export of the product in 1856 through the Treaty of Tien Tsien. From that date until 1935 (when it was banned because of intense international pressure against this trade), it accounted for an important part of the gains of the British Crown with the production and trade of agricultural products of the colonies (11 per cent in the years 1891–92 and also 9 per cent between 1911 and 1912). Note that for this 'product' (unlike, as seen, what happened with local manufacturing production) the British were concerned with 'creating a market' in Asia itself, which was and still is the main consumer of the drug. There are famous accounts from that era that tell of its public and free distribution at the beginning, by officials from the British Government, to create addiction in the local population – see the account of Pastor J. Siggins, at the time in the region, reproduced in M. Fourcade, 'Les britanniques en Inde (1858–1947) ou le règne du "cyniquement correct"' in M. Ferro, *Le livre noir du Colonialisme*, Robert Lafond, 2003, p. 401 (436).

fact that the *plantation* system generated more economic stimulus for industrialized economies of metropoles than for Asian colonies.[28]

In Asian economies, not only is the effect small. The biggest question is whether it was even positive. The most immediate and direct effect of the plantation monoculture was the shift from traditional forms of agricultural production. As seen in Chapter 4, in Asian countries, until the pre-colonial era, rural populations lived mainly from subsistence farming or from small and medium agricultural production destined for the local market. The effect was to structure a very dynamic intra-regional trade in basic products (especially rice), which generated surplus and income, if not in agricultural-producing regions, at least in the cities involved in the trade of rice.

With the introduction of the plantation this situation changed. The agricultural monoculture and monopoly on purchase and sale held by European companies prevented the generation of local income. More than that, doing away with subsistence agriculture in many regions transformed agricultural activity and the occupation of part of the rural population.

Decreasing subsistence agricultural activity in the regions in which the *plantation* system was adopted made them food importers. On the other hand, the abundance of labour in Asia was exploited by plantation agriculture by stimulating the migration flows.[29] This allowed the constant existence of a large supply of labour, which enabled the maintenance of compensation for labour at very reduced levels. No wonder, therefore, that the agricultural workforce was the main focus of poverty in these countries (to date) and also primarily the most affected by collective famines that ravaged the region from the late nineteenth century until the mid-twentieth century.

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28 See G. Myrdal, *Asian drama*, op cit., p. 447 et seq.

29 See the explanatory framework of intra-regional trade and migration flows in the region in G. Myrdal, *Asian drama*, op cit., pp. 462–4. It is important to note, moreover, that these flows also correspond to different intensity of implementation of plantations in different regions (today many countries). Thus, the *plantation* was much more intense in regions that today comprise Indonesia, Ceylon and Burma, while countries like China and India continued predominantly with land dedicated to small-scale agriculture and subsistence agriculture.

The resulting economic structure is at the end highly concentrated and concentrating of wealth. Both the main economic activity (plantation) as well as the secondary activity (industrial) was exercised on a monopolized (or oligopolistic) basis to ensure multiple draining of society's resources. The plantation system was directed and dominated by large colonial companies that exploited and exported all their products. The monopoly was not only on the export of products but mainly the use of the production factors. Given the greater relative scarcity of land in Latin America, in Asia, the exclusionary effect of the plantation relative to other economic activities did not derive only from concentration of investment in agriculture. It was a natural consequence of the substitution of other crops by the plantation. As these extensive crops were allocated for export (tea, jute) or when allocated to the domestic market were not destined to provide basic needs of the population (quite the contrary, as seen in the case of opium), these countries had to become importers of basic agricultural products. Inter-sectorial agriculture drainage was profuse, therefore, in negative social and economic consequences.

The same occurred in the labour market. As seen above, the existence of surplus labour and the stimulus to migration created an abundance of labour for agricultural work. The consequence was naturally the loss or stagnation of real wages. Thus, it was also possible to extract surplus from labour.

Finally, the consumer market also felt the effects of colonial monopoly. Manufactured goods imported were sold at monopoly prices (overpriced), given the lack of local production.

There is one last important structural effect produced by the interaction between the form of industrial production and the plantation *in* Asia. Industrial activity was not and had not the scale, between the nineteenth and twentieth centuries, to be complementary to the plantation in terms of absorption of labour. To understand this statement, we must take into account here an important difference between Asian and Latin American colonies. While in the second half of the nineteenth century and early twentieth century Latin American countries had very sparse populations, countries such as India already had at the turn of the century something like 350 million inhabitants. It is revealing that for this population, only 1 million were devoted to industrial activity.

The lack of diversity in industry then responded not only to the lack of alternatives for the production of basic consumer goods for the population but also to the constant deficits in external transactions. Upon absorbing low contingent labour, the effect of declining plantation agriculture on human occupation (where the use of labour got much lower in the twentieth century) was multiplied. Huge contingents were returned to the subsistence economy. The social and economic importance of this fact is not negligible. Just note that even in 1950 in countries such as India, 40 per cent of income was still not monetary, that is, from subsistence agriculture or direct barter of products.

No wonder, therefore, that when the industrial growth in these countries gained traction, it formed a vast gulf between the developed and modernized economy of cities and the immense human contingent dedicated to agriculture and subsistence or agricultural wage labour. The absence of any government stimulus to increase agricultural productivity outside monopolized agriculture of the plantation helped entrench poverty and abandonment of these large population contingents in the twentieth century.[30]

b. The Process of Decolonization and the Resistance of Economic Structures

Decolonization of Asia, like any slow process, is characterized by strong ruptures. The liberationist ideology in which the colonies participated to help European allies in their war effort against the Nazis and the Japanese during the Second World War was not at all consistent with colonial domination.

But not only that, Asian colonies had discovered the importance of state involvement in the industrial development process. Industries such as those in India grew and developed a lot during the war (although primarily heavy industry linked to the military apparatus) because of the participation of the Indian colony in the English war effort.

Liberationist spirit and intervention driving state investment are not concepts compatible with the colonial reality. The moment of gaining independence, in the immediate post-war period, proved

[30] See G. Myrdal, *Asian drama*, Vol. 2, op cit., p. 1225 et seq.

then to be an important moment of trying to break with the colonial economic model. It is relevant to consider up to what point this break was successful.

Of course, it is not possible to make an overall analysis for all of Asia of the decolonization process. Until now, it was possible, albeit with a high degree of generality, to identify common traits precisely because it was a process of colonization based on certain homogeneous policies and controlled by a small group of colonial powers (especially Britain and France).

This is not what happened after independence. The countries' policies varied greatly according to regional characteristics and specific policies. Even so, common characteristics survived here (such as in Latin America) because of common economic structures built during the colonial period and their amazing ability for mutation and resistance.

With this caveat, it is important to analyse the post-colonial economic history of India, precisely because it offers an interesting example (and not unusual in the region) of the difficult and not always peaceful co-existence between rupture and continuity of colonial structures.

The first striking feature of the post-colonial history of India is its choice expressed by economic planning. Even if immediate post-war Asia, and especially India, suffered the direct effects of the Cold War – operating in thin border alliances with the two big ideological blocks – it is difficult to say that economic planning adopted in those years was a consequence of an imposition or programmatic alignment. It corresponded mainly to the need for a specific policy statement opposed to the damaging *laissez-faire* that had been in place during much of the period of colonial domination.

This characteristic becomes clear from the direction taken in the five-year plans. All five-year plans implemented since 1950 have as a basic focus investments in infrastructure (irrigation, electricity, railways and communications), investments that were, as seen, absent (or nearly absent) during the colonial period. This is surely a feature of rupture.

There are, on the other hand, important features of continuity. During most of the period of the planned economy, these investments were instrumental to the growth of existing private business structures. Infrastructure served this purpose; and direct support (via financing or equity interest) given to the private industries in sectors considered strategic, such as iron and steel, was also instrumental to this goal.[31] As will be seen, this contributed greatly to the consolidation of private monopolies whose greatest strength was felt from the third economic period to be analysed here (see *infra* Chapter 6).

It is true, however, that especially the two initial plans also had the explicit aim to support small and medium enterprises. They had intense economic instruments for this purpose, which included financing, collection of differentiated taxes for the small and medium company and even direct economic protection, preventing in some cases the entry of competing products in the regions (small and medium-sized cities in which it had protection). It is difficult, however, to characterize the policy of protection to the small and medium enterprises as a break from the colonial period. In fact, it was applied in the first two plans under the direct influence of Gandhian philosophy. The increase in work intensity of the Indian villager as a way to increase their cultural level and eliminate laziness was, then, one of its primary objectives.[32] There is no doubt that this objective as well as the objective of inducing the growth of small and medium enterprises was achieved. From 1950 to 1970, the entirety of south Asia experienced a significant growth in the small and medium enterprise, depending on the stimuli produced by the plans.[33]

The structural effects on income distribution were small. Although lower unemployment was also its goal, the results were minimal in this respect, exactly because it did not propose to modify the agricultural economic structure primarily based on subsistence agriculture and, in some places, plantation agriculture. The maintenance of colonial economic structure in the agricultural

[31] See, for a breakdown of the objectives and results of the five year plans, A. Vaidyanathan, 'The Indian economy since independence (1947–1970)', in *The Cambridge economic history of India*, Vol. II (1757–1970), p. 947 (963 et seq.).

[32] 'In my opinion, village uplift is impossible unless we solve the pressing economic distress. Therefore, to induce the villagers to utilize their idle hours is in itself solid uplift work' (Gandhi, *Rebuilding the villages*, p. 35, Harijan November 11, 1934, op cit., in G. Myrdal, *Asian drama*, Vol. 2, op cit., p. 1236).

[33] See G. Myrdal, *Asian drama*, Vol. 2, op cit., p. 1235.

sector is one of the major reasons for the persistent state of poverty in large parts of rural India and south-east Asia.

It is difficult to evaluate statistically the results of this dual-growth strategy, which combines, on the one hand, the stimulus to infrastructure and the growth of big business and, on the other hand, the encouragement of small and medium enterprise.[34] The results of economic growth in the period, short of what was expected in the plans and short of the growth rates of other regions (Latin America in the same period), reveal little[35] – not only because they did not in themselves mean economic development (which requires the improvement of social indexes), but also and especially because these results should be evaluated over a longer period of time, which, arriving at the present, can have a completely different relative meaning. This is what will be seen in Chapter 6.

For now, it is more interesting to identify existing structural constraints in these economies and their effects on the implementation of these plans. The first of these constraints is the external element. The poor development of Asian industry meant that the economy found limits to development. The Asian economic planning never focused primarily on policies of import substitution. Unlike Latin America, the idea at the time was industrial development geared for export as well as for the domestic market.

Regardless of dynamic analysis, that is, the medium-term effects of this policy, this policy undoubtedly caused some immediate limitations to those economies. Besides inhibiting the growth of certain sectors, which could not compete with foreign capital, there

[34] The idea of dual development strategy has always been in the minds of Indian planners. In this sense, the testimony of one of the major contributors of planning, P. Mahalanobis: 'In India a dual strategy was adopted from 1956 in the second plan to expand, on one side, the strategic heavy industries for steel, metals, machinery, electricals and chemicals etc, to build the foundations of industrial progress, and at the same time also to expand the traditional cottage industry and small scale production.' See P. Mahalanobis, *Perspective planning in India: Statistical tools*, Co-existence, May 1964, p. 62, op cit., in G. Myrdal, *Asian drama*, Vol. 2, op cit., p. 1226.

[35] In the period from 1950–70, the average economic growth of India was 3.25 per cent against 5 per cent forecast from the second five-year plan. This growth was also lower than in Latin America for the period – see, on the results of the period in India, A. Vaidyanathan, 'The Indian economy since independence (1947–1970)', op cit., p. 966 et seq.

were also imbalances in the balance of payments generated by negative external flows. This, in turn, also caused significant inflationary effects in Asia, with negative impacts on growth and social indicators.

Much more important than these were internal structural limits, basically unequal income distribution and the consequent limitation and precariousness of the consumer market. They were more important because they were the only internal elements able to allow overcoming external dependency and unequal trade relations. None of the economic policies adopted at the time aimed to effectively develop the consumer market. All were directed, in good Schumpeterian tradition, to the promotion and expansion of supply. The policy of promoting major strategic industries, precisely because they are capital- and not labour-intensive (where purchases of capital goods were made overseas), did not create much employment or important multipliers of income.

And that was something of extreme necessity in economies that had experienced intense ruralization over the past 150 years. Colonial policies to stimulate the *plantation* and as a disincentive to manufacturing increased poverty greatly. The impoverished village artisan turned into either an employee (subsistence) of plantations or a subsistence farmer. Often, even precluded from monetary income, he had no economic ability or exercisable rights in the economic sphere (the *entitlements* of Sen). Not even the initiatives of promotion of the small and medium company could counter this reality, as, even there, they focus on the supply side and not on the creation of income around it.[36]

The resulting pattern is classic in underdeveloped economies. A dynamic industrial sector, which would prove even more dynamic in the subsequent period (1990 onwards) and that accounts for the current level of economic growth in these countries, co-existed with a huge level of rural poverty. The absolute inequality not only of income, but in the form of economic functioning of the different spheres and different sectors of these economies, is a characteristic trait.

[36] As seen, the effects of this policy on employment were minimal. See note 35 above.

This is not only distinctive, but difficult to solve, especially if the prevailing economic structures in society are maintained. The trend of increasing monopolization of activities only intensifies the separation between the spheres. The triple drain caused by monopolies (consumer, labour and inter-sectorial market) already studied prevents the distribution of income and hinders the development of sectors where poverty is greatest.[37]

3. SOCIAL STRUCTURES: COMPARISON

If observed closely, the period of industrialization that runs in these countries roughly from the 1940s to the 1980s represents from the point of view of economic and social structures a transition

[37] It is relevant to mention that such structures contrasted at that period strikingly with structures of other ex-colonies, as is shown by the analysis of this period in North American (US) economic history. By the way, it could be argued that the vicissitudes of the fight against concentrated economic structures in that country in the nineteenth and twentieth centuries help to justify their better social and economic indicators in that period. Actually the Sherman Act is not only the product but also the source (at least until the 1970s) of a strong movement to curb market power. This will is expressed clearly in a speech from Senator Sherman when commenting on the effect of concentrated structures on the economy: 'The sole object of such a combination is to make competition impossible. It can control the market, raise or lower prices, as will best promote to selfish interests (...). Its governing motive is to create the profits of the parties composing it. The law of selfishness, uncontrolled by competition, compels it to disregard the interest of the consumer. It dictates terms to transportation companies, it commands the price of labor without fear of strikes, for in its field it allows no competitors. Such a combination is far more dangerous than any heretofore invented, and, it embraces the great body of all the corporations engaged in a particular industry in all of the States of the Union, it tends to advance the price to the consumer of any article produced,' 21 Cong. Rec. 2492 (1890), op cit., in R.H. Lande, 'Wealth transfer as the original and primary concern of antitrust', in E.T. Sullivan, *The political economy of the Sherman Act*, New York-Oxford, Oxford University Press, 1991, p. 71 (81), see also H.B. Thorelli, *The federal antitrust policy*, London, George Allen & Unwin Ltd, 1955, p. 79, note 14. Conversely, in the US in the late twentieth century (as will be discussed in Chapter 6), the coincidence between economic re-concentration and worsening of social indicators was not casual.

between the colonial environment and the liberal internationalization environment of the economy in the 1990s – transition without rupture that keeps alive the concentrating and social exclusion-generating structures. Thus, the patterns of poverty identified in the late colonial period changed little during industrialization. The production system changed, but the triple economic drain persisted, above all, as a result of the permanence and minimal mutation of monopolistic structures.

The increase in urban poverty in Latin America as a result of industrialization continued to be a reflection of an economic system that inherited the main economic characteristics of a colonial system of protection of surplus labour, whereby poverty accompanies the respective economic cycles. So when industrialization comes and workers are needed in big cities, poverty turns out to be mainly an urban and no longer a rural problem.

In Asia, the colonial standard of rural poverty is perpetuated. Here, unlike in Latin America, the economic cycles – as a result of the liberal and non-interventionist conception both of the commercial colonizer (big companies from the Indies), as well as its successor (the state colonizer of the nineteenth century, whose typical example was the English *raj* in India) – typically leave the outcast abandoned to their fate in the camps. Thus, the result is the concentrated and catastrophic pattern of rural poverty in these countries in the twentieth century.

The maintenance of social structures influenced by the power of economic structures also ensured (and this movement of reciprocal causality is typical in history) the perpetuation and strengthening of the economic power structures. Thus, the stage was set for the deepest and most dangerous transformations that global capitalism would suffer from the 1990s. This is what will be seen below.

6. Internationalization of economic relations and the internationalization of monopolies

1. INTERNATIONALIZATION OF ECONOMIC RELATIONS AND ITS EFFECTS

From the 1990s, economic relations quickly began to take on completely different contours.

As seen in the previous chapter, the industrialization of Latin American and Asian countries did not change the domestic economic structure of these societies. This led, in both regions (and sometimes for different reasons), to industrialization processes that maintained or even increased external dependence. An eloquent example of this was the growth policy based on import substitution in Latin America – see Chapter 5, section 1.c.

No wonder, therefore, that, together with economic growth, the external debt of these countries from 1950 to 1970 increased dramatically. Macroeconomic interdependence between these systems and the developed world, rather than decreasing, expanded greatly.

The consequences did not wait. Having triggered the Great American inflationary crisis of the 1970s, the macroeconomic response adopted had important effects on developing economies. The increase in interest rates charged since 1979 by the American Fed made debt service payment (interests) for most of the developing countries of the Southern Hemisphere unbearable.[1]

[1] For a description of the effects of the Volcker doctrine – applied by the Federal Reserve (Fed) from August 1979 – in regard to Asian and Latin