The Long Gestation and Brief Triumph of Import-Substituting Industrialization

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Summary. — As a set of ideas and practices, import-substituting industrialization became the dominant development strategy after WWII. This article examines the highly diverse origins of what became a kind of consensus, one that was most explicitly articulated through the ECLA/CEPAL "school," inspired by Raúl Prebisch. Explicit attention is paid to the congruence of economic strategy and political formations. As the "Washington Consensus" displaces the "ECLA Consensus," one must ask how those developing countries that have not yet industrialized may do so in the absence of high levels of protection. © 1999 Elsevier Science Ltd. All rights reserved.

1. PREAMBLE

Until the late 1980s the preferred strategy for nearly all late industrializing countries to attempt to catch up with the industrial core countries of Western Europe and North America was import-substituting industrialization (ISI). Its most coherent formulation was elaborated by Raúl Prebisch of Argentina, and it became the doctrine of the Economic Commission for Latin America (ECLA/CEPAL), and, subsequently, for UNCTAD and UNIDO. In its ubiquity, ISI was to the developing world since WWII what the "Washington Consensus" has been in the last decade.¹

There are certain similarities in the processes by which these two master strategies spread. My central concern is with the spread of ISI, but occasional reference to the subsequent adoption of elements of the Washington consensus can help clarify the former.

ISI, both conceptually and in practice, is a very big tent. The variety of experiences that can fit within it is so great that generalizations either wash out important variations and the reasons for them, or lose all analytic sharpness. Moreover, most countries pursued a mix of inward-oriented and export-oriented policies, sometimes simultaneously, sometimes in sequence. In a number of countries ISI set the conditions for successful export promotion. Thus, neither ISI nor export-led growth are pure types, and the balance between them tended to shift over time.

ISI, to use a somewhat cumbersome term, was "overdetermined;" that is, there are too many independent variables to explain, parsimoniously, the dependent variable of its widespread adoption. History, culture, resource endowments, time of entry, international crises, strategic and military ambition, specific leaders, compelling ideas and conceptual contagion, and the structure of interests in specific societies and regions all played a part. Moreover, as we shall see, the scope, quality and composition of ISI strategies varied enormously, making it very difficult to define the dependent variable itself.

There are, nonetheless, some striking commonalities, set down here, unadorned, in order to explore them in greater detail in what follows.

— Industrialization was often, but not always, conceived of as heavy industrialization,
— tariffs, trade quotas, and quantitative trade restrictions were used everywhere,

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— in many cases, initial ISI was driven by military/strategic aims,
— the agricultural sector was seen as the major source of “surplus” for investment in industry,
— planning and policy interventions, it was held, could successfully substitute for markets and could tame business cycles.

There was, however, no consensus on the following:
— the proper role (if any) for direct foreign investment;
— the proper role for the indigenous private sector;
— the extent and sectoral distribution of public ownership;
— exchange rate, fiscal, and monetary policy;
— policies toward the agricultural sector;
— redistributive policies.

Along with the variance across countries and experiments, we should not lose sight of the changes in ISI over time within countries and experiments; again, without elaboration, one thinks of the strategic shifts—more or less dramatic—from Rhee to Park in Korea, Sukarno to Suharto in Indonesia, Peron to Frondizi in Argentina, Nasser to Sadat in Egypt, Cárdenas to Camacho in Mexico, or Velasco to Bermudez in Peru.

There are two final introductory observations that need to be made. First, although many paths led to ISI over time within countries and experiments; again, without elaboration, one thinks of the strategic shifts—more or less dramatic—from Rhee to Park in Korea, Sukarno to Suharto in Indonesia, Peron to Frondizi in Argentina, Nasser to Sadat in Egypt, Cárdenas to Camacho in Mexico, or Velasco to Bermudez in Peru.

Second, unlike the Washington Consensus with its emphasis on trade and conservative public expenditures, ISI was a politician’s dream. It emphasized discretionary policies, which is a politician’s currency, and it implied that most of the variables affecting growth were within the politician’s grasp and contained within the national economy. An export-led growth strategy, by contrast, reduces discretion, and, as few developing countries can actually influence the markets in which they trade, throws politicians squarely into a world of maximum uncertainty. Thus, when the exponents of the Washington Consensus laud economic flexibility and nimbleness, the politician hears of destructive and unpredictable shocks. It follows that just as the adoption of democracy and free trade are “unnatural” acts (maximizing unpredictability for politicians and reducing the number of variables over which they have some control), ISI and authoritarianism were made for each other. For that reason the difficulty of moving away from ISI and authoritarianism is equaled only by the difficulty of moving toward democracy and free(er) trade.

2. HISTORICAL ORIGINS

Protection is probably as old as trade. Clearly one of the two major strands of the ISI strategy flows from pre-industrial mercantilism, or what we would call today “managed trade.” It was not until Great Britain mastered modern industrial processes and dominated world trade that ISI became desirable, if not imperative. The concern for industrialization among the “late” industrializers (see Gerschenkron, 1962) becomes manifest in Europe and Russia in the 19th century. During that century sea and rail transport was so transformed, especially after 1870, that bulk manufactures could be moved to distant parts of the globe thereby reducing the natural protection that distance had hitherto provided (Lewis, 1978, p. 11).

It was not, however, primarily the menace of British exports that concentrated the minds of late and would-be late industrializers. It was rather the perception of relative military and naval backwardness. Thus, the early ISI experiments were launched and sustained in order to overcome this backwardness. Gerschenkron (1962), p. 17) in fact notes that the “jerkiness” of Russian industrialization reflected the ebb and flow of military catch-up.

A second characteristic that carried through into the 20th century was the intimate, albeit
subservient link of the agricultural sector to the industrialization effort. As many LDCs were to discover a century later, late industrializers (Germany, Austria, France, Japan, the Soviet Union, and the Peoples Republic of China) had to harness agriculture to the effort and to engineer net transfers of production and savings from it and to the industrial sector. Backward agriculture was seen as the structural impediment to industrialization and modernity, yet, cruelly, was called upon to provide the investment that would allow the economy to move beyond it (Lipton, 1977).

In that vein, state agencies began to intervene in agricultural production in the mid-19th century, presaging the kinds of social engineering experiments that became common after WWII. The emancipation of the serfs in Russia in 1861 was a necessary precursor to the industrialization drive of the 1890s. Germany had already built its alliance of iron and rye, while in the Ottoman Empire land was privatized and made heritable. The goal was to make agriculture more productive and then to tax it.

Throughout the great empires of the 19th Century and into the 20th, imperial authorities pursued what later was dubbed “defensive modernization.”3 The notion is that these empires saw their primary challenge as one of acquiring the military technology and training that had given some Western European Countries marked military superiority. Some early attempts at industrialization (to some extent substituting for existing imports of military hardware) came in the armaments sector.

A paradigmatic figure in this phase was the Ottoman Governor of Egypt, Mohammed Ali who ruled that province for the first half of the 19th century. He was a contemporary of Friedrich List (List, 1928) who seems not to have paid him or his experiment any attention.

Mohammed Ali had followed in the footsteps of Sultan Selim III, the Ottoman Emperor of the late 18th century who had sought to reverse the Empire’s military fortunes by reorganizing his armed forces and establishing military industries. Both leaders ran head on into Great Britain’s aggressive trade penetration of non-European markets, which, faced with Great Britain’s dominance in trade, had begun to erect tariff walls against British exports. The Anglo-Ottoman conventions of 1809 and 1820 stripped the Empire of its ability to protect its infant military industries.4 Mohammed Ali, allowed to levy no more than a 3% tax on British imports, nonetheless plunged ahead into industrialization.

Beginning in 1820, he established a state monopsony over cotton purchases and a monoply over exports. He broke down old forms of quasi-feudal land ownership and redistributed land to a new class of his own dependents. He invested heavily in irrigation infrastructure. Simultaneously, and with European advisors, he launched state industries in iron, armaments, military uniforms (and textiles in general), paper, chemicals, sugar refining, and tanneries.

These ventures unprotected as they were, faced almost inevitable failure, but, as Mabro and Radwan argue (Mabro and Radwan, 1976, p. 18), they might well have failed out of sheer inefficiency anyway. The Pasha had to beseech private Egyptians and agencies of his own government to buy Egyptian manufactures.

Still, for some Egyptian historians, Mohammed Ali’s efforts were brought to nought by Lord Palmerston’s zealous pursuit of free trade, and, ultimately by French and British intervention to curb the Pasha’s military ambitions which appeared set on seizing Istanbul. In 1838, more out of concern for protecting the integrity of the Ottoman Empire than for free trade, Britain and France imposed terms on Egypt that forced Mohammed Ali to liquidate his state enterprises and to reduce his armed forces to 20,000 men.

The episode is paradigmatic in the sense that nationalist and Third World historians more than a century later interpreted it as evidence of the implacable hostility of the industrial core countries to industrialization and military modernization in the periphery, and of the lengths to which they would go to thwart either. The clincher was that from 1840 until 1952, Egypt performed its assigned role in the world division of labor by exporting raw cotton, and little else, to the industrial world.

However we interpret Mohammed Ali’s fate, his enterprise demonstrates that ISI was a practice long before it was a theory or a reasoned strategy. Meiji Japan offers another early, and, because of its distance from the core, more successful venture into industrialization. It was Admiral Perry’s “black ships” that opened Japan to international trade in 1853, and, like Egypt in the first half of the century, Japan would have to try to industrialize with only minimal protective tariffs. It drew on its own state traditions and borrowings from German experience, both Marxian and Listian
The objectives were very much in the spirit of defensive modernization, and military/naval credibility was a paramount goal (rather successfully achieved by 1895) (see Lockwood, 1968, pp. 117–145). By the end of the century there was already a military-industrial complex in place, the first zaibatsu had been established, while the tax bureaucracy and educational system were reformed.

The earliest zaibatsu, especially Mitsubishi, emerged, after 1880, from the first privatizations of inefficient and failing state-owned enterprises (SOEs). Proceeds of the privatizations were devoted to the military-naval build-up that led to victory over China and to the sinking of the Russian fleet in 1905. Japan developed a protected colonial hinterland in Manchuria, Korea, and Formosa in which it could carry out industrial experiments, skim agricultural surplus, and to which it could export its goods (Calder, 1990, pp. 163–186). These territories in turn were early on integrated into a Japanese model of ISI and state orchestration of economic life. The model, with modifications, was sustained once the territories were freed from Japanese rule after WWII (see Cummings, 1984; Kohli, 1994).

Tsarist Russia, especially during the tenure of Minister of Finance Witte (1892–1903) witnessed a great burst of industrialization with the state taking on large infrastructural projects, subsidizing private enterprises, erecting tariff walls, and inviting in foreign capital to take advantage of them. The flow of foreign investment increased several fold between 1890 and 1914, and during the 1890s Russian industrial production grew at 8% per year. Witte squeezed the farm sector for exportable surplus to pay for the importation of plant and capital goods. Nonetheless, Russia’s external debt rose to unsustainable levels by 1913 (see Skocpol, 1979, pp. 90–93).

India (including at the time Pakistan and Bangladesh) in the early 19th century had begun to promote industrialization, but the process was partially disrupted by the surge in cotton prices provoked by the US Civil War. Cotton exports became very attractive until the United States came back into production. Nonetheless coal-based iron and steel production began in 1875, and textile production grew at rapid rates. Foreign private investment came into the Bengali jute processing sector. As in Japan this early industrialization took place, until 1917, without significant tariff protection, and, perhaps uniquely, on the strength of private investment (Little, 1982, p. 358).

After WWI, many new trails toward ISI were blazed. The examples of the Soviet Union, Germany (albeit in defeat) and Japan were there for all to see, but that these three were examples shows just how diverse were the sources of inspiration and emulation.

On the Chinese mainland, Sun Yat Sen and the Kuomintang, borrowed from Henry George’s writings to advocate equalization in landholdings. Sun believed that this would lead to increased agricultural productivity, greater tax revenues, and more investment in industry. Sun did not admire Marxist economics, but he did admire Leninist political organization, and sought to establish the Kuomintang as a vanguard party. Like the Saint Simonians, he envisaged a kind of state socialism, with extensive state ownership of productive means, alongside a small-scale private enterprise sector. But in the late 1920s,

‘the immediate need was to encourage China’s infant industries. Here Sun stressed her emancipation from foreign economic imperialism, the main point of which was to gain customs autonomy, lost through the unequal treaties, and to erect protective tariffs’ (de de Bary, 1960, p. 114).

Sun’s eclectic populism and socialism were summarized in his “three principles of the people”—private ownership, central planning, and people’s livelihood. All three, as we shall see, were incorporated into the more populist and redistributive ISI experiments in the post-WWII era.

During 1927–1937, under the leadership of Chiang Kai Shek, the KMT tried to emasculate the Shanghai business class and to tax it heavily. State control over the banking sector was put in place, and a state-owned industrial and banking sector developed. When the KMT moved from the mainland to Formosa in 1949, it brought this model with it, but, given the fact that it had been defeated by a peasant-based movement, it paid even greater attention to the land question, and, because of the hyper-inflation on the mainland, it followed a fiscally conservative expenditure path (Haggard, 1990, p. 77).

In Formosa/Taiwan, the KMT found a former Japanese colony that had gone through a proto-Green Revolution and which had witnessed some industrialization under protected conditions. Both Taiwan and Korea, however,
were, on a per capita basis, more involved in international trade than was Japan. The KMT implemented an extensive land reform, redistributing more than 37% of all agricultural land. It used an overvalued exchange rate, quantitative restrictions, and tariffs to protect state and private industry (although SOEs predominated). From the late 1930s to about 1957, Taiwan went through the easy phase of ISI, substituting locally manufactured consumer goods for imports. At the end of the period only 7% of Taiwan’s imports consisted of consumer goods (Wade, 1990, p. 78). To emphasize an earlier point, all the initial state-led industrial growth and protection was aimed, first and foremost, at military preparedness and reconquest of the mainland (Amsden, 1985).

Korea likewise experienced its first round of ISI as a Japanese colony. Indeed, because Korea’s climate was less conducive to agriculture than Formosa’s, Japan chose the former as a kind of laboratory for industrial experimentation. At the end of Japanese occupation it enjoyed a relatively strong industrial base, a fairly open economy, and a tradition of government-business cooperation which later yielded the chaebols (Kohli, 1994). Under the post-war Rhee administration ISI was pursued but without the fiscal and expenditure discipline evidenced in Taiwan. But, with the Communist triumph in China in 1949 and the outbreak of the Korean War in 1953, industrialization was hitched to military preparedness.

In other, widely-scattered, venues, ISI, sans nom, was put into practice. Unquestionably the world depression after 1929 gave the process great impetus but did not initiate it. The Republic of Turkey, which survived the break-up of the Ottoman Empire at the end of WWI, was bound to a low tariff regime until 1929 by the Treaty of Lausanne. Once those clauses of the Treaty expired, Turkey immediately embarked on a heavy industrialization drive, built around SOEs, and sheltered by high tariffs. The defense sector played a prominent role in it. Just how broad the definition of national security could be is exemplified in the fact that six products—the three “whites” (textiles, flour, and refined sugar) and the three “blacks” (coal, petroleum, and iron)—were declared of a strategic nature. State monopolies over the sale of tobacco, alcohol, petroleum, sugar, and salt were already in place. State agencies became the sole importers of a wide range of goods. To encourage agricultural production, the traditional Islamic tithe was abolished. In addition to the monopolies’ profits, the agricultural sector and customs were thus to be the main sources of state revenues. The new republic was loath to accept foreign investment.

In 1934 Turkey and the Soviet Union signed an $8 million loan agreement to help finance Turkey’s industrialization drive, to be repaid in Turkish exports. This formula was to become the favored instrument for interaction with the developing world after Nikita Khruschev came to power in 1955, but the Turkish accord, for 20 years, was one of a kind. Stalin became convinced that such loans would only anchor developing countries on a petty-bourgeois, capitalist path, and no further such were negotiated over 1945–1956 (see Hershlag, 1968, pp. 67–70, Waterbury, 1993, pp. 36–41).

In neighboring Romania and somewhat more distant Hungary, similar experiments were underway. Having won tariff sovereignty in 1877, Romania chose not to compete against the United States, Canada, and Argentina for Western European grain markets and moved instead toward heavy industrialization based on its steel and oil sectors. In 1938 King Carol, by coup, ushered in a royal corporatist dictatorship. The major industrial actors were private, but the state was their principal customer.

During WWI, Egypt, under British occupation since 1882, began to question its role as mono-crop exporter. In 1918, its Commission on Commerce and Industry, with foreign and Egyptian members, warned against continued dependence on cotton, called for the establishment of an industrial development bank, and for import-substitution in ceramics, glass, clothing, footwear, fertilizers, sugar, soap, and vegetable oils. The Commission called upon the Egyptian state to foster these industries behind protective tariffs. Egypt, however, did not recover tariff autonomy until 1930, when Prime Minister Ismail Sidqi, who had chaired the 1918 Commission, began the ISI experiment in earnest (Tignor, 1984, pp. 55–57).

In Latin America there were at least six important interwar experiments in ISI: Argentina, Brazil, Chile, Colombia, Mexico, and Uruguay (Kaufman, 1990). More than in East Asia, Turkey, and Egypt, these projects were driven by the collapse of primary commodity prices during the 1930s and by the great wave of
export pessimism that carried over into the postwar era. Wheat, beef, coffee, and nitrates all suffered on world markets.

The process of ISI was uneven (Kaufman, 1990, p. 121), mainly because agro- and mineral-exporting sectors in each of the countries had different reactions to the export crises and differing weights within their economies. Chile and Argentina had the human resources and the standards of living that might have sustained a domestically-focused industrialization drive, but it was Mexico under Lazaro Cárdenas (1934–40), and Brazil, under Getulio Vargas and the Estado Novo (1937–45) that registered the greatest progress. Moreover, it should be noted that in Latin America the concern for military preparedness and national security was markedly less than in the other regions we have considered so far.

I will mention here only the Mexican experiment. The stage for Cárdenas had been set several years earlier with the 1917 Constitution. This document established the doctrine of the rectoría del estado and reserved energy, mines and basic infrastructure for state ownership. In that spirit, Cárdenas’ immediate predecessor, Plutarco Calles, brought the foreign-owned power sector under state control, and he established what was to become the Central Bank (Banco de Mexico). In 1934, Cárdenas was elected President, a post he held until 1940. During his sexenio, he engineered a far-reaching agrarian reform and in 1938 nationalized the US-owned petroleum sector. It was left to his successors to build a large SOE sector in manufacturing and distribution. Cárdenas instead tried to foster a new private industrial class, subordinate to the state, protected against foreign competition, and shielded from foreign investment. He created financial intermediaries, such as Nacional Financiera, to offer credit to private enterprises (see Waterbury, 1993, pp. 45–50). Cárdenas saw himself as a revolutionary. He tried to square the circle of encouraging state-dependent private enterprise and labor militancy. He redistributed rural assets to the campesinos, and he defied the United States through the petroleum nationalization. In one of those strategic shifts, typical of most ISI experiments, Cárdenas’ successor, Avila Camacho, intensified the experiment but along state capitalist lines, entailing tight constraints on labor agitation and de facto suspension of agrarian reform.

3. THE CONCEPTUAL LINEAGES OF ISI

The Mohammed Ali episode, outlined above, illustrates another phenomenon that characterized ISI from its inception. Reputable third party intellectuals gave it their blessing. Mohammed Ali’s industrialization drive was influenced significantly by a group of Saint Simonians (followers of Henri Saint Simon), who had come to Egypt in the wake of Napoleon Bonaparte’s invasion, and who envisioned a “Manchester on the Nile” (Vatikiotis, 1969, p. 63). The Saint Simonians were later to influence Napoleon III, promoting a kind of corporate alliance of banks, state agencies, and large-scale industries to be put, in an unspecified way, at the service of the “suffering classes.” Friedrich List was a great admirer of the Saint Simonians and recast their corporate socialist ideas into a more nationalist vocabulary suitable for Germany (Gerschenkron, 1962, p. 25). So too was Mihail Manolesco (Manoilesco, 1928) who adapted their philosophy to the corporatist system established in the interwar period in Romania (Love, 1996, p. 95; and see below).

List is a seminal figure, but one whose impact, unlike that of Keynes, is very hard to assess. He certainly did not see himself as writing for the developing world, which he usually characterized as savage and half-civilized. Rather he addressed himself to the handful of European late industrializers and, at least implicitly, to Canada and Japan. In his major collection of essays, The National System of Political Economy, all written before 1844, List inveighs against Adam Smith and his so-called “popular school,” and against free trade. He romanticizes the nation (p. 141) and the need, guided by the state, to realize its full potential. In turn, that potential lies in industrialization which, if it is to succeed, requires protection (p. 135; see also Skocpol’s quote of Count Witte,):

. . . (T)he State is not merely justified in imposing, but bound to impose, certain regulations and restrictions on commerce (which is in itself harmless) for the best interests of the nation. By prohibitions and protective duties it does not give directions to individuals how to employ their productive powers and capital (as the popular school sophistically alleges). . . . It merely says “It is to the advantage of our nation that we manufacture these or other goods ourselves; but as by free competition with foreign countries we can never obtain possession of this advantage, we have imposed restrictions on that competition…” (1928, p. 91).
List is at pains to laud the disciplinary qualities of international competition, but only mature industrial countries can afford free trade. But protection of infant industries, he believed, should diminish over time. He evoked two themes that emerged later in the writings of Prebisch. First, he called upon Great Britain to hasten the day when free trade would be feasible (p. 153):

Meanwhile, and until that period has arrived, England will be able to compensate herself for the losses which she suffers from foreign systems of protection, in respect of her export trade in manufactures of everyday use, by greater export of goods of finer quality, and by opening, establishing, and cultivating new markets for her manufactures.

It was precisely that long-term, enlightened self-interest that Prebisch and UNCTAD sought to elicit from the core industrialized countries over a century later. List also mentioned a possibility that was to become dear to Prebisch and other Latin American exponents of ISI. He forecast that protective tariffs would “stimulate foreigners to come over to our side with their productive powers” (p. 135).

List’s influence was more indirect than direct outside of Germany. Bismarck’s successful re-fashioning of the zollverein into a successful military and industrial power captured global attention. For example, in Japan intellectuals borrowed heavily from German practice, although it was only a handful who read List (Gao, 1994). Rather it was Germany’s “Younger Historical School,” emerging after 1872, that commanded the attention of an influential group of Japanese thinkers. They were particularly impressed by the social reforms espoused by this School, and implemented by Bismarck. Stressing List’s concern for national solidarity, they sought to combat the excesses, as they saw them, of the Manchester School, advocates of social Darwinism, of an unbridled individual acquisitiveness. In their view the state must be the guarantor of the agrarian social structure, the family, and the moral order (Pyle, 1974).

In the first half of the 20th century intellectual consensus on imperfect markets and the need for significant state intervention in all aspects of the economy was shaped by two wars and the depression. It was the legitimation of extensive intervention, whether out of a Keynesian concern to maintain full employment or a Schumpeterian conviction that development is characterized by disequilibria that markets cannot adjust (Schumpeter, 1934), that allowed powerful leaders to claim in good conscience the right to manage their economies, plan the allocation of resources, and protect their new industrial creations. Anglo-Saxon theories of the market, the individual, and liberalism were judged inappropriate and downright harmful. Celal Bayar, Turkey’s Minister of Economy, stated to the Grand National Assembly in 1936, “I cannot even pronounce liberalism, this word is so foreign to me... we want to establish the principles of a government-controlled economy, and we are heading toward these new principles” (as cited in Waterbury, 1993, p. 40).11

Bayar reflected an ideological trend in Turkey that had gathered momentum since the turn of the century. The Committee of Union and Progress (the “Young Turks”) were inspired by List, and also by Japan, as they sought to promote the industrialization of the dying Empire (Toprak, 1982, pp. 29–34). List’s economic philosophy was complemented by the advocacy of a Durkheimian concept of an organic social structure by the Empire’s leading sociologist, Ziya Gökalp.

It should be clear from the foregoing that for the formulators of state-guided development the political and economic systems were two sides of the same coin. Organicist, corporatist concepts of polity and economy came to characterize interwar thinking in many societies, both developed (Germany) and less developed (Brazil, Italy, Rumania, Spain, Turkey). The seminal figure in this linkage was Mihail Manoilescu who put forth his economic prescriptions in 1928 (Théorie du protectionisme), and his political philosophy in 1934 (The Century of Corporatism). Like some other political economists of development, especially Michal Kalecki and François Perroux (see below), Manoilescu’s political and economic prescriptions were often separated as they diffused to other venues. His ideas on corporatism were admired in Salazar’s Portugal while his views on trade and protection significantly influenced Brazil’s advocate of ISI, Robert Simonsen, and through him Getulio Vargas and the Estado Novo (Love, 1996; Sikkink, 1991, p. 53).

Non-Marxist theorists of late industrialization were deeply suspicious of market solutions...
Writing in 1941, Friedrich Pollock (1982) out
enamored of planning and state capitalism.
lined two forms of state capitalism, democratic
and authoritarian, that did not differ in their
economic philosophy but rather in the absence
or presence of effective citizen monitoring. In
either variant, state policy makers simulated
markets within the framework of a general plan
and used administered prices in every sector.
Within this framework, private actors are al-
lowed and encouraged to seek profits. Because
the state is the major risk-taker, it should also
be a major direct producer so that it can di-
rectly acquire profits and put them to work for
the general good. It is significant that in his
treatise Pollock makes virtually no mention of
foreign trade at all. The depression and the
outbreak of war must have made it appear
irrelevant.

By contrast, he set down a credo that
would inspire any head of state (Pollock, 1982,
p. 86–87):

...We are unable to discover any inherent economic
forces, "economic laws" of the old or a new type,
which would prevent the functioning of state capital-
ism. Government control of production and distribu-
tion furnishes the means for eliminating the economic
causes of depressions, cumulative destructive process-
es and unemployment of capital and labor. We may
even say that under state capitalism economics as a so-
cial science has lost its object. Economic problems in
the old sense no longer exist when the coordination
of all economic activities is effected by conscious plan
instead of by the natural laws of the market.

In this sense, Pollock saw state capitalist sys-
tems as viable and permanent, not as tempo-
rary resting places on the paths to socialism
or to true capitalism (see also Freeman, 1989,
pp. 46–47).

At about the time Pollock wrote, Great
Britain had put Keynesianism to work. Colin
Leys summarized the situation as follows (Leys,
1983, p. 264; see also Hall, 1989):

By 1944...Keynesianism had become the new ortho-
doxy. Both major parties committed themselves in a
White Paper of 1944 to maintaining full employment.
It was accepted—even by a significant element within
the Conservative Party—that the task of economic
reconstruction could not be left to market forces.

Moreover, the British Labour government in
1945 drafted a White Paper that proposed a
plan for the industrialization of India.

It was also in the interwar years that the
theoretic foundations of unequal exchange and
dependencia analysis were laid. Once again
Manoîlesco was something of a pioneer. In his
Theory of Protectionism, he actually used,
perhaps for the first time, the term "unequal
exchange" to characterize relations both be-
tween the industrialized core countries and the
agrarian periphery, and between the industrial
and agrarian sectors within nations. He re-
jected Ricardian comparative advantage anal-
ysis, arguing instead that, within a given
country, any investment that increased labor
productivity above the country's average,
merited tariff protection ad infinitum (Love,

Subsequently, Sir Arthur Lewis, first in his
1954 article (Lewis, 1954), "Economic de-
velopment with unlimited supplies of labor," and
in his 1978 book, The Evolution of the Inter-
national Economic Order, laid out a similar ar-
gument. He starts his analysis by rejecting the
proposition that industry was denied the pe-
riphery by early industrializers intent on pro-
tecting their initial advantage (i.e. he rejected
the Mohammed Ali paradigm). He argued that
industrialization in the early 19th century was
within the grasp—both technologically and
from a human resources point of view—of
many less-developed countries, including India
and Brazil. These countries chose not to in-
dustrialize. They opted for what appeared to be
the easier way out—exports of raw materials
and agricultural commodities to the industri-
alizing core Lewis (1978), p. 11).

With the transportation revolution of the
1870s, these initial choices became extremely
hard to reverse as natural protection declined.
The international structure of unequal ex-
change was solidified. The "temperate zones," as
he called them, had attracted relatively
skilled, high cost migrant labor which fueled a
technological revolution in agriculture. The
"tropical zone" attracted abundant, cheap,
unskilled labor (mainly Chinese and Indian)
that perpetuated low-cost, low productivity
agriculture in the periphery. At the turn of the
century the international division of labor was
locked in (see Lewis, 1978; Bhagwati, 1982,
p. 25). Lewis's proposals on unlocking it lead
him, implicitly, to Manoîlesco. (see Figure 1).
The numbers indicate levels of productivity.
The temperate zones produce no coffee, the
tropics no steel. The "common" commodity is
food, and the terms of trade between steel and
coffee are set by the relative levels of produc-
tivity in food. Lewis summarized the basic conundrum:

...the tropical countries cannot escape from these unfavorable terms of trade by increasing productivity in the commodities they export, since this will simply reduce the prices of such commodities... The factorial terms of trade can be improved only by raising tropical productivity in the common commodity, domestic foodstuffs (Lewis, 1978, p. 16–17).

In this sense Lewis was a trade pessimist and an advocate of limited infant industry protection to stimulate domestic demand for agricultural commodities. Ultimately a demographic transition, brought about by urbanization and industrialization, would be needed to increase labor productivity in the tropics.17

In summary, there was a sufficiently critical mass of accumulated experience and conceptual road-mapping to inspire and justify an ISI wave in the decade following the WWII. The war itself imposed ISI on many countries. Moreover, to the extent there were any ISI failures evident after the war, they were so in terms of military defeat only. Japan and Germany were notable industrial successes, while Mexico and Brazil stood poised on the threshold of two decades of very rapid growth. With decolonization under way, and economic sovereignty of sorts restored, the developing world was ready for ISI, and in Raúl Prebisch the strategy had its codifier.

4. EXPORT PESSIMISM

The oceans were deserted; the ships laid up in silent ports; the factory smokestacks dead; long files of workless in the towns; and poverty throughout the countryside. The Brazilians threw their sacks of coffee into the sea, and the Canadians burned their corn in railway engines. Nations were economically cut off from one another, but they shared in common the lot of poverty (Prime Minister Paul Reynaud of France as cited by Owen, 1997, p. 33).18

Countries embarking on industrialization drives shared two assumptions: that protection was required and that international trade would provide no support for the drive. The latter judgment came in two parts. First was the observed deterioration in the terms of trade between primary produce and minerals and manufactured goods, and, second the initially observed fact that the markets of the most developed countries were relatively closed to the manufactured exports of the developing world. Prebisch in 1949 summarized these views (as cited in Hirschman, 1968, p. 2):

Formerly, before the great depression, development in Latin American countries was stimulated from abroad by the constant increase of exports. There is no reason to suppose, at least at present, that this will again occur to the same extent, except under very exceptional circumstances. These countries no longer have an alternative between vigorous growth along those lines and internal expansion through industrialization. Industrialization has become the most important means of expansion (Prebisch, 1950, p. 6; see also Dadone and Di Marco, 1972).

It would be tedious to review all the reputable economists who shared this view, but prominent among them were Rosenstein-Rodan (1943), Hirschman (1958), Lewis (1978), Ragnar Nurkse in his Wickell lectures of 1959 (as cited in Killick, 1978 pp. 14–15), Raj and Amartya Sen (1961), and Gunnar Myrdal, 1968, p. 583). Nurkse and others argued that even if trade recovered, changes in the economies of the industrialized countries would work against the interests of the LDCs. Industries were moving away from raw material-intensive processes, a shift intensified by greater efficiencies in raw material use, income elasticities for agricultural products were low, and synthetics were displacing natural fibers.

Some countries, especially in Latin America, saw continued raw material exports as a hedge against balance-of-payments crises, but in that sense such exports were only a subsidiary to the inward-oriented growth strategy.19

The pessimism was misplaced, but only partially so. During 1953–61, the value of world trade grew by 63% to $111 billion but half of that represented trade among the advanced “core” economies, which, in turn, imported in 1961 only $22 billion in goods from the developing world (Kenen, 1964, pp. 99–100). It was not until the mid-1960s that LDC trade began to grow rapidly, such that, by 1990, the trade of the developing world was valued at about a trillion dollars, representing a ten-fold increase over four decades (Krueger, 1990, p. 104; Cassen, 1994, p. 20; O’Hanlon and Graham,
The growth was very uneven. The Middle East, South Asia, and parts of Africa saw their shares of world trade decline over the period. The stars were, of course, mainly in East Asia, but also in Latin America, where, by the mid-1960s, the need to promote exports was already recognized (Pazos, 1987). The laggard regions were precisely those in which the ISI model was most stubbornly defended.

5. CONFRONTATION OR COOPTATION?

If we think of the implementation of ISI in terms of two sets of constraints—domestic and international—we can make the following generalizations. As is the case with the Washington Consensus, the domestic arena of most developing countries did not have favorable structural characteristics. The indigenous bourgeoisie was typically weak, agrarian/landed interests strong, the industrial workforce tiny, and markets for non-agricultural products very narrow. Banking had been largely focused on agriculture, minerals, and their export. Capital markets either did not exist or were embryonic.

In one very important respect, the adoption of ISI differed enormously, in domestic terms, from the adoption of orthodox adjustment programs. No matter how ill-prepared were specific countries for the strategy, ISI had broad popular and political elite appeal. Nearly all experiments had an explicit populist element, the appeal to nationalist sentiment was strong, and, whether or not the industrial core was a paper tiger, ISI was depicted as a courageous act of confrontation. Industry, prosperity, national strength, and international respectability were the promised rewards. By contrast, the Washington Consensus is anti-populist, exclusionary in its reward patterns, contractionary in its expenditures, and seemingly subservient to the core. Its adoption is often perceived as an act of submission rather than of defiance.

The advanced countries sent mixed signals as to whether they wanted to snuff out ISI or embrace it. As noted, for at least a decade after WWII, nearly everyone agreed that international trade could not provide the impetus for growth in the developing world. Opinions were highly divided, however, as to whether the “international system” would permit the industrialization of the developing world. In other words, it was not clear whether ISI was an act of defiance to the international division of labor or the first step toward cooptation in a new guise.

By the time ISI had a name and was broadly adopted, the nature of the struggle to industrialize was somewhat refined. Kathryn Sikkink, for example (Sikkink, 1991, p. 4) depicts ISI as “anti-hegemonic” insofar as the international system is concerned, but nonconflictual in that various modes of capitalist production were espoused domestically.

It is safe to say that the leaders who implemented ISI did not think it was going to be easy. At best they would hope, like List a century earlier, that the advanced industrial countries would put aside their advocacy of free trade, open their markets unilaterally to the exports of the developing countries, and await the day that scores of newly industrialized countries had the strength to compete. In the meantime, again as List suggested, the capital and expertise of the “core” could be attracted to the late industrializers (a term coined by Albert Hirschman) to benefit from their tariff walls.

This was a strategy of linkage to the international system on terms favorable to the developing world. To bring it off, Prebisch envisaged collective action. Toward that end, Prebisch was instrumental in bringing about the creation of UNCTAD (see UNCTAD, 1964; the “Prebisch Report”), and the same philosophy certainly inspired the creation of UNIDO (first directed by Egypt’s former Minister of Planning, Helmy Abderrahman).

Other more radical analysts felt that while the core countries might tolerate ISI, they would use their economic and financial strength to kidnap it. There were several strands to this view. The Soviet Union under Stalin had concluded that state capitalism would evolve, if at all, into capitalism pure and simple (a view restated in a sophisticated manner in Dupuy and Truchil, 1979). Kalecki (1972) developed a theory of “intermediate regimes” (adopted enthusiastically by the Indian left, especially Raj, 1973; as well as in Bangladesh; see Sobhan and Ahmad, 1980) which posited that LDCs, lacking a substantial upper bourgeoisie, of necessity must pursue state capitalism (of which ISI is but a policy manifestation) led by the petty bourgeoisie. Over time, petty bourgeois elites will either nurture a true bourgeoisie which will capture the state, or they will succumb to international capitalism. As a petty bourgeois
project, ISI, in this view, could never lead to economic sovereignty. In this same spirit, students of the international division of labor, such as Gunder Frank, Dos Santos, and Amin, saw linkage as leading inevitably to the pauperization of the periphery. Even if the core, through its multinationals, was willing to invest in the periphery, over time there would be net transfers of profits back to the core. Writing in a volume in honor of Prebisch, the French economist, Destanne de Bernis (1972), advocated “throwing off the bonds of vertical dependence” (p. 287), using ISI industries to beget ever heavier and more sophisticated industries, and, because the core would remain closed to the exports of the periphery, forging policies of regional coordination of industrialization (or what Amin and others called de-linkage through south-south trade and cooperation).23

Destanne de Bernis was heavily influenced by François Perroux (Perroux, 1964) whose espousal of planning, growth poles, and inward-oriented growth traveled widely. Celso Furtado studied economics under Perroux in Paris, and through him and others, the ideas of Perroux and De Bernis made their way to the ECLA school (Ikonicoff, 1983, pp. 19–21).24

Prebisch’s more optimistic expectations proved founded in the long run. The Marxist analyst, Bill Warren (1973) argued that the first analysts of dependencia had closed their eyes to the possibilities of real industrialization in the periphery under the auspices of international capital. It was not so much a question of net transfers but of what was done with the capital while it remained in the developing economy. He argued that plenty was being done, that real industrialization was taking place, and that nationalism was an important factor in asserting economic sovereignty. Soon Warren was joined by a flood of analyses of “dependent development.”

There was a brief moment, corresponding to the tenure of Nikita Khruschev as Soviet Premier, in which the Soviet Union totally revised its assessment of a subset of ISI experiments. These were the most radical, espousing public ownership, redistribution of wealth, and various forms of socialism. The prime cases were Burma, Guinea, Algeria, Egypt, Syria, and to a lesser extent, India.25

The truly revisionist aspect of Soviet understanding of these countries’ strategies was the proposition that they were, in fact, “building socialism” and that they could do so without passing through a full-blown capitalist phase. It therefore was in the ideological and strategic interest of the USSR to promote their industrialization and to help them reorient their trade away from the Western industrial countries. The Institute of World Economy and International Relations was the think tank that elaborated this doctrine, and after Khruschev’s removal from power, it was gradually abandoned. But it left an important legacy. The old model of the Soviet-Turkish economic cooperation accord of 1934 was resurrected in a score of countries, whereby Soviet credits for industrialization were repaid through trade accords involving raw materials and the products of the new industries. These trade accords lived on long after the doctrine of “socialist transition” had been shelved.

The major players in the Western industrial “core” were opportunistic in their reaction to ISI when they were not actively promoting it (as Britain did in India in 1945). Maxfield and Nolt make a convincing case that the United States during and after WWII actively promoted ISI, at least until the Kennedy Round of tariff reductions. As early as 1941, the Council on Foreign Relations called for the establishment of an International Development Agency that, among other tasks, would help design industrial strategies for developing countries. The authors spoke specifically of the desirability of tariff protection. Truman’s Point Four Program of 1949 echoed the same themes. The Prebisch line, Maxfield and Nolt contend, was perfectly compatible with US objectives.26 Even under the Republicans ISI found favor because it simultaneously satisfied the party’s internationalist and protectionist wings. ISI served to reduce developing country exports while subsidizing US exporters of capital goods or US-based multinational corporations (MNCs) benefiting from tariff protection. During 1940–63 US investment in Latin America rose from 8% to 26% of total US investment abroad (Maxfield and Nolt, 1990, p. 61).27

By and large, the United States shared in the export pessimism of the immediate postwar years. Despite the health of the US economy, no one believed that the United States could absorb enough developing country exports to sustain their growth. In that sense protection was not an issue for the United States. Unlike Britain of List’s time, the United States was not, relative to the size of its economy, a major trading country. In 1950 US total trade represented only 5% of GNP, and of that only 35%
involved the developing world (Krueger, 1990, p. 11). By the early 1990s, half of all US exports, valued at about $250 billion, went to countries outside the OECD (O’Hanlon and Graham, 1997, pp. 20–21).

6. VARIETIES OF ISI

Structural explanations of the emergence of ISI are necessary, but not sufficient. After all, the strategy was so widespread that it would be tempting to see it as the product of domestic class structures combined with the characteristics of international trade and capital flows. But I have already argued that in terms of domestic structures, there was little to support the experiments, and the international system offered very mixed incentives and disincentives. In this sense structures are best understood as impediments rather than as catalysts to the adoption of ISI. As Sikkink, Hall, and others have argued, powerful systems of ideas were embraced by dynamic leaders with critical technocratic support and applied to unpromising social and economic terrains. Unsatisfactory as it may be for social scientists, there is a great deal of voluntarism in the unfolding of ISI strategies.

There were colossi like Stalin and Mao, who set a tone and style, but less dramatic industrialization drives were led by dynamic leaders with critical technocratic support and applied to unpromising social and economic terrains. Unsatisfactory as it may be for social scientists, there is a great deal of voluntarism in the unfolding of ISI strategies. There were colossi like Stalin and Mao, who set a tone and style, but less dramatic industrialization drives were led by dynamic leaders with critical technocratic support and applied to unpromising social and economic terrains. Unsatisfactory as it may be for social scientists, there is a great deal of voluntarism in the unfolding of ISI strategies.

As noted at the beginning of this essay, ISI was and is a very big tent, but one basic line of distinction running through all the experiments lies between state capitalism and state socialism. Sikkink (1991), pp. 33–35) uses a similar distinction, that between developmentalism and populism. ISI of the state capitalist variety placed less emphasis on redistributive policies, welcomed foreign investment, and encouraged the local private sector. Common with state socialism/populism, however, was reliance on controlling the “commanding heights” through SOEs in transportation, power, metallurgy, mines, and chemicals. The major exemplars of state capitalism/developmentalism were Argentina (under Frondizi), Brazil (especially under Kubitschek), Kenya under Kenyatta and Moi (Nixson, 1982), Indonesia (under Suharto), Malaysia under Mahathir, Nigeria throughout (Kilby, 1969), South Korea, Taiwan, and Turkey.

The state socialist experiments evidenced great suspicion of foreign capital (but so did “developmentalist” Turkey under Atatürk), tolerance of small and medium-scale private enterprise, and the reservation of the “major means of production” to state ownership. These countries emphasized comprehensive and binding plans, administered prices, and highly-regulated economic activity. They tried to engineer through direct and indirect taxes major transfers of income to poorer, particularly urban constituencies. The most notable exemplars of state socialism were Algeria under Ben Bella, Bangladesh under Mujibar Rahman, Burma under Ne Win, Nasser’s Egypt (Waterbury, 1983), Ghana under Nkrumah (Killick, 1978), Guinea under Sekou Touré, India under Nehru, Iraq since 1963, Mexico (especially under Cardenas and Echeverria), Pakistan under Zulfiqar Bhutto, Peru (1969–80), Syria (1963–91), Tanzania under Nyerere, and Tunisia (especially 1964–69).

While many late industrializers were concerned with building conventional military strength, the military authoritarian regimes of Latin America and sub-Saharan Africa in the 1960s and 1970s were more concerned with unconventional, internal warfare and subversion. The kinds of military-industrial complexes that grew in countries such as Korea, India, or Turkey were not in evidence in the former regions (Brazil’s armaments and aeronautics industries were an exception). Indeed, in Mexico, from the late 1930s on, and in Tunisia over 1956–87, the conventional military was deliberately reduced (Mexico) or prevented from growing (Tunisia). By and large, however, the military establishments in Latin America and sub-Saharan Africa became the most expensive piece in large, state-dependent, distributional coalitions.

7. WHAT WENT WRONG…AND RIGHT

Nearly all economists agree that the ISI strategy, in the absence of raw material exports such as petroleum, leads to balance-of-payments crises. The sequence ran something like this:

The easy or exuberant phase of ISI → deepening → BOP/debt crisis → structural adjustment (the
High levels of protection were often coupled with financial repression leading to capital-intensive investment and low savings. Monetizing debt and foreign borrowing were the (temporary) ways out. In his study of Ghana, Killick assessed Nkrumah’s “big push” as resulting in declining savings, inefficient investment, a BOP crisis, and high inflation. “Those who took over from Nkrumah inherited a sorry mess...” (1978, p. 83). India and South Korea managed to avoid inflation but not external debt crises.

The peculiar circumstances of the 1970s exacerbated, but did not cause, the break-down in ISI strategies. With the enormous international liquidity triggered by the hiking of petroleum prices after 1973, developing countries were able to borrow at negative real interest rates to cover imbalances in their external accounts. As their debt matured and servicing became a major challenge, the first efforts to promote exports (outside East Asia) were taken. Sheahan (1987), p. 91) and Pazos (1987) demonstrate that during 1960–80 the exports of several Latin American states picked up markedly, and the share of manufactures in total exports rose dramatically: from 4% to 23% in Argentina, from 3% to 39% in Brazil, and from 12% to 39% in Mexico (itself an oil exporter). But, stagnant economic growth and rising interest rates in the industrial core countries in the early 1980s made it impossible, even for the export pioneers, to export their way out of debt or into growth. The 1980s (really beginning with Turkey and South Korea in 1979) witnessed a string of debt crises and partial defaults. Almost nowhere did ISI survive intact.

Not all economists share this view of the deficiencies inherent in the strategy. Rodrik (1996), pp. 16–17), echoing comments written by Díaz-Alejandro in 1975, accuses proponents of the Washington Consensus of elementary confusion of microeconomic effects with macroeconomic (in)stability:

The consensus post mortem view held the whole complex of import-substitution policies responsible for what was essentially a crisis of overspending exacerbated by the fickleness of international capital markets. ... The intellectual ground was therefore cleared for the wholesale reform of prevailing policies in Latin America, Africa, and Asia.

Rodrik contends that the East Asian Tigers have demonstrated that ISI per se is not the problem, yet it was precisely the Tigers that first began to lower tariffs in order to discipline their own industries.

In light of empirical evidence, this assertion is problematic. Overvalued exchange rates and unsustainable levels of public spending were not accidents, although they varied across the broad range of ISI experiments. Rather they were systematic features of these experiments, as were SOEs, planning, administered prices, overregulation, and various kinds of production and credit subsidies. Theory may distinguish between microeconomic distortions and macroeconomic stability, but practice did and does not.30

There is, however, another issue arising from the post-mortems, i.e. whether ISI was a mistake under any circumstances. The answer is no. It is very difficult to conceive of any other strategy of industrialization given the constraints of the 1950s and 1960s outlined above. One may question the desirability of industrialization, but that is altogether another issue. With time ISI led to the training of an industrial workforce, the accumulation of management skills, and the development of financial institutions that could be and have been “re-engineered” for a new phase oriented toward reliance on private enterprise and international competition. Some observers, like Robert Wade and Jaime de Melo, in fact argue that ISI was a pre-requisite for export-led growth (de Melo, 1985; Wade, 1990, pp. 84–85). Is ISI anywhere today a viable strategy? Are its remnants, large and heavily-capitalized though they may be, sunset enterprises destined for the scrap heap? Can foreign direct investment in LDCs, which has grown eight-fold to some $250 billion in the 1990s alone, help those countries that have yet to industrialize make some headway? Adelman and Morris (1997), p. 837) state flatly, ISI “is required to permit the initiation of industrial development. Historically, Britain was the only country that industrialized without tariffs.” The authors do not consider foreign investment or robust exports as a way out. Even so, one must ask, in the spirit of Sir W. Arthur Lewis, are there today, post Uruguay Round, scores of countries in sub-Saharan Africa, South and Southeast Asia, and Central and Andean America, that risk being developmentally-trapped—unprotected in a fierce international trade environment, insufficiently or not-at-all industrialized, and not yet having modernized their agricultural sectors?
8. CONCLUSION

ISI was adopted so broadly because it was an economic strategy that seemed to make sense, and because it fit wonderfully with the politicians’ craving for discretion and control. It offered the prospect of real growth and national strength all the while minimizing, it was believed, the economy’s exposure to external shocks. The Washington Consensus, by contrast, divorces economic strategy from political survival, at least in the short run. Politicians espouse it because they have little choice.

Neither ISI nor orthodoxy initially benefit from domestic structural support. Both strategies are top-down, elite-led and driven, technocratic, and relatively bereft of strong, supporting constituencies in the domestic economy and society. ISI, however, garbed in populist, redistributive, and nationalist rhetoric, aroused considerable popular support while the Washington Consensus is seldom popular and implies some loss of economic sovereignty.

ISI had deep historical antecedents. It flowed rather naturally from different cultural traditions, conceptions of the proper role of the state, and was buttressed by the best economic advice available in the post-WWII era. But while different paths lead to ISI, the strategy, once adopted, tended to elicit similar institutional responses in state ownership, planning, administered pricing, tariff walls, coalitional arrangements, and rent-seeking. Thus the symptoms of its decline exhibited a certain sameness, despite the strategy’s diverse origins. That sameness, in turn, provides the rationale for the Washington Consensus.

The two consensuses reflect, at heart, two old and contrasting views of the likely effects of state action in economic affairs. ISI presumes a benevolent, public-spirited state, acting much more often than not in the public interest and for the public good. That presumption, however, is not undergirded with any powerful theory of public-spirited behavior. By contrast the Washington Consensus presumes that states and their agencies act strategically, often for quasi-private ends, and frequently with negative or perverse effects. This presumption is undergirded by fairly powerful theory that explains why these outcomes—broadly speaking, counter productive interventions with negative consequences for growth—are likely. Those of us who cherish the hope of benevolent state action and public service need to wed the concerns of the proponents of the Washington Consensus for proper, institutionalized incentive structures to curb self-interested behavior by civil servants and public agencies to our hopes for state policies that will foster growth and equity.

NOTES

1. The term “Washington Consensus” was first used by John Williamson in 1990 to refer to a set of neoclassical assumptions about the content and sequencing of macroeconomic reforms and stabilization that emerged out of Thatcherism and Reaganism and spread through interactions with the World Bank and the International Monetary Fund (IMF) (see Williamson, 1990, p. 59; Rodrik, 1996; Biersteker, 1995).

2. This “elective affinity” is not consistent. As Turkey and India demonstrate, ISI and large public sectors enhance the discretionary interventions, patronage resources, and rent-seeking opportunities for politicians in electoral democracies.

3. I include here Czarist Russia, the Austro-Hungarian Empire, the Ottoman Empire, Qajar Persia, China, and Meiji Japan.

4. In general, see (Robinson, Gallagher and Denny, 1961, p. 78), and Pamuk (1987, p. 19).

5. The degree of continuity from Japanese control to post-1953 South Korea is debated. See Haggard et al. (1997) and Kohli’s (1997) reply.

6. John P. Lewis, in comments on an earlier draft, chided me for neglecting the subcontinent. “Through our lenses ISI was primarily a South Asian invention with Latin American [variants] being analogous to what Japan is to American baseball” (Personal communication, June 12, 1997)

7. Gerschenkron (1962, p. 219), noting the rapid industrialization of the late 19th century, saw Marxism and Bolshevism as “well-suited to make palatable an
unpopular and burdensome industrialization in a very backward country.”

8. I am grateful to Lynn White for providing me this reference.

9. In 1918, as in Egypt, elements of the Argentinean private sector called for less reliance on agro-exports and more on industrialization. The urban-oriented Radical Party espoused similar policies during the 1920s but lost power to the beef and grain exporters’ coalition and its military allies in the 1930s. Argentinean industrialization, despite this, grew in spurts, initially during WWI and then during the depression. Both were instances of unplanned, “natural” protection. When Juan Peron launched a state-led ISI drive after 1943, Argentinean industrial production already accounted for a quarter of GDP.

10. Many Mexican leaders at the time saw themselves as sharing in the same revolutionary “wave” that brought the Bolsheviks to power in Russia in the same year. It was no coincidence that Leon Trotsky (having traveled through Turkey) later sought his final refuge in Mexico.

11. Gao (1997), p. 62) observes the same outlook among Japanese intellectuals. From 1897 on economists associated with the Social Party Association inveighed against liberalism, individualism, and laissez-faire capitalism as harmful to the poor and contributory to social conflict. By the 1930s, Japan had engineered an eclectic wedding of Soviet-style planning and industrialization, German total-war theory, and “managed trade” within a sphere dominated by Japanese military might.

12. It was this book that inspired Schmitter’s, 1974 article, “Still the century of corporatism?”.

13. Leys goes on to note that by 1961, Harold MacMillan and the Conservatives had established a corporatist National Economic Development Council, and in 1964 PM Harold Wilson wanted to emulate France’s system of indicative planning. In 1971 25% of Britain’s workforce was on public payroll.

14. The 1945 White Paper provided some of the ideas that went into India’s First Five-Year Plan (1951–56) which was an initial blueprint for Indian ISI. See Marathe, 1986, p. 18)

15. Findlay (1982), p. 9) suggests that Lewis was directly inspired by Manoilsco’s 1931 paper on re-equilibrating productivity as a means to adjusting wages between agriculture and industry.

16. Bates (1997), p. 73) shows this calculus with respect to Colombia’s optimism over its coffee future in the early part of this century.

17. Sir Arthur never became a beacon of ISI or of a new world order in the manner of Prebisch, Perroux, Rosenstein Rodan or Amin because his message was eclectic and mixed. He did not like central planning, and, like List, he felt trade promotes efficiency. He was more concerned, like Lipton, about agricultural productivity and less by industrialization per se. He scoffed at Marxists and dependistas who saw “backwardness” as the result of imperialist machinations.

18. It was more likely the Brazilian state that destroyed coffee stores in order to protect the international price at which the commodity was traded (see Bates, 1997).

19. I doubt that many in the developing world paid much attention to Iraq in the 1950s, but it was one of the rare countries to concentrate on agricultural development and to rely on mineral exports. Iraq, up to the coup d’état of 1958, used its petroleum revenues to fund long-term infrastructure works in flood control, hydropower, and irrigation. Few of the rents were passed on to the average Iraqi, nor were quasi-feudal property arrangements in the countryside altered. Long before the infrastructure investments could pay off, the monarchy was toppled in the midst of a popular explosion. Observed or not, Iraq seemingly showed how not to do it.

20. The domestic structural impediments to orthodox reform (the Washington Consensus) lie in large inward-oriented SOE sectors, “distributional coalitions” (à la Mancur Olson) dependent on investment and rents generated by state intervention in and regulation of the economy, dependent and protected private sectors, powerful trade and labor unions usually concentrated in the public sector, and the absence of organized consumer, agricultural, informal sector, and exporter interests that might benefit from the reforms.

21. Kalecki was reasonably well-known in Latin America, especially through a 1954 article published in Mexico that argued that inflation was structural in Latin America because agricultural supply was inelastic, industry monopolistic, and the terms of trade unfavorable to primary produce exporters. Kalecki may have influenced the Brazilian economist, Celso Furtado’s thinking. In turn, Furtado was the link between the structural trade theorists, represented by Prebisch, and Osvaldo Sunkel and the first theorists of dependencia (Love, 1996, p. 161).
22. We owe the terms “core” and “periphery” to Prebisch (see Dadone and Di Marco, 1972).

23. Destanne de Bernis was the conceptual architect of Algeria’s industrialization drive of the early 1970s. He introduced appealing terms such as “industries industralisantes” and “sow oil to reap industry” to inspire Algeria’s technocratic elite (Waterbury, 1973). The Achilles heel of his strategy was the agricultural sector. It was to be the main customer for petrochemicals (fertilizers), plastic sheeting, bottled gas, tractors, steel irrigation pipes, and so forth. But Algeria’s dualistic agricultural sector—a “socialist” sector occupying the best land but producing very little, and a residual, marginalized traditional sector—could not, even in combination, generate much buying power. It was once again confirmation of Michael Lipton’s theses on urban bias and Lewis’s on agricultural productivity.

24. Ikonico/C128, writing in 1983, notes approvingly that 90% of the exports of Argentina, Brazil, and Mexico were in primary products and that foreign trade did not exceed 8% of GDP in any of three countries. He saw the latter as evidence of self-reliance and the application of the theses of Perroux and De Bernis.

25. Inspired by P.C. Mahalanobis, Nehru’s Planning Advisor, India’s Second-Five Year Plan (1956–61) was a blueprint for “big push” industrialization, public ownership, and ISI. India’s leaders sought economic autarky, social transformation, and military strength vis-à-vis Pakistan and the PRC. In two of the most useful analyses of this period—(Nayar (1988, 1989)) is never moved to discuss India’s trade and tariff policies, concentrating instead on social transformation and Soviet-style planning.

26. Haggard (1990), p. 85) confirms this with respect to East Asia: “The Americans concurred with their Chinese counterparts, as they did with the Koreans, on the necessity of an import-substituting strategy.”

27. In these same postwar years there were ISI project mongers, such as Max Thornburg (Thornburg, 1949), who advised developing countries on “how to do it”. Thornburg was everywhere, but see his 1949 study of the Turkish economy.


29. See Nerfin (1974). It is alleged that in conversation with Robert McNamara, then President of the World Bank, Ben Salah remarked that the Tunisian economy could be run just like General Motors. Hostility to the private sector was common to both state capitalism and state socialism. Sobhan and Ahmad (1980), p. 132) note that at the time of the 1971 nationalizations in Bangladesh, “…no-one could argue against it on grounds of principle. There were no defenders of the private sector on philosophical grounds.” At the beginning of his tenure, Park Chung Hee publicly humiliated selected business leaders.

30. For the cases of Egypt, India, Mexico and Turkey, see Waterbury (1993).

31. Ikonico/C128(1983), p. 29) points out that proponents of state intervention in Latin America were having second thoughts as a new wave of authoritarianism swept over the subcontinent in the 1970s and early 1980s. The 1981 Latin American Social Science Council meeting addressed this concern, in the words of the meetings’ rapporteur, Francisco Delich. At the beginning of the ISI experiments, he observed, “we were far from imagining that an uncontrollable state is significantly more dangerous than an uncontrollable class.”

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