Developmentalism and the Latin American State: The "Statecentric Logic"

Luiz Guilherme De Oliveira

Brazil

Abstract: The pursuit of development in Latin America has historically coexisted with a vision that overlapped with the perspective of economic growth and socio-economic development. Even Latin American structuralist schools, during their initial historical phase, were unable to establish limits between growth and development. Thus, the vision for development in Latin America was moulded based on the logic of the Western model, particularly the Anglo-Saxon model. However, as part of this model, in subsequent phases, important issues relevant to the Latin American structuralist approach, such as structural heterogeneity, surfaced as a negative consequence of this growth process. The developmental logic in Latin America had a reachability that was capable of influencing both left and right thinking (Bielschowsky, 2004; Dutra, 2013). Generally, all Latin American developmental models had the State acting as a central agent with a capitalist approach for growth. Therefore, the ‘derived demand’ behaviour (Oliveira, 2015) was observed during production expansion and productive retraction. Note that this State-centred logic, or ‘statecentric’, later became a key feature of Latin American capitalism. In this study, we interpret and analyse the ‘statecentric’ logic and its influence on the development of ‘Latin American Peripheral Industrial Capitalism’.

Keywords: institutions, economic development, Brazil

1. Introduction

‘Latin American Peripheral Industrial Capitalism’ is an inherent economic system, which developed from a gradual economic/institutional evolution of an Iberian economic and political system; therefore, its characteristics are quite peculiar. Some aspects particularly should be mentioned, such as the Iberian cultural heritage, the patrimonial State, the stamental structure, the atypical elite (similar to Western standards), and the strong presence of the State as a dynamic contributor to the industrial process. All these aspects together have led to development of this peripheral capitalist system. Thus, the importance or the creation of institutions, capable of leading to development, becomes clear.

However, the primary characteristic of this system is the ‘state-centred’ structure, which differentiates this system from Western capitalism, particularly a ‘firm-centred’ capitalism. Note that peripheral capitalism is a fact and has its own history and trajectory, which has been characterised by having certain successful cases of endogenous technological development. Such type of capitalism has adopted strategic public policies that are capable of overcoming barriers imposed by late industrialisation and import substitution.

2. Economic formation of "Iberian Capitalism"

It is important to consider the development of capitalism in Latin America from a historical perspective. For this purpose, we must consider that Latin America was exposed to global capitalism during the industrial pre-revolution. Moreover, we also must remember that this exposure was not marginal, but central for the economic dynamics of that period in the Western world.

The emergence, or exposure, of Latin America in the Western context, particularly Iberian, at the end of the 14th century led to a requirement for strong State control over production, which was of pre-industrial means and focused, particularly, on the logic of exploitation and occupation. In Brazil and other Portuguese colonies throughout Africa and Asia, the expansion required a strong reorganisation of the State, performed through the so-called ‘Manuelinas Ordinations’ during 1512 and 1513. In this manner, we can notice the genesis of organisation and structuring of what will, one day, become the Brazilian national State.

Hence, the complete exploration of this region was under the Iberian monarchic State’s control. Remember that the ‘undertaking’ of consolidation of such ‘Iberian Capitalism was not a common activity and little capital mobilisation was actually required. The consolidation of these poles of exploitation required mobilisation of a high amount of capital, which in this period was possible through monarchist States such as Portugal and Spain through an agreement between the State and the financial system (Arrighi, 1996). Thus, Iberian colonial enterprises were heavily controlled by the State. We must remember that as an enterprise, we consider economic activities such as exploration of materials such as stones and metals and agricultural production of large amounts of sugar cane. Even small enterprises, which focused on activities of ‘near subsistence’ and were of an urban character were only viable through the State’s authorisation, that is, the State basically controlled all productive avenues.
Importantly, the control and organisation of such production means, by the State, required that the State organised and developed a structure that was able to manage a large physical area that had a higher production capacity too (in fact, quite superior) compared to its own territory. This apparatus had to be efficient enough to maintain the ‘colony productive machine’ working and producing in a systematic manner. To respond to this challenge, the Iberian States developed an organisational structure for managing new territories, which was fully innovative. In this structure, the public sector workforce and the mechanism of control and flow of goods gained prominence. These ‘institutional innovations’, of Schumpeterian character allowed the development of a highly efficient and long-lasting exploitation/production and control mode, which was applicable to all colonies in Latin America. Therefore, we must extrapolate the innovative Iberian character, generally centred on successes of larger navigations, into a continuous process of management and institutional innovation that allows maximisation of economic results for the metropolis–colony relationship.

Economic results arising from such a relationship were highly positive for Iberian States, allowing for continuous capital flow to the metropolis, which enabled continuous economic expansion to the point that they basically became hegemonic powers for a long period of time (Bértola and Ocampo, 2015). Thus, the modern Iberian State relies on the strong capital flow from colonies to consolidate its hegemonic relations to the rest of the Western world. Therefore, from this phase onwards, capital had preponderance over other relations of materialisation, and it also strongly reinforced in exploitation-based relations, which, although pre-industrial, were already capitalist. This led to the emergence of the ‘Iberian Capitalism’ model whose primary characteristics were strong action and centrality of the State for production relations.

Note that the public administrative structure was partially qualified and partially built via agreements between the State and the various groups that enabled the State’s governability. Faoro (2000) called this public administrative structure as ‘stratum’.

‘... the strata flourish, naturally, in societies in which the market does not dominate the entire economy, the feudal or patrimonial society...’

(Faoro, 2000, p.52).

‘One element gave unity, soul, and energy to the so-called “Portuguese miracle” or the “Portuguese enigma”: the State, of patrimonial origin, articulated with the stratum’ (Faoro, 2000, p. 58).

Thus, through the stratum, ‘Iberian Capitalism’ structures itself in such a way that it is essentially distant from local reality and already incorporates patrimonialism, which are typically seen in oversized power structures.

One specific feature of this model of ‘Iberian Capitalism’ is the character of focusing on the State’s wishes and aspirations. The State’s centrality ultimately defines public policies, all of which exhibit a ‘top-down’ character.

However, curiously, we notice that Iberian States were ‘decoupled’ from initiation and consolidation of Industrial Revolution, although they have accumulated capital and geo-political conditions that would have enabled an active strategic action during the industrialisation process. On this issue, our argument is related to the idea of ‘lock in’, which was promoted by Schumpeter (1978). The ‘Iberian Capitalism’ model was the model to overcome the paradigm of defeat; therefore, the process of accumulation and exploitation of ‘Iberian Capitalism’ was efficient and sufficiently long lasting to induce the Iberian States into a comfort zone (which we call “lock in”). In this manner, such States gave up the technical race associated with the Industrial Revolution and focused their actions on improving the typical exploitation model of ‘Iberian Capitalism’. Therefore, as per the Schumpeterian argument, it was best to bet on the already consolidated production model rather than compromise the national strategy with a new model that might not yield the same results. Unfortunately, for Iberian States (and their colonies), this is not what happened.

Finally, in the 19th century, the emancipation and independence movement of Latin American countries focused on political independence of colonies from their now old metropolis. However, the concepts of productive construction, exploitation, and extractivism, which were consolidated over centuries, continued, along with the management logic of the State. In this manner, within the new Latin American countries, there was a strong Iberian influence. The Iberian characteristic was strongly centred on the State’s action, which was based on the stratum’s capacity. Furthermore, it helped reproduce the logic of production that was focused on extractivism, exploitation, and large-scale agricultural production.

3. Latin American structuralism and the response for development

Within the framework of ECLAC, the Latin American structuralism emerged as an alternative to the economic and strategic planning, which aimed to leverage the growth and development of this region.

It is erroneous to consider the structuralist (or ECLAC) approach from just a single period or a single author. Thus, to understand Latin American structuralism, we must examine the ‘overall work’, as well as understand the evolution and maturation of economic and social thinking from its authors. As confirmed by Oliveira and Ebling (2015), we must examine economic structuralism in two
defined periods, that is, its historical period and its contemporary period.

In the first period, ‘the historical ECLAC’ was split in the following four generations: i) the first generation (1948-1960) in which the effort of industrialisation appears; ii) the second generation (1960) where the theoretical reflexion focus on the discussions about the reforms required for the growth; iii) the third generation (1970) which debated the growth styles; and iv) the fourth generation (1980) which discussed the aspects and impacts of the debt issue.⁷ In the second period, we have the ‘contemporary ECLAC’, based on a neo-structuralist agenda, in which reflexion is about productive transformation with equity.⁸

Therefore, we can consider that the reflexion about Latin American structuralism occurs through the analysis of growth and effort for regional socio-economic development. From a historical perspective, the first phase of structuralism sought to focus its actions by believing in the impulse given by industrialisation. Moreover, it is in this period that the growth-related effort even seeks the external capital from alternatives that were capable of disproportionate relations in terms of exchange between peripheral and central countries (Prebisch, 2000). At this stage, the State’s role already proved to be fundamental similar to the beginning of developmentalism in the 1930s.

In the second phase, we observe a more critical reflexion on industrialisation ‘at any cost’. Here, one begins to consider the importance of incorporating the domestic market as a mechanism for leveraging growth. For this purpose, it would be important to adopt economic (which would primarily take place at the microeconomic level) and social reforms. Furthermore, the State becomes responsible for identifying the mechanisms and creating institutions to make the development agenda more viable (Furtado, 2000).

In the third phase, the structuralist analysis is even more critical for the industrialisation process. The debate focuses on achievable ‘development styles’ for peripheral countries, as well as the development style adopted by these countries and the dependency relations consolidated from this point (Graciarena, 2000; Cardoso and Faletto, 2000). Another important point is related to the exhaustion of the import substitution process model (Tavares, 2000). Note that the alternative reported by the studies carried out by structuralism indicates the requirements of the State being a responsible actor for conducting policies that ‘fit the development style, as well as the technical up-grade that would allow an additional impetus to the process of import substitution.

The fourth phase focuses on alternatives for equalising the debts of peripheral Latin American countries. At this stage, for the purpose of development, it is possible to observe a loss of breadth in theoretical reflexions.

In the contemporary ECLAC structuralism (neo-structuralism), there have been discussions about a higher adequacy of Latin American countries to face the growing globalisation process. Note that the influence of a neo-Schumpeterian thought is quite strong; therefore, through technical development, we could seek a productive transformation that would, in turn, allow greater equity for the region’s socioeconomic relations (Fajnzylber, 1990; Fajnzylber, 2000).

It is interesting to think that the State, at all times, has played a fundamental role for economic leverage as well as performed the central role for the economic and financial viability of various projects. However, localised, private initiatives partially met expectations that were created for the State’s role as an innovative and entrepreneurial protagonist. This mission was strongly absorbed by the State and external capital; thus, it signalled a direction already reported by researchers, such as Caio Prado Júnior, who were sceptical about the local bourgeoisie’s capacity or desire to fulfil the protagonist’s role in the search for growth and development.

When we compare Western capitalism, especially its Anglo-Saxon side, and local capitalism (Latin American, derived from Iberian Capitalism), it becomes clear that the role played by the local bourgeoisie and the State is quite different.

4. Contemporary innovative logic in Brazil and the presence of the State

By observing the growth dynamics in the region, along with the innovation process, it is possible to see that the Brazilian case is emblematic. From the 70s, in the 20th century, the omission of the local bourgeoisie with respect to the investments in technology forced the Brazilian State to seek alternatives for overcoming the exhaustion of a growth model based on the process of import substitution, a situation that was already diagnosed by the third historical phase of ECLAC’s structuralism.

The Brazilian State's attitude was to adopt a mix of industrial and technological policies that differed between some sectors. This mix, in turn, relied on a set of actions/policies, which could be considered as 'frivolous' or 'strategic'. As ‘frivolous’ policies, we can consider the actions characterised as 'counter', that is, policies that met horizontal demands without sector prioritisation and with immediate expected results (usually of an exogenous technical absorption character). In contrast, the strategic policies displayed a vertical character, with the prioritisation of sectors and expectations of long-term results (the focus here was the endogenous development of the technique).

The process and instruments for adopting both frivolous and strategic policies varied considerably. We observed direct actions of the State, both via state-owned companies and the finance mechanisms of these companies, and via public development banks, particularly the National Bank for Economic and Social Development (Banco Nacional de Desenvolvimento Econômico e Social - BNDES) and the Funding Authority for Studies and Projects (Financiadora de

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⁷ Oliveira and Ebling (2015, p. 152).
Estudos e Pesquisa - FINEP). In any case, what attracted attention was the strong action of public capital, which occasionally assumed the full risk of technical incorporation into the means of production.

When we observe the primary successful cases, with respect to technical innovation and incorporation in Brazil, the so-called "national technological champions", we identify as a common feature that these champions are, or were, public companies. Four of these companies occupy a prominent position: Embraer, Petrobras, Fiocruz and Embrapa. These four companies can be considered as successful examples of technical innovation, through their own (or endogenous) technical development and prominence in the international scene. They can be considered classic examples of Schumpeterian innovation.

In all cases, it was possible to notice that these essentially public companies knew how to take advantage of the strong national university and scientific system, also public.

In case of Embraer, the establishment and consolidation of the Aerospace Technology Centre (CTA) allowed the creation of a sectoral innovation system (Marques and Oliveira, 2009; Hira and Oliveira, 2009) in the state of São Paulo. For Petrobras, the creation of Petrobras Research Centre (CENPES) in the neighbourhood of the Federal University of Rio de Janeiro was important. Fiocruz was created by the State in Rio de Janeiro at the beginning of the 20th century and had its strategic action increased throughout the century. Embrapa was also created by the State during the 1970s in the state of Paraná.

The primary common characteristic among all these cases is the strong presence of the State as an inducer and financier of the technical development process. This characteristic, which we call 'derived demand' (Wallich, 2010; Oliveira, 2015), is fundamental as a dynamic element of the competence and technical capabilities of companies in the country.

This logical, derived demand positions the State as the great dynamic element in the economy. Unlike the Central economies, particularly the Anglo-Saxon capitalist economies that centre their actions on private companies (characterised as ‘firm-centric’), peripheral Latin American capitalist economies centre their actions on the public action, characterising themselves as state-centred (Oliveira and Ebling, 2015).

5. "Industrial Peripheral Latin American Capitalism": The beginning of an interpretation

It is important to realise that the ‘industrial Peripheral Latin American capitalism’ is the result of its own trajectory. Although it is both capitalist and industrial, that is, to say it is based on the Schumpeterian innovative technical expansion logic, the Latin American case is, like the Anglo-Saxon capitalism, heavily dependent on the social institutional trajectories that appeared throughout its history.

In the Latin American case, the strong State centrality, occurring in the ‘Iberian Capitalism’, is a determinant for understanding the logic of what we called state-centred. Therefore, the State determined the economic expansion of the old Latin American colonies and guided the gradual process of industrialisation in the region (Prado Junior, 1942; Furtado, 2000). Finally, the State also sought various means to overcome industrialisation based on imports substitution and initiated the search for the development of endogenous technologies which, in turn, would allow greater competition among native capital local industries. The strong regional growth during the 20th century (Bértola and Ocampo, 2015) was a result of a deliberate action by the State. At the time when the State was absent, such as during the region’s macroeconomic crises in the 1980s and 1990s, growth-related figures were insignificant (Oliveira, 2015). In contrast, in recent periods, the growth in the region was supported by several public investments, either in infrastructure, the mechanisms of income distribution, or the strong forms of State action through its development banks (in Brazil, the role of BNDES is exemplary). This logic of State induction or derived demand, as stated by Wallich (2010) and Oliveira (2015), also requires planning and fiscal responsibility, in the Keynesian sense, thus creating mechanisms capable of allowing the expansion of public investments while simultaneously preventing a bias of "fiscal populism".

Therefore, the expansion of industrial capitalism follows a Kondratiev expansion cycle, with particular characteristics detached from the typical Schumpeterian innovative cycles. The innovations in the industrial peripheral Latin American capitalism are linked to the management and organisational innovations, which facilitate the State expansion through forms of action via producer State or via new mechanisms of financial oxygination to the production network. One shall bear in mind that the state-centred characteristic of the industrial peripheral Latin American capitalism ends up creating institutions capable of expanding this type of capitalism, thus differing from Anglo-Saxon capitalism, which is essentially firm-centric. In this sense, we can consider some concepts about institutions, already highlighted by Furtado in the 1960s. We verified that institutions shape the needs of political actors present in society and in turn shape themselves to these needs. Thus, the stamential characteristics, in Faoro’s vision (2000), are present along the trajectory of the industrial peripheral Latin American capitalism. The capital expansion becomes a function of the State, operationalised by groups close to it, through exploitation processes, land, and producing or financing the production. Even in endogenous technical development, this characteristic is clearly demonstrated by the Brazilian case, as previously mentioned. Thus, it is the State that possesses the Schumpeterian capacity, both innovative and entrepreneurial. Here we have an industrial State capitalism, in its Latin American version. It is important to emphasise that: this capitalism was shaped along the trajectory of the Latin American economies; it is the fruit and variation of a capitalism that predates Western industrial capitalism, in its Anglo-Saxon version; and it is a natural evolution of

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9 Concern already appearing in Furtado (2013).
dynamics of product and process innovation; the focus on Latin American peripheral distribution. Thus, we see a change in the profile of companies, private sector financing, and even in Schumpeterian gear is the firm. In turn, in Latin American Saxon profile, the innovation. In Western capitalism, with the Anglo-Saxon capitalist expansion. What changes is the importance of innovation in the productive sector and responsible for public innovations of a distributive character.

6. Conclusion

It is important to take into account that the industrial peripheral Latin American capitalism depends on a political–institutional trajectory that was still very much active during the pre-independence period in the regional colonies and the Iberian countries. This form of capitalism is a result of the ‘Iberian Capitalist’ system of pre-industrial nature, where the institutions and players’ actions disclosed specific dynamics, different from the Anglo-Saxon industrial capitalism. In Iberian Capitalism, the weight of the State was always present, which distinguished its state-centred situation, guiding the economic expansion rhythm of the colony and the metropolis. On the contrary, in Anglo-Saxon capitalism, the economic action adopted the economic-political action of liberal character where the dynamic centre has always been the firm. Such firm-centric nature was determinant in the construction of several interpretations about the origins of this economic system, not only in creating economic science but also in consolidating the economic paradigm into an economic system of liberal character focused on the free initiative and full allocation of factors. This has not always been true, particularly for the Latin American region.

The attempt to transition from pre-industrial Iberian Capitalism to British liberal capitalism, which was already of industrial nature, was not easy for the Iberian countries and their colonies or former colonies. Besides, as it was a late transition, power structures and institutions were already built and consolidated in a State-dependent process, which in turn was patrimonialist in its essence and captured by the stamential logic, where the bourgeoisie had settled into the productive processes still characteristic of a pre-independence period.

The industrialisation process of these Latin American countries followed the same logic of State dependence, in which the bourgeoisie had little participation as a dynamic actor responsible for the capital expansion. The idea of planning, existing in Latin American structuralism, was no exception. In structuralism, the State is always present as the driving economic agent, characterised as being significantly responsible for the expansion of Kondratiev cycles of Schumpeterian character.

In fact, there still exists the Schumpeterian view of the importance of innovation in inducing a mechanism of capitalist expansion. What changes is the factor responsible for the innovation. In Western capitalism, with the Anglo-Saxon profile, the actor responsible for moving the Schumpeterian gear is the firm. In turn, in Latin American peripheral industrial capitalism, this gear is driven by the State through several mechanisms such as state-owned companies, private sector financing, and even income distribution. Thus, we see a change in the profile of innovation; the focus on Latin American peripheral economies centres on innovations of a public nature (Oliveira, 2015). Even when we consider the Schumpeterian dynamics of product and process innovation related to a productive network, the responsibility for the endogenous generation of the technique lies with the State, as demonstrated by the Brazilian case in the oil & gas, aeronautics, agribusiness, and health areas.

The fact is that the presence of the State as a dynamic economic player in the region is a characteristic of the industrial peripheral Latin American capitalism. One should not look at State action with a ‘value judgement’, but rather as a feature of the Latin American capitalist system itself. Obviously, characteristics such as State patrimonialism, vices inherent to the bourgeoisie stratum, and immobility (and little entrepreneurial bias) as a dynamic productive agent must be seen with a critical and adequately adjusted look. For this, the institutional mechanisms and pressures function as ‘weights and counterweights’.

Finally, the central role played by the State in the region makes it occupy an even more strategic and responsible function, as it is the great inducer of innovations in the productive sector and responsible for public innovations of a distributive character.

References