Springer

Industrializing and Deindustrializing Cycles: A Reading Based on Hamilton

Author(s): John Saxe-Fernández

Source: *International Journal of Politics, Culture, and Society*, Vol. 13, No. 3 (Spring, 2000), pp. 427-445
Published by: Springer
Stable URL: https://www.jstor.org/stable/20020037

Accessed: 26-03-2023 18:19 UTC

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at https://about.jstor.org/terms

Springer is collaborating with JSTOR to digitize, preserve and extend access to *International Journal of Politics, Culture, and Society*

This content downloaded from 216.54.92.17 on Sun, 26 Mar 2023 18:19:28 UTC
All use subject to https://about.jstor.org/terms

International Journal of Politics, Culture and Society, Vol. 13, No. 3, 2000

Industrializing and Deindustrializing Cycles: A Reading Based on Hamilton*

John Saxe-Fernández

To do justice, in this short space, to the complex topics and issues related to the patterns of industrialization and "deindustrialization" present in Latin America as it approaches the third millennium is not an easy task. In these times of crisis and great financial and economic upheavals, we must focus on the future, but we must do so through an ongoing examination of the past. What appears to be only an early stage of the current international financial crisis has already had devastating effects on the world's industrial base. In less than a year's time, the leading economic prognosticators in the United States, Europe, and Asia have raised the probability of the chances of a spread of deflation around the globe from about 20 to 50 percent. Indeed, Japan—the world's second largest economy—and the rest of Asia have already fallen into an actual deflationary stupor.

PRELIMINARY PROPOSITION

In late 1998 the U.S. Department of the Treasury placed deflation on the same priority level of concern as inflation, confirming an abundance of warnings that had been appearing for over a year, such as that made by Martin Armstrong, of Princeton Economics:

> The Asian monetary epidemic is only the first act of a play that will gradually unfold before us during the next five years . . . Certainly it is reminiscent of the

*These are the preliminary results of research project on the territorialization of direct foreign investment in Mexico. I thank the Dirección General de Apoyo al Personal Academico (DGAPA) for its support; Jeff Faux, Chairman of the Economic Policy Institute, in Washington D.C., for suggesting that I study Hamiltonian modernization; Jorge Cervera, Chairman of the Rotary Club of México, for inviting me to discuss this topic with that business group; and Larry Carney for the revisions and improvements he made on the English version of the article. The translation is by Alan Hynds.

© 2000 Human Sciences Press, Inc.

This content downloaded from 216.54.92.17 on Sun, 26 Mar 2023 18:19:28 UTC
All use subject to https://about.jstor.org/terms

> decade of the 30s, when capital rushed from one side of the planet to the other, from one currency to another, in search of value, profit, and financial stability.[1]

Armstrong's reference to the Great Depression does not mean that the present crisis will unfold in a manner identical to the economic crisis of the 1930s. Any comparison of historical events, in order to have analytic value and allow us to draw "lessons," must recognize that such events are unique in time and space; hence, in referring to them we must make explicit the similarities and differences between them. Consider, for example, that, between 1930 and 1939, unemployment in the United States averaged 18.2 percent and that between 1929 and 1933, the output of goods and services plummeted by 30 percent, whereas, at least until now (early 2000), such economic disruption has not occurred in what is still the world's largest economy, the economy that functions as the "buyer of last resort." It was not until 1939, under heavy military-industrial mobilization, that the U.S. economy returned to production levels similar to those before the 1929 crash.

During the first years of the Great Depression, deflation was severe, as the prices of goods and services plummeted. Agricultural prices fell by 51 percent from 1929 to 1933. During the same period, the dollar value of global trade fell by 65 percent, and its volume contracted by 25 percent.[2] The global order had been fashioned around the Pax Britannica; but the Pax Britannica had begun to weaken as far back as World War I, and was finally coming to an end. Hence, it was not until the anticyclical mobilization launched during World War II that the economy recovered from the Depression.

The concern that is now spreading among analysts, both of the world economy and of the present global strategic situation, is that current developments are beginning to show signs of a deterioration comparable to that of the 1930s, but this time in a context in which the modernization and proliferation of arms continues to move forward and immense intercontinental ballistic missiles, carrying warheads for thermonuclear, chemical and bacteriological warfare, have been or are being deployed. Before the outbreak of the Asian crisis, several authors warned of the dangers of a strategic military confrontation leading to an internationalization of economic problems based on the deregulation of monetary and banking systems. The historical record—as has been pointed out by major contributors to modern social theory—indicates that nations will often attempt to solve international trade and economic problems through militarization and war.[3]

Attention is now being brought to the irrationality of a world trade system in which each country wants to export more than it imports so as to avoid trade deficits. At the same time, historical reflection reminds us that ". . . the 'unregulated' relationship between currency speculation and

This content downloaded from 216.54.92.17 on Sun, 26 Mar 2023 18:19:28 UTC
All use subject to https://about.jstor.org/terms

the international marketplace could lead to trade wars and encourage nations to seek military solutions."[4] Thorstein Veblen, in a manner few analysts have done, pointed out the irrationality of the economic system that emerged following the Civil War in the United States, in which earnings on interest were predicated on the continuous growth and expansion of the underlying systems of agricultural and industrial production and productivity. Hence, the ideology of growth and expansion, when linked to an unregulated credit system, may lead to an excessive extension of speculative credit and cause a widespread economic crisis in the downward swing of the business cycle. At the basis of this important reminder is the fact that markets, without a political foundation to regulate, stabilize, and legitimate them, will collapse. As noted by Dani Rodrik,[5] markets will continue to work only if they operate within a framework of social and political institutions. Rodrik also reminds us that the collapse of the gold standard, the thrust toward protectionism and bilateralism, and the emergence of fascism and National Socialism leading to World War II, resulted from the mobilization of societies hoping to protect themselves from the violent attacks of unregulated markets.

The crux of the matter is that today we still do not have truly global institutions; if such institutions existed, the repercussions of the financial crises in Asia and Russia would not have been as severe. The "World" Bank (WB) and the International Monetary Fund (IMF) were, in reality, conceived to serve U.S. national capitalism as it projected itself throughout the world and to act as instruments of the Pax Americana. They do not operate in accordance with criteria intended to bring about global financial and monetary stability. These institutions abandoned their postwar goals of avoiding speculation and recession to embrace financial and monetary deregulation and to irrationally export policy prescriptions to countries and regions where they find little relevance.

Having noted the advantages and limitations of historical comparisons, it should be noted that, in an even broader theoretical sense, those who in recent decades have argued that the economic underdevelopment and dependency of Latin American countries were originally linked to the development of the Advanced Capitalist Countries (ACC) are correct. It is appropriate, then, to return to the admonitions expressed by authors such as Samir Amin[6] that the present alternatives for the development of any third world region or country must be based on a careful observation of the economic and historical-institutional evolution of the ACCs. *Such an examination will show that at no time did the latter countries' development stem from the adjustment of their economies to the exigencies of the dominant powers of the times or to the international division of labor, but from the establishment of national and eventually regional or international structures*

This content downloaded from 216.54.92.17 on Sun, 26 Mar 2023 18:19:28 UTC
All use subject to https://about.jstor.org/terms

that refracted, modified, and conditioned the external determinants themselves, while allowing their economies to modulate in accordance with specific national interests.

In the present international financial and monetary crisis, regional cooperation is vital, both for stimulating and financing trade and for promoting elements crucial to development, such as industrialization and technological progress. In addition, historical experience abounds with examples of the failures of third-world countries that acted on their own and as supplicants vis-à-vis ACCs.[7] Latin America and its industrialization processes operate in an international economic and financial milieu in which the dice are heavily loaded against the accumulation of internal savings and the development and preservation of a national industrial base, and in favor of multinational corporations and the ACCs. This model is governed not by the dictates of perfect competition but by economic interaction among oligopolies. In this context, especially following the restructurings patched together in response to the 1982 debt crisis, the Latin American countries' ability to influence the international monetary and financial affairs that deeply affect their national productive structures are severely limited. The fundamental fact is that in Latin America, even in coalitions such as Mercosur, the United States unquestionably remains the center that controls the creation of credit, while peripheral local political and economic elites prefer to accept the decisions made at "multilateral" institutions such as the IMF-WB and the Interamerican Development Bank (IDB), institutions which are thoroughly dominated by Washington.[8] Each Latin American nation's exchange rates vis-à-vis the rest of the world are, in addition, strongly influenced by policies established by the U.S. Department of the Treasury, which, along with the IMF, functions as a sort of Hemispheric Central Bank. Each one of these factors, *which stem not from economic need but from the political choices made by local elites at crucial moments in their negotiations with ACCs,* strongly inhibits a country's ability to articulate its own economic policy in order to promote national and regional industrialization with inward rather than outward linkages.[9]

The fundamental starting point in understanding the development of modern Latin American economics is that, as a result of the region's continuous adherence to the international division of labor promoted by the Bretton Woods institutional arrangements—where voting powers are determined by the size of contributions to the IMF-WB—all of its monetary and financial mechanisms have been oriented toward transactions among the central capitalist countries. The movement of these transactions has been articulated institutionally by the IMF-WB in respect to each of the Latin American economies, that is, in "north-south" exchanges.[10] Not only

This content downloaded from 216.54.92.17 on Sun, 26 Mar 2023 18:19:28 UTC
All use subject to https://about.jstor.org/terms

have the monetary and financial policies used in these transactions, preponderantly dominated by the ACCs and led by the United States, failed to stimulate autonomous capitalist growth in the region, they have actually had an increasingly strong effect in the opposite direction. They have weakened and disarticulated Latin America's public and private industrial bases, massively diverting public investment toward debt service and other nonproductive expenditures, while encouraging wholesale denationalization through privatizations that are merely transit points for the foreign domination of industry, agriculture, mining, and infrastructure.[11] These tendencies are compounded by the lack of national industrial groups that are entrepreneurially innovative and competitive—that is, what Fajnzylber describes as the absence of an effective leadership in the creation of an endogenous industrial potential that is able to adapt, innovate, and compete internationally in a significant range of production sectors.[12] With the application of financial policies that discourage the availability of capital or that, in fact, have dismantled the development banking sector, the leadership exercised by foreign companies in a wide variety of industrial activities—from heavy industry to capital goods to activities lacking any technological complexity, such as home appliances—becomes even more pronounced.[13]

The above comments must be seasoned by some historical reminders. Part of the negative legacy of the colonial period in Latin America—marked by what some analysts have wryly called a profound "original disaccumulation—was that the global and local dynamics of Latin American national development have always been historically characterized by a high level of dependency. These nations have been subject to conditions imposed by an international division of labor—and accepted by local political and economic leaders—in which their economies have functioned as suppliers of raw materials and other goods destined for the manufacturing sectors and the consumers of industrialized nations. The United States and Europe have been the main recipients of these goods.[14] This model of subordination, characteristic of the mercantile-financial period of international capitalism remained in place during the different stages of the Industrial Revolution, preserving the general features summarized above. Nevertheless, beginning with the deep trade, financial, and monetary crises that accompanied the Great Depression, the dependency model was transformed in a context of sharp declines in world trade and sustained falls in the prices of commodities and manufactured goods, as well as by extraordinary increases in unemployment. We should remember that in the midst of that great crisis, the most important economies of the region came to be directed toward the adoption of models of deliberate industrialization through import substitution, protective tariffs, and the promotion of the internal market. *However,*

This content downloaded from 216.54.92.17 on Sun, 26 Mar 2023 18:19:28 UTC
All use subject to https://about.jstor.org/terms

all of this occurred within a general trend toward a historical-imperial model of subordinate, dependent growth. As noted by Kaplan,

> unlike Great Britain, which was locked into the model of the classic colonial relationship (industrial products, investments and services, versus agricultural raw materials and food-stuffs), the United States was in a favorable position to insert itself in the subsequent process of industrialization through import substitution, exerting a more diversified and stringent domination of the socioeconomic structures that emerge[d] in the contemporary stage of regional history.[15]

Latin-American import-substitution industrialization was strongly affected by the adoption of IMF-WB models and the penetration of ACC multinational companies—a trend that became even more pronounced with the arrival of the "neoliberal" model. This model stands in sharp contrast to the spectacular industrializing success of Japan and the developing Asian nations such as South Korea and Taiwan. From 1950 to 1973[16] these countries applied a range of state-interventionist policies—especially during their periods of rapid economic growth—such as restrictions on imports; exchange controls; the granting of subsidized credits, often at negative real interest rates, in order to favor specific firms and industrial sectors; strict regulation of foreign investment by multinational companies and controls on the kinds and levels of foreign ownership; high subsidies and other incentives for exports (especially in South Korea); an activist state policy in respect to technological innovation; the encouragement of conglomerate formation through mergers; as well as other measures, including the widespread use of "administrative guidance."[17]

Hence, in contrast with Latin America, none of the Asian nations—whose large multinational companies have spread around the globe—operated under the laissez-faire parameters promoted by the dominant powers through institutions such as the IMF and the WB. The historical record also shows that dirigiste strategies were present in the historical experience of the economic and industrial growth of the United States over the last two centuries.

A HAMILTONIAN REFLECTION FROM SOUTH OF THE RIO GRANDE

It is clear, then, that in broad terms and in the framework of the foregoing arguments and reflections, we need to refocus both U.S. and Latin American experience in light of the models proposed by Alexander Hamilton, the first U.S. Secretary of the Treasury and the nationalist modernizer par excellence,[18] who hoped to transform the United States from "a nation of farmers and corrupt politicians, into a great economic force."[19]

This content downloaded from 216.54.92.17 on Sun, 26 Mar 2023 18:19:28 UTC
All use subject to https://about.jstor.org/terms

Michael Pettis, in a refreshing text, compares the contemporary international environment—characterized by a preponderance of financial capital, vast sums of which are transferred from currency to currency and from economy to economy in search of profits and security—with the international economic situation at the end of the last century, when large-scale capital movements were also commonplace.[20] Pettis underscores Latin America's proclivity for falling into a liquidity trap by embracing unbridled free-trade and deregulation policies to attract foreign investors. Today, as in the past, the precarious and vulnerable bonanzas of our region are followed by resounding failures. Historical instances are Chile's free-market "boom," which began in the mid-1860s and collapsed in 1873 when a depression in the United States caused upheaval in the international markets, and other "booms" that ended in traumatic disasters for national regimes and in civil war—such as occurred in Mexico under Porfirio Diaz. Diaz's modernizing regime—which had encouraged free trade since coming to power in the second half of the 1870s—experienced the effects of the 1907 depression, which lead to major sociopolitical and military upheavals that had extremely negative effects on the nascent local manufacturing industries. In the mid-1860s Mexico produced more grain—corn and beans—than it did in 1910, even though in 1910 it was more "modernized," with railroads, a growing middle class, and an emergent manufacturing capacity. With the "opening to trade and investment," the *Porfiriato* attracted large amounts of investment: by the regime's final days, just over 40 percent of the country's land was in the hands of U.S. investors, with the rest owned by Europeans and Mexicans. Commercial agriculture was developed by confiscating land from peasants and using it for the benefit of foreign inventors and their local partners. When, in 1907, the model failed, an armed social uprising would not be long in coming.

It is worthwhile to compare Latin America's historical experience with the "free market"—of which the Porfiriato is a dramatic examples—to the advance of industrialization in Europe and the United States. It is especially timely to draw such comparisons at moments such as these, when Latin American finance managers, driven by potentially suicidal compulsions, persist in applying the so-called "Washington Consensus," that is, a free-trade model characterized by fiscal austerity, financial deregulation, privatization, falling wages, contraction of the internal market, and in consequence, discouragement of national industrialization—all against a backdrop of a deflationary crisis, the likes of which have not been seen in many years.[21]

The Industrial Revolution brought about profound transformations in the economy and politics of England, of other European powers, and later, of the United States over the eigfteenth, nineteenth, and twentieth centu-

This content downloaded from 216.54.92.17 on Sun, 26 Mar 2023 18:19:28 UTC
All use subject to https://about.jstor.org/terms

ries. It had, however, very different effects on the peripheral areas of the Western Hemisphere. Political and economic structures south of the Rio Grande continued to be dominated by oligarchies marked by colonial vestiges, the vicissitudes, modifications, and specific nuances of which ran parallel to the trends, policies, and favorite economic doctrines of the capitalist powers. These countries focused their international economic efforts on a type of foreign trade that was reduced to the exchange of agricultural and mining raw materials for manufactured goods and transfers of capital.[22]

In the United States the process was different. Its consolidation of control over the continent after the Louisiana Purchase (1803) culminated with the annexation of just over half of Mexico's territory in 1848. Following independence, in the late eighteenth century, two competing visions of foreign policy and economic development emerged.[23] The Southern version was personified by Thomas Jefferson and others, and the Northern vision was expounded by Alexander Hamilton, the first Secretary of the Treasury of the United States and de facto prime minister during George Washington's presidency.

Hamilton summed up the paradigm of nationalist industrial modernization in his *Report on Manufacturers,* which he submitted to Congress in 1790. In it, he presented a project to transform the United States into an industrial and military power. The project was rejected and opposed out of hand by Southern power groups—the Virginians—who were more oriented to agriculture and an international economic insertion that accepted the dominant ideology of free trade, promoted by London. Whereas the Jeffersonians deemed the international division of labor an unavoidable fact of economic laws and of globalization to which the United States would have to adjust, Hamilton dismayed the dominant power circles with proposals calling for the creation of a Bank of the United States, similar to the Bank of England, to link the propertied classes with the federal government, and for the stabilization and strengthening of government finances and the encouragement of productive investment.[24] *For Hamilton, the maintenance of the integrity of the federal government required strengthening monetary and financial unification,* a topic of the utmost importance for Latin American regional integration at the beginning of the twenty-first century, a moment when the region's own monetary and financial instruments are key both for fomenting and financing regional trade, as well as for promoting industrial and technological development. The IMF-WB and the IDB have, until now, encouraged the articulation of national economies with the interests of multinational corporations, which are linked to financial interests of Latin America's public and private creditors. This has not only seriously limited, but has, in fact, undermined the foundations

This content downloaded from 216.54.92.17 on Sun, 26 Mar 2023 18:19:28 UTC
All use subject to https://about.jstor.org/terms

of Latin American agribusiness, which has been restructured to accommodate the interests of the hemispheric center.

As early as 1789, under Hamilton's influence, the U.S. Congress passed a tariff law and later approved his proposal for the establishment of a federal bank based in Philadelphia with branches in major cities. This stimulated the growth of the financial system and other successor institutions, such as the short-lived Second Bank of the United States, which in turn encouraged the spread of branch banks throughout a country that by then spanned half a continent. Latin America would do well to take note of the fact that this monetary and financial structure improved the availability of credit and strengthened an interrelated institutional system that facilitated the interaction of economic agents who operated in the various regions and states of the United States, advancing thereby the complementarily, development, and integration of the productive sectors of the national economy.[25] Hamilton's project called for subsidies as well as tariffs to stimulate the growth of infant industries, an unusual proposition in the predominantly agrarian late-eighteenth century, in which the United States depended on manufactured imports from England and other European countries. His model was called "crazy" by the Virginians—Jefferson, Madison, and Monroe—since, in addition to constituting a real challenge to their domestic political hegemony, it affected their external trade alliances, especially with England. Hamilton's proposals were rejected by the Virginian Brahmans because they did not conform to the ideological currents or the patterns that dominated the world economy. Hamilton's heterodoxy stemmed from his inclination to follow closely and to emulate what London, as an economic and military power, actually did, rather than what it preached, as it launched its free-trade ideology. For instance, Hamilton proposed establishing a well-equipped, strong military force that would guarantee internal cohesion and oppose European aggression, and a naval force capable of protecting U.S. trade in the world—similar to the English navy, which then dominated the seas and the main routes of maritime communication. The Hamiltonian model entailed the implementation of profound constitutional reforms at the federal level and legal changes at the state and local levels to eliminate and neutralize anachronistic regulations generated by customary law, which hindered the development of expansive industrial and financial institutions.[26]

As historian Michael Lind has observed, all the Hamiltonian proposals,

> . . . now that most have been realized . . . seem commonsensical today . . . , [but] they struck Jefferson, Madison and other slave owners with horror. These rich farmers, accustomed to dominating government, feared that their power would dwindle in an America with a strong, centralized government and a rising class of bankers and industrial capitalists. With Jefferson's election in 1800, the beginning of a quarter-century reign of slaveholding Virginia presidents, agrarian isolationism

This content downloaded from 216.54.92.17 on Sun, 26 Mar 2023 18:19:28 UTC
All use subject to https://about.jstor.org/terms

> triumphed over the modernizing, developmental nationalism promoted by Hamilton and the Federalists.[27]

Jefferson and his followers when in power, rejected and belittled Hamilton's "crazy" schemes, which dared challenge British hegemony and the prevailing international economic order. At the same time, they enthusiastically endorsed the free-trade doctrines promoted in England by Adam Smith and others, as well as the international economic status quo. They advised against any notion of challenging England in the economic sphere. Adam Smith's slight contempt for manufacturing was fully shared by Jefferson and the Virginians, for whom agriculture was morally and socially superior to industry. Jefferson's great development strategy assumed an international division of labor in which England, France, and a few other European nations would be the manufacturing powers and the United States, together with Eastern Europe and the rest of the world, would supply agricultural and mining products. In this vision, the United States, as noted by Lind, ". . . in effect, was to have been the world's largest banana republic, with cotton and tobacco in place of bananas."[28]

All of this means, of course, that the success of U.S. industrial development was to a large extent not based on following trends in favor of free trade, the downsizing of the state, or of deregulation, which were dominant in the international sphere. This is revealed by even a cursory examination of U.S. economic policies, especially in the wake of the Civil War, a conflict considered by some analysts as the last revolutionary offensive—after the Cromwellian revolution and the French Revolution—in support of urban or bourgeois capitalist democracy. The relationship between *plantation* and *factory* was complex, and it developed along with a continuous and remarkable expansion of the internal market and—equally important—along with the arduous and gradual consolidation of modernization and political democracy, in the midst of a persistent polarization of and struggle among social classes that did not begin to wane until the 1898 Spanish American War and the later U.S. involvement in the great conflagrations of the twentieth century. (Although we should note that World War II saw the largest number of labor strikes recorded until that time in U.S. history.[29])

In any event, the process of economic modernization and democratization was facilitated in the United States, as noted by Barrington Moore,[30] by the fact that it occurred within a context, unlike in Europe and Asia, that was void of complex and rooted agrarian societies with feudal forms of organization, political struggles between a precommercial rural aristocracy and a monarchy, or a strong peasant class.[31] One of the important causes of the Civil War was the division between the Northern and Southern ruling classes, with a free-trade South content to export merchandise and import manufactured goods, and the protectionist North, opposed to En-

This content downloaded from 216.54.92.17 on Sun, 26 Mar 2023 18:19:28 UTC
All use subject to https://about.jstor.org/terms

glish industrial imports and determined to promote domestic manufacturing.[32] That Southern cotton was sold almost exclusively to England was undoubtedly of great importance, since it meant that the South's links with the North were all the weaker. England's partiality for the Southern cause during the Civil War is well known.[33]

THE END OF ADAM SMITH'S INVISIBLE HAND

Bismarck noted the discrepancy between the free-trade rhetoric endorsed and promoted by London and its convoluted regulatory and administrative trade practices—which included a liberal use of economic, commercial, and military threats and frequent maritime interdiction operations. He remarked wryly that "free trade is the favorite doctrine of the dominant power, fearful that others will follow suit." The observation is applicable to Latin America's experience with the United States: the image that is projected to Latin America's public of the United States as a model of *laissez-faire capitalism that practices monetarist orthodoxy and free trade* is not only a simplification but a sizeable myth[34] that does not conform to the U.S. experience in the nineteenth century and even less to its evolution in the twentieth century, which has been marked by an expansion, fortification, and perfecting of dirigiste capitalism at the entrepreneurial level, and by a Keynesianism that dominated the relationship between the private sector and the state as a result of the Great Depression and World War II. It was in the United States, in the early nineteenth century, that dirigiste capitalism first emerged. This consisted of a profound managerial transformation in which the administration and managerial practices of companies replaced market mechanisms in coordinating economic activities and in allocating economic goods. The demise of Adam Smith's invisible hand was not brought about by the Hamiltonians. But it was set in motion as far back as the early nineteenth century by the exigencies of capitalist modernization, which culminated in the capitalist managerial revolution that unfolded in the United States when modern companies in industry, services, mining, and agriculture supplanted the market in coordinating economic activities and allocating resources. The market continued to generate the demand for goods and services, but, as indicated by Alfred Chandler, management coordinated the flows of goods through production processes and allocated financial and human resources for future production and distribution. Chandler argues that throughout the nineteenth and twentieth centuries, in many sectors of the U.S. economy,

> . . . the visible hand of management replaced what Adam Smith referred to as the invisible hand of market forces. The market remained the generator of demand

This content downloaded from 216.54.92.17 on Sun, 26 Mar 2023 18:19:28 UTC
All use subject to https://about.jstor.org/terms

> for goods and services, but modern business enterprise took over the functions of co-ordinating flows of goods through existing processes of production and distribution, and of allocating funds and personnel for future production and distribution. As modern business enterprise acquired functions hitherto carried out by the market, it became the most powerful institution in the American economy and its managers the most influential group of economic decision makers. The rise of modern business enterprise in the United States, therefore, brought with it managerial capitalism.[35]

The U.S. experience, even in its Jeffersonian version, has little to do with laissez-faire capitalism. We cannot overlook the state's decisive and preponderant role as the agent responsible for advancing diplomatic-military and intelligence policies and programs devoted to territorial expansion or as the promoter of large public-works projects in favor of agricultural exporters. Such projects have included the building of canal networks, the construction of ports, the subsidization of the world's largest railroad infrastructure between 1840 and 1875, the laying of long-distance underwater telegraph cables, and so forth. After the defeat of the South, the state's role became more pronounced through the subsidization of industry, through the imposition and maintenance of tariff barriers, and through the control of patents for the entire industrial structure, beginning with textiles (which had been protected since 1816 by tariffs allowing it to challenge its British competitors, whose cheaper and more efficient production had led to the bankruptcy of many textile enterprises in New England), steel, and, ultimately, agricultural machinery and machine tools at the end of the nineteenth century. Regimes of law have been established at the federal, state, and local levels to promote and regulate economic activity, including in recent decades incentives and regulations to allow multinational companies to carry out the most important and strategic aspects of their leading-edge technological research and development at home. Measures such as those contemplated in Hamilton's industrial, financial, and monetary program were decisive for the U.S. take-off as an economic and military power. Against the currents favoring further internationalization, the U.S. domestic market remained highly protected throughout the nineteenth century, and at the end of that century its market emerged as the world's largest.

Prior to the 1930s Great Depression and World War II, state regulation of large corporations consisted mainly of taxes, tariffs, and special legislation—such as antitrust laws—to define obligations, rights, and responsibilities. These policies discouraged monopolistic and oligopolistic practices. In 1914 the Federal Trade Commission was created for these purposes.[36] The Federal Reserve Board, also created in 1914, intervenes to influence interest rates and money markets, shaping the performance of the financial sector. During the New Deal era, a surge of legislation regulating business activities narrowed management options in transportation, communication, and utili-

This content downloaded from 216.54.92.17 on Sun, 26 Mar 2023 18:19:28 UTC
All use subject to https://about.jstor.org/terms

ties such as the supply of water, electricity, telephone service and so forth. The influence of the state on the U.S. economy increased in the 1930s and 1940s, while maintaining few limitations (except in wartime) on the ability of mass producers and marketers to coordinate the flows of merchandise and determine the allocation of resources.

The impact of the state and its regulatory instruments in the military-industrial sphere in the United States is broad and deep in sectors ranging from foodstuffs to machinery, chemicals, oil, metals, aviation, rockets, precision instruments, communications equipment, electronic components, naval construction, machine tools, semiconductors, aerospace, automobiles, tanks, tractors, generators, and construction materials, among others. Since the end of World War II, accumulated outlays for the military represent more than half of total state spending, allowing the state bureaucracy to exert great influence on profits and economic production—that is, on activities ranging from the controlling of interest rates to research and development to agriculture. Observing the state's military-industrial complex in the early 1980s, Seymour Melman noted ". . . [more] than 37,000 industrial firms and over 100,000 subcontractors operate under the control of a central federal administrative office with a staff of about 50,000—probably the world's largest industrial management."[37]

Because of the unique business conditions of the military-industrial sector, the market does not play a decisive role in this vast administrative machinery that has an multifarious impact on all economic activities in the United States, which has remained militarily and industrially mobilized even after the collapse of the Soviet Union. Profits are guaranteed a priori, since, in most cases, products are sold before being produced and there is only one purchaser, and production itself is carried out under strictly regulated conditions monitored by the state for security reasons. In addition, the system operates in an institutionalized framework in which profits are maximized through the maximization of costs, a process that began as far back as the 1950s and reached its culmination in the 1960s, when new rules were introduced in the contractual relationship between the government and business, based on the concept of not formalizing any limit on costs ("cost-plus" pricing). This policy, which created important incentives to inflate costs and was translated into large "overruns," has been deliberately stimulated as an important "anticyclical" instrument. As noted by Melman, the awarding of contracts with no cost limits, was

> . . . actually encouraged by the Pentagon's managers and the federal government's economists, on the grounds of "bolstering the economy" and "getting America moving again." For the firms involved, high bids and subsequent overruns became normal operating procedure. These rules—exactly contrary to the traditional cost-minimizing—set a pattern of cost-maximizing within limits of available federal subsidy. Cost-maximizing became the dominant theme among the 37,000 industrial

This content downloaded from 216.54.92.17 on Sun, 26 Mar 2023 18:19:28 UTC
All use subject to https://about.jstor.org/terms

firms, or parts of firms, organized by the Department of Defense to meet its requirements. By 1980, prices of the military-serving goods produced by this network of firms were rising 20 percent annually.[38]

HEMISPHERIC PROJECTION OF THE PERMANENT WARTIME ECONOMY

Neither the U.S. economy nor that of any other country operates in line with Adam Smith's invisible hand. With the worsening of both domestic and international economies, there have been increasingly loud calls for the application of the "state's visible hand." Left to their own impulses and lacking solid political foundations, markets plummet and industrial bases rapidly disintegrate, entire societies collapse, and—as seen in 1914 and again in 1939—civilization is led into Dantesque civil wars and widespread strife at a bewildering speed. The situation is too serious to be left in the hands of short-sighted local finance managers or small groups intent on pillaging national assets, carrying out capital flight on a massive scale, and willing even to further dismantle national industrial, monetary, and financial systems.

From Tokyo to New York, from Chiapas to Kosovo, national societies and international society are being shaken to the core. The "boom" has ended, causing all of the ideological tenets of "pop globalism" and laissez-faire economic policies to be called into question.[39] Hence, the faithful, at least in Latin America, are on the defensive and extremely wary of topics they consider taboo, such as state regulation of the economy.

Indeed, in the United States and other ACCs, the state's role has not diminished but increased, if measured in terms of budgetary resources managed by government as a percentage of GDP.[40] One topic generally overlooked by Latin American analysts is that of military spending as an integral part of U.S. economic policy. The conventional wisdom emphasizes the stabilizing effect of military spending on employment, but research and evaluations of the postwar experience abound with evidence that military spending has a negative effect on competitiveness and tends to the cannibalization of human and material resources.[41]

Following World War II, during the Cold War, the U.S. federal government and, most importantly, the Defense department, were the leading customers of the entire business structure in the United States. Something more than the maximization of costs was institutionalized: through a highly militarized form of Keynesianism, the United States deployed a permanent war economy with profound effects on society as a whole and on its industrial core.[42] Hebert Marcuse, recalling the military, political, and industrial

This content downloaded from 216.54.92.17 on Sun, 26 Mar 2023 18:19:28 UTC
All use subject to https://about.jstor.org/terms

experience of German National Socialism—brilliantly summed up in Franz Neuman's *Behemoth*[43]—conceptualized the American postwar phenomena as a "warfare state" in which the "welfare state" is achieved through a permanent mobilization of human and material resources for war, either internal or external, against an enemy, whether domestic or foreign, real or imaginary. After the breakup of the USSR, the U.S. government has continued to embrace the principle of military-industrial mobilization as the core of its economic strategy and its hemispheric and global geopolitics. New enemies emerge at points where the world is divided into "regional arrangements" that could easily coalesce into blocks. On the one hand, the geopolitization of intrahemispheric relationships is promoted by the United States through policies and practices typical of the post-Cold War period, such as the anti-drug crusade, arms sales, transfers of military training (in the wake of the demise of communism, the Defense Department and the U.S. national security complex have deployed more human resources in Latin America than they did during the Cold War), and so forth. On the other hand, in the industrial sphere the hemispheric model centers on the "vertical integration" of the Americas, a Monroist model with Washington at the head of the industrialized pole and, at the other pole, Latin America, monetarily and financially disarticulated, adopting a regressive specialization and deindustrializing, suppling oil, minerals, other primary products, and—through the maquiladora model—cheap labor.[44]

For example, in the oil industry—strategic for the civilian economy and for military performance—Latin America has fallen behind in the manufacture of petrochemicals. Although the region possesses some of the world's major oil reserves, and therefore has an enormous comparative advantage, its role in petrochemical activities throughout the world has decreased and today is marginal, whereas companies from countries that have less crude oil possess the main processing plants. The 31 leading refining companies in the world include Royal Dutch/Shell (Holland), Exxon (United States), British Petroleum, Mobil and Texaco (United States), Elf Aquitaine (France), and ENI (Italy). Far down the list are Petróleos de Venezuela (PDVSA), in ninth position, and in fifteenth position, Petrobas, of Brazil, which has also arrived at what World Bank papers call a "point of sale." Petróleos Mexicanos, subject to World Bank conditionality, and like its counterparts elsewhere in Latin America, in the process of being privatized and denationalized, has been drained, through "chronic and selective definancing," of any capacity to take advantage of its competitive edge. It does not even appear on the list of leading refiners. Whereas the World Bank encouraged sales of crude oil in order for Mexico to face its "financial commitments"—so much so that it today exports more crude oil than the United Arab Emirates[45]—virtually the entire multimillion dollar investment in petrochemical plants that was made during

This content downloaded from 216.54.92.17 on Sun, 26 Mar 2023 18:19:28 UTC
All use subject to https://about.jstor.org/terms

Lopez Portillo's government (1976–1982) has been left to rust by his neoliberal successors (De la Madrid, Salinas, and Zedillo), and the existing petrochemical complexes quickly became subject to chronic definancing in order to lead them to a "point of sale."

There is abundant official information indicating that in light of the instability in the Persian Gulf, Washington is seeking to establish a regionalized energy system controlled by U.S. companies in order to ensure its supply of crude. Through the proposed Free Trade Area of the Americas (FTAA), the United States hopes to create a colonial-type division of labor in the hemisphere's petroleum industry, in which producers such as Mexico and Venezuela would provide crude to the United States, which now has surplus capacity to refine, process, and sell oil-based products domestically and internationally. This process would be complemented by the transfer of the main economic activities carried out within Mexico to multinational corporations, including in addition to petroleum, sectors such as mining, electricity, and virtually the entire transportation infrastructure (ports, airports, railways, highways).

The development of alternatives and the abilities to see them materialize are closely linked with the development of a Latin American regionalization model that, in addition to trade, would include currency and finance, which are fundamental for the development of industry. Finally, neither the United States nor Asia attained development by bowing to market forces, free enterprise and laissez-faire economics; rather, they developed through highly interactive and effective relations between the public and private sectors, characterized by shared goals and by commitments that are incorporated into governmental development strategy and economy policy.[46] *The end-of-century international economic configuration, marked by slowdown and the danger of a profound deflationary crisis, is debunking International Monetary Fund and World Bank monetary theses, which attack—in the countries of the periphery—industrialization processes and the state's regulatory role. Today it is more difficult than it was 10 or five years ago, and perhaps just 12 months ago, to continue to conceal a central fact that since Alexander Hamilton's times has defined all successful development strategies, that is,*

> the central gravitation and the leadership of the national industrial sector and its vocation and competence for defining strategic options for penetrating international markets, thereby creating, along with internal strength, the "comparative advantages" of the future.[47]

ENDNOTES

1. *The Guardian Weekly* 157, No. 40 (30 October 1997), p. 3. The quotation is a retranslation of the Spanish translation of the original.

This content downloaded from 216.54.92.17 on Sun, 26 Mar 2023 18:19:28 UTC
All use subject to https://about.jstor.org/terms

2. Data gathered by Robert J. Samuelson, "Great Depression," in David R. Henderson, ed., *The Fortune Encyclopedia of Economics* (New York: Time Inc., 1993), p. 196.
3. Arthur J. Vidich, "Hacia un acercamiento racional de la irracionalidad: teoría social y económica en nuestros días," *Problemas del Desarrollo* (Mexico City) 26, No. 103 (Oct.-Dec. 1995): 35-65.
4. *Ibid.*
5. Dani Rodrik, "The Global Fix," *The New Republic* (Nov. 2, 1998).
6. This central proposal is implicitly and explicitly present in the contributions made by many others, such as Furtado, Gonzalez Casanova, Gunder Frank, Dos Santos, Prebisch, Ferrer, Kaplan, Singer, Sunkel and, of course, in the classic text by F. Fajnzylber, *La industrialización trunca de América Latina* (Mexico City: Nueva Imagen, 1983).
7. In the 1970s and again in the 1980s, Latin America failed to take advantage of junctures that would have allowed it to affect prevailing monetary and financial arrangements. See John Saxe-Fernandez, "Economía del siglo XXI: vigencia y proyección de Salvador Allende," in Frida Modak, ed., *Salvador Allende en el umbral del Siglo XXI* (Mexico City: Plaza y Janés, 1998), esp. pp. 123-208.
8. During World War II, the United States and England founded the IMF to regulate monetary flows. Each country's number of votes was made proportional to its capital contributions, which ensured American domination. The World Bank, the function of which was supposedly to help reconstruct was-ravaged areas, was originally created to promote foreign investment. For a historical contextualization, see Howard Zinn, *A People's History of the United States* (New York: Harper Perennial, 1990).
9. On this point reflect on William Tabb, "Globalization is an Issue, the Power of Capital is the Issue," *Monthly Review* 49, No. 2 (June 1997): 20-30. An example of what I have stated above is provided by the comments made by Norman Bailey, the senior official responsible for economic affairs in the Reagan administration's National Security Council, who commented on the form and substance of the strategy deployed by the Mexican team during the crucial 1982 debt negotiations: "For reasons I can't figure out, Mexico bought the idea of a [liquidity shortfall]. . . , which was convenient for the banks, but not for the debtors." According to Bailey, the Mexican team committed serious conceptual errors in its initial diagnosis that the Mexican payment crisis was a "cash problem" rather than a structural one. Bailey says that this was a matter of "substance" and not a mere semantic tactic to calm tempers: "The way to tackle a liquidity problem is completely different from the one that should be used when the problem is of substance and, if one is dealt with as if it were the other, the only thing that you do is worsen things." The erroneous representation suited the creditors well. Bailey himself assures us that the commercial banks encouraged the perspective that Mexicans had adopted, "not out of ignorance, but because the banks wanted to gain time in order to apply measures that would allow them to improve their particular situation." According to Bailey, Volcker "knew perfectly well what was happening . . . , his responsibility was to the financial system of the United States and not to the security of the less-developed nations." He recalls that the creditors acted in a coalition from the beginning, through the IMF and the World Bank, ". . . they would not accept new loans from the commercial banks simply to continue paying interest. . . ." Bailey expresses his surprise at the fact that the Mexican negotiators, rather than acting in consonance with their country's interests, were willing to satisfy the other side—actions that are apparently not exclusive to Mexico. And in response to the question, "what would you have done," Bailey answered, "I would have had a meeting of, let's say the six major debtors in terms of the size of their loans, confronted the banks and the creditor governments, and insisted on a different approach, warning them that if there was no change in the framework of the negotiations, this group would promptly reduce its payments or repudiate their debt." (Dolía Estevez, "Entrevista con Norman Bailey . . . ," *El Financiero* [20 August, 1992]: 1, 4; p. 4 for all quotations.)
10. See Frances Stewart, "Money and South = South Cooperation," *Third World Quarterly* 9, No. 4 (1987): 1187-1205. The general outlines of this alternative proposal are perhaps even more relevant today.

This content downloaded from 216.54.92.17 on Sun, 26 Mar 2023 18:19:28 UTC
All use subject to https://about.jstor.org/terms

11. In Mexico, the industrial and infrastructural nationalism promoted by the state since the late 1930s was summed up by Lombardo Toledano under the slogan "to nationalize is to decolonize." The reversal of this model, which has become more entrenched since the 1980s, was described by the late Senator José A. Concello, an important spokesman of the nationalist wing of the conservative National Action Party (PAN), with the phrase "to privatize is to recolonize."
12. Fajnzylber, *op. cit.,* p. 176.
13. See J. Manuel Cervera A., *La politica de México ante la crisis de la deuda externa latinoamericana* (Mexico City: FCPS-UNAM, 1986), pp. 269-327.
14. For an analysis of the circular causation between this context and the emerging political structures that have historically emerged, see Marcos Kaplan, *La formacion del estado latinoamericano* (Buenos Aires: Amorrortu, 1968); see also, Henry Veltmeyer, James Petras, and Steve Vieux, *Neoliberalism and Class Conflict in Latin America* (London: MacMillian Press, 1997).
15. Kaplan, *op. cit.,* pp. 286-87.
16. In addition to the works by F. Fajzylber, see Manuel Cervera, *Globalizacion japonesa* (Mexico City: Siglo XXI, 1996); and Grahame Thompson, ed., *Economic Dynamism, in the Asia-Pacific: The Growth of Integration and Competitiveness* (London: Routledge, 1998).
17. Thompson, *ibid.* pp. 70ff.
18. See Michael Pettis's enlightening article, "The Liquidity Trap: Latin America Free-Market Past," *Foreign Affairs* (Nov.-Dec. 1996): 2-7.
19. *Ibid.,* p. 6.
20. In 1913, for example, direct foreign investment had risen to nine percent of world output—a level that would not be surpassed until the early 1990s. Some studies indicate that between 1870 and 1913, portfolio investments, which we now call flight capital, increased at a pace faster than the combined rate of increase of trade, direct foreign investment, and world output. In this period, the United Kingdom, France, and Germany were the leading exporters of capital. P. Bairoch, "Globalization, Myths and Realities," in R. Boyer and D. Drache, eds., *States Against Markets: The Limits of Globalization* (London: Routledge, 1996), Table 7.1, p. 176; and P. Bairoch and R. Kozul Wright, "Globalization Myths: Some Historical Reflections on Integration, industrialization and Growth in the World Economy," UNCTAS Discussion Paper No. 113 (March 1996), Table 1, p. 6. Comparative data on the relationship between international trade and GNP in the two periods and during the Great Depression are provided by P. Hirst and G. Thompson, "Globalization: Ten Frequently Asked Questions and Some Surprising Answers," *Soundings* (London: 1997), pp. 47-66. An instructive summary is given by Carlos Vilas in "Seis ideas equivocadas sobre la globalización," in John Saxe-Fernández ed. *Globalización: critica a un paradigma* (Mexico, Barcelona: Plaza y Jané Sacute, 1999).
21. See Robert Kuttner, *The End of Laissez-Faire* (New York: Alfred A. Knopf, 1991).
22. Kaplan, *op. cit.,* pp. 133-58.
23. Bradford Perkins, *The Creation of a Republican Empire, 1776-1865* (New York: Cambridge University Press, 1995); Michael Lind, *The Next American Nation* (New York: The Free Press, 1995), esp. pp. 39-54; and Howard Zinn, *op. cit.*
24. Lind, *op. cit.,* pp. 38-39.
25. On this topic, and related to the present needs of Latin America, see Luciano Tomassini, "The Disintegration of the Integration Process: Toward New Forms of Regional Cooperation," in Altaf Gauhar, ed., *Regional Integration: The Latin American Experience* (Boulder: Westview Press, 1985), p. 223ff; and José Antonio Ocampo, "Financial Aspects of Intra-Regional Trade in Latin America," in Gauhar Altaf, *op. cit.*
26. Lind, p. 39.
27. *Ibid.* The Federalists, who were falling out of favor, turned into a party of New England reactionaries, and some contemplated seceding from the Union during the War of 1812. During the era of Republican domination and during the subsequent Democratic period, it was the nationalist Republicans, with leaders such as John Quincy Adams, who promoted Hamilton's program.
28. Lind, p. 41. The Jeffersonians allowed for two exceptions to the norm by which the

This content downloaded from 216.54.92.17 on Sun, 26 Mar 2023 18:19:28 UTC
All use subject to https://about.jstor.org/terms

United States should specialize in agricultural exports: crude manufactured goods, such as garments and agricultural tools for local use, which were, indeed, produced on a small scale, and a broad infrastructure in ports, canals and, later on, railroads, which were necessary to transport American crops to foreign markets. The Southerners, opposed to other government expenditures, favored transportation and communications projects. Before the Civil War, they promoted the first transatlantic cargo service and the first long-distance telegraph (Lind, *op. cit.,* p. 41).

29. Zinn, *op. cit.*
30. Barrington Moore, Jr. *Social Origins of Dictatorship and Democracy* (Boston: Beacon Press, 1966), Ch. III.
31. Moore maintains that "[f]rom the very beginning commercial agriculture was important, as in the Virginian tobacco plantations, and rapidly became predominant as the country was settled [*ibid.,* p. 111]."
32. Moore acknowledges that commerce can bring about either linkages or divisions among the regions of a country. Also see Pettis, *op. cit.*
33. Moore, *op. cit.,* p. 140. The author does not single out trade as the most important cause of division, because the commercial ties between the North and South had begun to strengthen immediately prior to the outbreak of the Civil War.
34. Pettis, *op. cit.,* p. 6.
35. Alfred D. Chandler Jr., *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, MA: Belknap Press, 1977), p. 1. We should point out that above the managers are the directors, who come from a powerful capitalist managerial class that appoints managers and gives them general guidelines on how to perform. See C.W. Mills, *The Power Elite* (New York: Oxford University Press, 1956); and G.W. Domhoff, *Who Rules America* (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1967).
36. Chandler Jr., *op. cit.,* pp. 494ff.
37. Seymour Melman, *Profits Without Production* (New York: Alfred A. Knopf, 1983), p. 82. Alejandro Nadal Egea gives an accurate summary of the effects of this type of planned central economy on the industrial core of the United States in *Arsenales nucleares* (Mexico City: El Colegio de México, 1991).
38. Melman, *op. cit.,* p. 4; also see pp. 70, 135, 238, 239.
39. One of the battle horses of "globalization" rhetoric focuses on the assumption of the existence of "stateless corporations." A demystifying research project on the topic is presented by Paul N. Doremus, et al., *The Myth of the Global Corporation* (Princeton: Princeton University Press, 1998).
40. In contrast with Latin America, ACCs total government expenditure as a percentage of GNP has not decreased but increased. In Austria, it rose from 35.6 percent in 1960 to 52.7 percent in 1995; in France, from 34.6 percent in 1960 to 54.1 percent in 1995; in West Germany, from 32.5 percent to 49.1 percent in 1995 (in unified Germany); in Italy, from 30.1 percent in 1960 to 53.5 percent in 1995; in Japan from 19.4 percent in 1970 to 34.9 percent in 1995; in England, from 32.3 percent in 1960 to 42.5 percent in 1995; and in the United States from 17.0 percent in 1960 to 36.1 percent in 1995. (Hirst and Thompson, *op. cit.*)
41. See Nadal Egea, *op. cit.,* pp. 227-41.
42. *Ibid.,* pp. 259-66.
43. Franz Neumann, *Behemoth: The Structure and Practice of National Socialism, 1933-1944* (New York: Octagon Books [1994], 1972).
44. See Jeremy Kahn, "The World's Largest Corporations," *Fortune* 138, No. 3 (3 August, 1998) 74-78, and F1-F42.
45. According to information provided by E. M. O'Rorke, Chief Operating Officer, *The Economist,* EMO: mex 898, p. 4.
46. See Colin Bradford, "East Asian Models: Myths and Lessons," in John Lewis and Valerina Kallab, eds., *Development Strategies Reconsidered* (New Brunswick: Transaction Publications, 1986), pp. 123ff, as cited in J. M. Cervera, *op. cit.;* and Fajnzylber, *op. cit.,* pp. 133.
47. Fajnzylber, *op. cit.,* p. 133.

This content downloaded from 216.54.92.17 on Sun, 26 Mar 2023 18:19:28 UTC
All use subject to https://about.jstor.org/terms