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Post-colonial South America

Nineteenth-century laissez-faire governance

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Introduction

The oligarchic state was the principal expression of statehood for much of the nineteenth century and beyond. Halperín Donghi (1993) provides a neat characterization and periodization of the liberal ‘oligarchic state’, which he entitles the ‘neocolonial compact’. That governing compact included commodity producers, importers and financiers, and was defined by a focus on the international economy: even domestic market activities were shaped by exogenous forces. The compact was not unchanging and came to include a broader spectrum of urban sectors in some parts of the continent. As he writes:

The advance of a primary export economy in most of Latin America signalled the consolidation of the neocolonial order in the final quarter of the nineteenth century. After about 1880, Latin American economies grew more rapidly than ever before … In countries with more vigorous national economies, landowners usually retained more control in the face of mounting external pressures, but national prosperity presented them with formidable internal rivals: burgeoning urban middle classes and (less frequently) organised labor in the more modern sectors of the economy. These groups demanded their share of political influence … The resulting processes of democratization weathered the abrupt economic fluctuations of this period of feverish growth, but both democratizing systems and unreconstructed oligarchic systems tended to break down in the crisis of the 1930s.

(Halperín Donghi 1993: 158–159)

Centeno and Ferraro offer a similar assessment of the dilemma of governance:

The geographical and effective reach of the different contemporary Latin American nation states is quite different across the region. Whereas Latin American countries were able to assure their territorial sovereignty and basic geographical shape by the mid-nineteenth century, they faced a much greater test from internal challengers. The nominal authority of the centralized state was, in most cases, assured by 1900. Conflicts that followed were rarely
about the geographical definition of the nation or even about ethnic/nationalist claims, but about the distribution of national riches between classes, individuals, and regions.

(Centeno and Ferraro 2013: 407)

This chapter adopts a political economy approach. It views economic management as a critical component of state craft and focuses on macroeconomic policy in order to address issues of governance. The Independence decades of the early nineteenth century are usually characterized as ones of disorder and violence that threatened social revolution, state collapse and negative growth. If the construction of viable polities and economies proved problematic before the 1850s, thereafter ‘order and progress’ emerged – the hallmarks of the oligarchic state that promised political peace, growth and an orderly society. The re-forging of elite ‘harmony’ was critical to oligarchic governance, as was the accumulation of resources necessary to establish harmony and contain or co-opt potentially dangerous social groups – those ‘new classes’ in formation alluded to by Halperín Donghi and Centeno and Ferraro. The central argument is that issues of governance highlight tensions defined by forging the state and making the market: did the state make the market or the market the state? The conventional view is that the flow of causality was from state to market: order was a prerequisite for growth (Harriss, Hunter and Lewis 1997). Yet, in parts of the continent the reverse may be the case: markets were in operation before the formation of the nation-state. Debate about the state–market relationships impinges, too, on the discussion about endowments and institutions in promoting market consolidation and state competence: Did natural endowments shape institutions, or institutions the utilization of natural resources? As export-led growth fostered production and exchange, more groups and regions were incorporated in the market – and population grew. How much space within the state could be granted to those newly incorporated into the market and how was this to be ‘negotiated’?

For Oszlak, in addition to such features as securing external sovereignty and a monopoly of the means of coercion, constructing institutions that legitimized authority, creating cadres of professional state functionaries and generating resources sufficient to ensure the supply of essential public goods, were key to the durability of the oligarchic arrangement as was a capacity to contain contest within the institutions of the state. Contained conflict fostered organizational solidarity and ideology – the ‘national myth’ that secured the system of domination (Oszlak 1982: 145). Following Oszlak, North, Summerhill and Weingast (2000) provide a typology of order: ‘disorder’, authoritarian order and consensual order. They argue that order is not automatic; it is an important public good that has to be constructed. This can be done by the crafting of a system of shared beliefs, and credible commitment by the state to define and defend citizen rights. Shared beliefs and credible commitment facilitate a transition from disorder to order, though the type of order (consensual-cum–democratic or authoritarian) depends on state capacity and performance. This conceptualization recognizes that disorder, such as that experienced in many parts of the continent before the 1860s, was instrumental in the organization of order. While consensual order is preferable to authoritarian order, which may itself facilitate a shift to consensual order, order per se is necessary for economic growth. Given this construct, the oligarchic state can be presented as authoritarian order. What is in doubt, as suggested by Halperín Donghi (1993), is the ability of the oligarchic state to effect a transition from authoritarian to consensual order. Perhaps authoritarian order is ‘good for growth’, yet development assumes consensual order.

The section that follows details the growth of the international system during the period addressed, and the relative position of Latin America in the global order. The third section describes the politics and economics of forging the oligarchic state. The fourth considers the
flexibility of oligarchic arrangements, that is, ability to effect a transition from authoritarian to consensual order. In exploring the history and evolution of oligarchic governance as project and practice, some conventional assumptions are challenged. The chapter questions the sequencing of state–market formation, and explores the extent of economic non-interventionism. Reviewing the institutions-versus-endowments debate, it assumes that in some places and periods, resources shaped institutions, in others, institutions determined ability to utilise or amend the endowment mix. Throughout, it is argued that statehood and statecraft were determined by, or reflects in, the quality and competence of economic management: the dilemma of governance for the oligarchic state was encapsulated in ability to foster growth, to cope with global turmoil and to manage socio-political change. The chapter also argues that states attempted to ‘embed enterprise’. Around 1900 this was done through external economic opening and pragmatic intervention in domestic markets – state action in the late oligarchic period prefigured that of the 1930s, and more especially the 1940s, when government intervention became more explicit and the state sector increased in size.

The global context: dynamics and growth

A review of growth during the first era of globalization helps locate the continent; reflections about the development gap between Latin America and other parts of the world shed light on governance capacity.

International expansion provided new power resources for state-building. Between 1853 and 1913, world trade increased by an average of 3.8% per annum, well above gross domestic product (GDP) growth for the advanced economies – 2.4%. As a share of global GDP, world trade stood at 1% in 1700, 2% in 1820 and 17.5% in 1913 – that is, an increase of almost ninefold between 1820 and 1913 (Williamson 2011: 22–23). For Halperin Donghi, ‘Most significant as the indicators of the accelerating transformation of Latin America after 1850 were the measures of its thriving export trade’ (1993: 121–2). By 1880, the value of Argentinian exports had grown by a factor of ten since 1850, Chilean by a factor of 50, while Brazilian exports were ten times greater than the late colonial peak. Andean countries experienced increases in the value of exports that ranged from threefold (Ecuador) to sevenfold (Colombia) over much the same period. Latin America became one of the fastest growing regions in the world. Between 1870 and 1913, the GDP of Latin America rose by an average of 3.48% per annum, and per capita by 1.81%; for Western Europe the rates were 2.10% and 1.32% respectively; for Eastern Europe, 2.37% and 1.15%; and Japan 2.44% and 1.48%. Only such countries as the USA, Australia and New Zealand could match the performance of Latin America, with rates of 3.92% and 1.81%, that is, an identical per capita average and a somewhat higher GDP rate (Maddison 2001: 126).

The emergence of greater opportunities for Latin America in the world economy was illustrated by the buoyancy of primary product prices throughout the middle third of the nineteenth century (W.A. Lewis 1978; Foreman-Peck 1995; Bordo, Taylor and Williamson 2003). Export growth valorized local assets and generated additional resources, notably for the central state or groups strategically placed to capture a disproportionate share of additional resource flows. The chapter is premised on the view that Latin America as a whole became an active player in the international system only during the first globalization of the late nineteenth century – hitherto, external engagement had been regionally or commodity specific, and that the negatives and positives of global insertion became geographically and socially more diffuse during the period as marketization became a pronounced feature of the day-to-day existence of most Latin Americans.
Societies able to realize a flow of exports – particularly ‘new’ commodities such as wool, wheat, non-precious metals and coffee – were amongst the first to enjoy domestic sovereignty and, possibly, pre-empt or reverse the process of territorial disintegration. They were also among the first to experience the consolidation of market institutions (Glade 1969; Bauer 2001; Williamson 2011).

The oligarchic state: forging economies and polities

‘The establishment of … sovereign states following the war of independence was a long, drawn-out, and conflict-ridden process … (and) … the countries that emerged from this process were very different from the territorial units that had existed before independence’, write Bértola and Ocampo (2012: 67). Largely in place by the 1870s, the oligarchic state would remain the main expression of political organization until the 1910s or even later. Institutions were modelled on those of Western Europe and the United States of America, principally drawing on ideas of constitutionalism and republicanism promoted during the French Revolution and wars of American independence (Bakewell 1997; Bushnell, 1983; Halperín Donghi 1993; Bushnell and Macaulay, 1994; López-Alves 2000; Rodríguez O. 2005; Centeno and Ferraro 2013). Economic policies were notionally based on concepts of *laissez faire* and *laissez passer* developed in late eighteenth-century Britain, supposedly responsible for the English Industrial Revolution and the rapid pace of US expansion in the nineteenth century. State-building and market-formation proceeded faster in some places than others. Possibly echoing Oszlak (1981), focusing on the emergence and success of state-building, Soifer (2015: 3–6) argues that both emergence and success were earlier and greater when the state was better able to extend its reach into the national periphery and incorporate local elites, and where a proactive national development project (developmental liberalism) was articulated – along with an accumulation of economic resources necessary to sustain it.

As Bértola and Ocampo (2012) stress, nation-states hardly existed in Latin America in 1850. Boundaries were ill-defined, administrative units separated from each other by distance rather than precisely demarcated frontiers. Few in the continent would have understood the concept of nationality or citizenship. Political rights were circumscribed: Indian communities existed as societies apart, subject to distinct legal and fiscal arrangements; slaves were neither citizens nor subjects but property (Halperín Donghi 1993; Mallon 1994; Moritz Schwarcz 1999; Miller 2006). Linguistic and ethnic divisions, as well as forms of economic activity, isolated groups one from another. By 1900 this had changed. The incidence of domestic political instability had declined and there was greater security of international frontiers. Symbols of ‘stateness’ proliferated. There were Constitutions, legal and commercial codes, national armies, national postal and telegraphic services, and ‘national’ currencies. There were, too, attempts to introduce national systems of primary education and, in some capital cities, newspapers began to aspire to a national status if not a national circulation. In those areas that had experienced mass immigration, military conscription and ‘national’ education were viewed as mechanisms to ‘make’ the good citizen and forge national patriotism. An image of statehood had been created, accompanied by the construction of a national myth (Dunkerley 2002; Miller 2006; Centeno and Ferraro 2013).

By the third quarter of the nineteenth century, institutional political structures were displacing regimes associated with regional bosses (*caudillos* or *caciques*), save in Chile and Brazil, where modern institutions were already in place, and in Central America, where the process took longer. A mix of domestic and external factors helped secure the oligarchic state and shape its policy agenda. Factional success, or exhaustion, facilitated a reconstitution of elite solidarity.
Producers and merchants benefited from the privatization of economic assets due to a massive transfer of factors of production from public and corporate to private hands. Nominally implemented in accordance with liberal precepts, this involved the disposal of public land, the secularization of church assets, the break-up of communal Indian estates and the seizure of territory occupied by nomadic Indians (Halperín Donghi 1993; Bushnell and Macaulay 1994; Bauer 2001). Land, labour and capital were monopolized by producers supplying commodities to overseas markets. Domestic practices were configured with international norms in areas like fiscal, monetary and banking policy. Civil, Commercial and Mining Codes were enacted, designed to secure property rights and foment investment – at least for those with the power to invoke and uphold formal legal provisions (Glade 1969; Salvatore 1999; Bauer 2001; Bortz and Haber 2002; Haber, Razo and Maurer 2004; Dye 2006; Bértola and Ocampo 2012). The assumption was that correspondence with economic strategies applied in the USA or Western Europe were appropriate for Latin America and would secure a process of economic expansion similar to that of the North Atlantic world.

Was domestic institutional order a precondition determining an ability to seize exogenous opportunities resulting from global growth, or did external commercial openings, and the resulting increase in resources, foster regime consolidation? Was state formation critical for the formation of the market, or might market growth forge the state? Many who promoted Independence assumed that it was the former. The reality may have been different: it was the growth of the international economy that fostered domestic institutional building and state modernization. Chile and the Argentine offer two examples from the Southern Cone that shed light on the state–or–market, ‘which came first?’ controversy. Despite a tendency to downplay the intensity of conflict in Chile during the early national period, many accept that authoritarian order was relatively quickly established, and that market consolidation followed. For Bulmer-Thomas, a combination of relatively secure borders, stable government and increased fiscal resources, reduced the cost of doing business (2003: 29). Writing about 1830s and 1840s Chile, Halperín Donghi sees an emergent liberalizing impersonal institutional order that facilitated social evolution and economic expansion, a model that became the envy of Spanish American intellectuals (1993: 114). By the mid-nineteenth century, Collier argues that different fragments of the Chilean elite shared similar views about the connection between, and the sequencing of, order and material progress, and about the means of securing both (2003: 105–112). Here, the state made the market.

Although he is sceptical about the conventional Chile–Argentine styled dichotomy, Llorca-Jaña accepts that: ‘it may not be possible to consider Argentina to be an economic and political unit for the first half of the nineteenth century. Instead, the provinces should be considered as separate [political and economic] entities’ (2012: 243). Markets were functioning before the emergence of a fully fledged nation-state: until quite late in the nineteenth century, Argentinian provinces claimed (and enjoyed) considerable degrees of sovereignty, often functioning as independent ‘national’ units. There was no national currency until 1881 – that important symbol of national identity and statehood (Irigoin and Schmit 2003: 17–35). Yet exports grew, trade flourished and population expanded, due to a succession of commodity booms dependent on increasingly sophisticated linkages (Halperín Donghi 1988; Amaral 1998). Despite the lack of a nation-state in the space that was to become the Argentine Republic, markets consolidated while the state was weak and ‘national’ authority hardly observed.

Arguably the most critical economic organizations in late nineteenth-century Latin America were railways and banks, sectors where the national state assumed an increasingly important role as promoter or operator or both (Bauer 2001; Marichal 2008; Herranz Loncán 2011; Bértola and Ocampo 2012). According to Herranz Loncán, under the auspices of the oligarchic state,
the direct growth contribution of railways in Argentina, Brazil and Mexico is, by all means, impressive. In absolute terms, the railways provided between 0.3 and 0.6 percentage points of growth each year (2011: 25–26). Railways integrated economy and society. In addition to serving the needs of the foreign trade sector, they marketized the domestic economy. Welfare-enhancing growth on this scale legitimized the state as broadening spectra of society had access to public goods. The production of new commodities – often dependent on new technologies and associated with new markets, and the diversification of export schedules promoted regime consolidation and economic modernization. With export expansion came imports and the prospect of enhancing state revenue. Imports, financed by export earnings, appeared to promise a secure source of tariff revenue – one that could be mortgaged to underwrite foreign borrowing. Capacity to borrow and a ‘commitment’ to repay also implied greater state competence and, possibly, greater confidence in the state itself. Thus states were able to expand the supply of public goods – political order and economic and social ‘consumables’ such as transport and education facilities.

If the growth in the foreign trade sector did not broaden the fiscal base, at least it deepened the purse into which government could dip. Inflows of foreign funds reduced the cost of state borrowing and may have weaned some administrations away from dependence on inflation as a means of state-financing – stable money was another significant public good (Panettieri 1983; Goldsmith 1986; Marichal 1989; Peloso and Tenenbaum 1995). The ability of a government to borrow implies a capacity to tax, that is, to capture a share of rents generated by commodity exports. Taxation and borrowing also involve credibility and commitment – an ability on the part of the government to repay and a willingness on the part of tax payers to contribute to the fiscal burden. Hence, the shift from inflationary financing, ‘discovered’ during the early national period (Amaral 1988), to borrowing (coupled with a credible capacity to tax) points to the embedding of state and market relationships (see Bin Wong 1997: 83–88; Bordo and Vegh 1998: 33–34). External borrowing, however, was not costless. It carried implications for domestic monetary policy and the threat – and sometimes the reality – of supervision by foreign banks as regimes in Buenos Aires, Lima, Rio de Janeiro and beyond discovered in the 1890s, and even earlier (Aceña, Reis and Rodríguez 2000; Obstfeld and Taylor 2003; Tunçer 2015; Weller 2017).

There were other efforts at ‘market-embedding’, the most notable being attempts to impose capitalist norms on land and labour ‘markets’ (Bushnell 1983; Bauer 2001; Bértola and Ocampo 2012). Overtly driven by liberal precepts of property, mechanisms such as the Lei da terra (1850) in Brazil, the Ley Lerdo (1856) in Mexico and similar projects in the Andes, were designed to promote freehold and prohibit corporate/collective land-holding (Dean 1974; da Costa 1985; Gootenberg 1988, 1989; Mallon 1994; Dye 2006). As indicated, the result was a massive transfer of assets into private hands, usually existing latifundistas. In the Argentine and Chile, the so-called ‘desert campaign’ against nomadic Indians had a similar effect. Despite the liberal rhetoric, land-holding became increasingly less ‘democratic’ between the 1860s and 1880s. Congressional debates in the Argentine, Brazil, Mexico and elsewhere about progressive land projects, often connected with schemes to attract immigrants, were influenced by the USA. For example, there were proposals to issue land grants in order to foster railway construction and colonization (Dean 1971; Gallo 1984; C.M. Lewis 2015). Little came of these projects. The plausible explanation, advanced by Coatsworth (1974) for Mexico, is that export opportunities valorized land: what had previously been viewed as a low-value asset that could conveniently be sold to gullible immigrants or foreign speculators became a resource from which substantial rents could be squeezed. Legislation relating to ‘labour’ was more piecemeal, though no less controversial in its impact. In plantation economies such as Cuba and Brazil, massive surges in
export production undoubtedly strengthened archaic institutions such as slavery. Yet even in these cases there were subtle changes in labour relations. From the 1860s to the late 1880s (when slavery was finally abolished), immigration, the freeing of different categories of slaves, the use of Asian contract labour (in Cuba) and the recruitment of domestic non-slave labour made for greater complexity in labour relations in the São Paulo countryside and the sugar sector in Cuba. During the last decades before abolition, and despite the concentration of slaves on paulista coffee fazendas and Cuban sugar estates, the majority of rural workers in these regions were technically free (Fraginals 1984; Scott 1985; Lamounier 1993, 2000). Similar controversy surrounds other mechanisms – debt peonage, share-cropping and contract labour (enganche), especially prominent in Andean and Central American countries, and Mexico (Katz 1974, 1977; González 1985; Blanchard 1980). Were these devices the means of extending slavery or did they constitute a phased transition to a ‘free’ labour market? For the Andean economies, González (1985) and Mallon (1994) emphasize resistance to coercion: González (for Peru) and Miller (1990) and Katz (1974) (for northern Mexico) also demonstrate that enganche/debt peonage (a) imposed obligations on both parties and (b) that labourers were able to bargain for changes in contract terms and conditions. Similar arguments have been made for colonos on São Paulo coffee plantations (Holloway 1980; Stolcke, 1988; Lamounier 2000, 2012). This suggests both the operation of a labour market (albeit at local/regional level) and the existence of institutions – formal or informal, capable of imposing sanctions in the case of contract violations by either party.

Mass immigration effected a more thorough-going change in the labour market and to labour relations. Between the mid-nineteenth and the mid-twentieth century, the Argentine received around seven and a half million immigrants, Brazil something less than five million (Sánchez-Albornoz 1974; Merrick and Graham 1979; Sánchez Alonso 2006). They were, respectively, the second and third most favoured destinations of European emigrants after the USA. Other countries, notably Uruguay and Cuba, also received substantial numbers of immigrants. In addition, Europeans settled temperate regions of Chile and, to a lesser degree, Colombia. Every country attracted immigrants but mass inter-continental free migration flowed overwhelmingly to the grasslands of southern South America (Bailey 1967, 1969/1970; Denoon 1983; Klein 1991). Given that these countries were ‘competing’ with other areas of recent settlement, the mass movement of people implies economic opportunity and a semblance of political order. Immigration of this magnitude had a significant demographic, social and political impact. Again, controversy surrounds the long-term consequences of mass immigration. Did subsidized and contract labour depress wages or did subsidies represent a ‘savings’ advance to would-be settlers, thereby contributing to individual/family welfare and macroeconomic efficiency (Holloway 1980; Leff 1982)? Did immigrants provoke progressive socio-political change; was mass immigration a demographic ‘gift’ or ‘burden’ (Germani 1968; Solberg 1970; Di Tella et al. 1974; Sánchez Alonso 2006)? As Halperín Donghi argues, the market economy increasingly depended on immigrants, and immigrants demanded rights in the political market place (1993: 159).

Monetary policy is yet another area where institutional change was observed. The early monetary history of independent Latin America was largely one of inflation and turmoil. The cost and method of funding revolutionary and post-independence conflict, coupled with a decline in silver production, undermined the currency in many areas. Additional pressure was placed upon money supply and the exchange by the adverse balance of trade: bullion and specie drained abroad prompting recourse to paper. After mid-century there were renewed efforts to stabilize the exchange: imported doctrines and export earnings – along with foreign investment – facilitated greater order (Drake 1994; Aceña and Reis 2000; Weller 2017). By this stage, the Gold
Standard was internationally dominant and many policy-makers peddled the orthodoxies of fiscal discipline and state creditworthiness. In the struggle to retire paper and remove the legal tender status (actual or informal) of foreign money, ‘national’ coinage was vaunted as a symbol of statehood and a device to advertise the paramountcy of the central state. The route to monetary order – particularly the Gold Standard – was painful, not least for regimes incorrigibly wedded to the ‘developmentalism’ of unbacked paper currencies or mining regions that favoured silver as a ‘national’ metal. In addition to fiscal rectitude, securing convertibility involved monetary and banking debates about a state monopoly (or otherwise) of the right of issue and the establishment of a credible monetary authority to supervise both banks and money supply. These were sensitive matters of domestic political economy for regimes balancing sectional and regional interests. Governments of small, ‘open’ Latin American economies with shallow domestic capital markets faced huge problems in accumulating (and conserving) reserves. There was a trade-off between ‘openness’ and ‘developmentalism’ in fiscal and monetary policy. States faced a tri-lemma – fixed exchange rates, open capital accounts and interventionism: they could have any two of these instruments, but not all three (Obstfeld and Taylor 2003). There were limits to the quest for virtue: benefits had to be seen to outweigh costs. Domestic critics of the Gold Standard sustained a vociferous opposition from the side-lines, particularly at times of global instability and credit contraction in the world economy, (Panettieri 1983; Goldsmith 1986; Gootenberg 1988; Marichal 1996; Villela 1999; Irigoin 2000). The political costs of monetary order could prove greater than the supposed economic advantages. Nevertheless, the provision of stable monetary order can be presented as an indicator of state competence – an ability to tax rather than to inflate. The impetus to market consolidation and state capacity provided by monetary stability should not be underestimated.

Economic liberalism, however, was tempered with pragmatism. After the 1880s industrialists in Brazil, Chile and Mexico could count on a significant degree of protection even if the tariff was still primarily regarded as a fiscal device (Kirsch 1977; Suzigan 1986; Topik 1987; Haber 1989; Birchal 1999). Duties were becoming increasingly discriminatory and manufacturers could benefit from a softening of the exchange rate. Less consistent tariff protection was also available to manufacturers in Peru and Colombia (Ospina Vásquez 1955; Thorp and Bertram 1978; Thorp 1998). The ability of industrialists to influence policy depended on connections with the dominant export oligarchy and a capacity to press conjunctural or strategic advantage – governments were responsive to the clamour for protection when short of cash. ‘Emergency’ tariff hikes were rarely rescinded when fiscal crises passed but the incidence of protection could be eroded by currency appreciation or import price falls (Kirsch 1977; Suzigan 1986; Haber 1989, 2006). By the beginning of the twentieth century, with commodity prices weakening, demands for state assistance multiplied. It was hardly surprising that during the inter-war decades price support schemes and commodity boards proliferated. Schemes of this period covered exports and domestically consumed commodities, and sometimes entailed the corporatist representation of producers, consumers and the state (Gordon-Ashworth 1984). The most audacious price support scheme was the self-financing coffee valorization scheme launched in Brazil in 1906 with the assistance of European creditors (Peláez 1961; Bates 1997).

Only after the turn of the century was the export-led model associated with the oligarchic state seriously challenged. It was questioned by segments of the elite who had not benefited from policies of the period, and by intellectuals who pondered the economic rationale and social implications of a system based on the production and processing of a limited range of commodities for external markets. Others were exercised by societal change triggered by export-led growth, notably mass immigration and urbanization, and by the prominent role assumed by foreign companies in strategic sectors. Nationalist and radical criticisms were also
articulated by aspiring middle-class groups and some segments of organized labour clamouring for greater access to politics and a welfarist stance in state policy. From these criticisms and concerns, a populist challenge would emerge by the end of the 1930s, with a new project and a different view of the world economy: developmentalism – welfarism, industrialization and greater political openness – was on the agenda.

From the oligarchic to the populist state: demise, decline or reconfiguration

As Drinot shows, 1930 was a point of economic and political inflection, marking the transition from export-led growth to state-sponsored industrialization, and from oligarchic to populist rule (2014: 15). Yet this was not immediately clear to contemporaries, even during the ‘year of revolutions’ around 1930. In a number of countries, the oligarchic state was already under pressure by the early decades of the twentieth century. Did demands for reform, triggered by societal modernization in countries where the production of linkage-rich ‘democratic’ exports predominated, portend a move from authoritarian to consensual order? Or did global volatility undermine political arrangements dependent on external resource flows when those flows began to falter? Undeniably, the international economy was changing.

At this point, most Latin American societies were quite different in size and complexity from those that had existed in the middle of the nineteenth century or even 1900. The oligarchic order collapsed first, and most dramatically, in Mexico in 1910/11. That said, nowhere else in Latin America was there a social upheaval of a similar magnitude – at least not until the Cuban Revolution of 1959. The overthrow of the Porfirián system has been variously explained by regime sclerosis, bureaucratic inertia and miscalculation in the face of mounting opposition – the consolidation of a counter-elite and multi-class nationalism. There was, too, peasant land-hunger, social discontent and poverty triggered by decades of increasing inequity (Knight 1986; Weiner 2004). Other regimes confronted similar difficulties but there were differences of degree and no other government encountered organized opposition in the countryside to the same extent as the porfiriato in the late 1900s.

The most potent forces working for change were nationalism and demands emanating mainly from urban sectors for greater (or continuing) access to power, demands heightened by macro-economic instability (Sikkink 1991; Halperín Donghi 1993; Weaver 1980; Miller 2006). Nationalism and populism were pronounced, precocious features of the Southern Cone and Brazil, epitomized by the administration of Batlle Ordóñez in Uruguay (1903–07, 1911–15), the Radical ascendancy in the Argentine (1916–30) and the Alessandri presidencies in Chile (1920–24, 1925, 1932–38). Later expressions were varguismo and Peronism in Brazil and the Argentine, respectively. Perhaps because they were articulated earlier, these demands seemed to have been most easily accommodated in Uruguay (Nahum 1975; Finch 1981). In the Argentine and Chile, export sector crisis made for messier political adjustments (Weaver 1980; Peralta Ramos 1992). Urban groups were demanding accommodation in the political market place at precisely the moment when economic growth was becoming more erratic. Additional groups could not be accommodated by re-distributing the proceeds of future growth: accommodation implied re-allocating existing resources, a more delicate operation that challenged the very existence of a regime and, perhaps, even of the state itself. When incumbent elites prioritized order over progress, following a phase of growth and modernization, they were likely to be challenged. ‘Order’ was an insufficient public good for those ‘new’ urban groups who had become accustomed to the fruits of material progress delivered by the oligarchic state in its heyday. To quote Halperín Donghi writing about an earlier period: ‘New economic sectors … wished to acquire a share of political power commensurate with their considerable economic leverage, and they were not in a mood to be denied’ (1993: 114).
Nationalism became an increasingly potent force throughout Latin America in the inter-war decades and forged a new ‘national myth’ quite distinct from the concepts of identity and ideology promoted by the oligarchic state and the ‘liberal-capitalist’ market formed during the phase of export-led growth (Weaver 1980; Sikkink 1991; Miller 2006). Nationalism served as a cement for proto-populist alliances in some countries and assumed a more overtly anti-liberal and anti-internationalist tone by the 1930s. Nationalist and developmentalist regimes of the 1930s were framed by economic dislocation provoked by the First World War and the inter-war depression, and were conditioned by criticism of the economics and politics of export-led growth voiced earlier by commentators like Alejandro Bunge and Antonio Encina and by radical thinkers such as José Carlos Mariátequi and Caio Prado Júnior (Abel and Lewis 2015). These ideas were seized upon by sectors such as the military, bureaucrats and industrialists, as well as nationalists arguing for a more pro-active role by government. This implied a greater role for the state in factor markets, and as a producer and a regulator. Virtually everywhere, the state ‘grew’ (Bulmer-Thomas 1994; Evans 1995; Whitehead 1995; Vellinga 1998; Thorp 1998; Bértola and Ocampo 2012). This was not so much the state fostering the market as the state becoming the market – certainly administering it.

Policy debates and institutional developments of this period influenced post-Second World War strategies of import-substituting industrialization. The relatively speedy recovery of most Latin American economies from the worst effects of the depression by the early/mid-1930s shaped later thinking by creating the impression of bureaucratic competence and effective macroeconomic management: an administered market was more efficient – less socially and economically disruptive – than an unfettered one. Yet it would be a mistake to project back into this period expectations and programmes of the post-Second World War decades. During the 1930s economic policy was piecemeal and directed towards export substitution – ‘economic internalization’ – rather than industrialization per se. Increased domestic industrial production was an important element in this process but it was a part rather than the whole (Thorp 1984; Bulmer-Thomas 1994; Abel and Lewis 2015).

Contemporaries often viewed these developments as signalling a heightened degree of ‘economic’ sovereignty, and greater state competence. If the oligarchic state had been exercised by internal challenges emanating from recalcitrant provinces and the threat of ethnic violence, the populist state was more concerned about class relations and class conflict provoked by economic dislocation (Malloy 1979; Bergquist 1986; Epstein 1989). Hence the emphasis on diffusing ‘social representation’ within the state (Osłak 1981). Responses to these challenges varied across the continent. From these responses, three categories of states may be identified. First were those that adopted a Gerschenkronian position, employing ‘ideology’ or ‘national project’ to upgrade state competence by projecting an image of efficacious management of domestic and external economic relations. These states obtained greatest legitimacy. Second were regimes which, due to a perceived lack of need (or an inability to do more), implemented only limited modifications to the institutional status quo. Finally, there were states that surrendered a substantial degree of sovereignty in order to survive in the colder climate of global recession and rising internal and international tensions. Countries like Brazil, Chile and Mexico were representative of the first group. In Chile and Brazil a national project based upon industrial growth and regional economic regeneration gave the central state enhanced domestic authority and, apparently, greater competence in the management of relations with domestic actors and external agents (Muñoz 1968; Baer 1989; Hewlett and Weinert 1982; Abreu 1990). In the Mexican case, these objectives were subsumed in the ‘ideology’ of the Revolution, culminating in the radicalism of the Cárdenas sexenio of the 1930s that witnessed massive state action in the rural and urban sectors (Knight 1986; Cárdenas 1987, 1994). In all three countries – though to a
much greater degree in Mexico – domestic sovereignty appeared to have slipped in the 1920s. National and regional politics had become more violent in Brazil and Chile during the decade as challenges to the central administration proliferated. This instability made the task of re-establishing central authority more urgent and, ultimately, more successful. It is instructive that, although starting from very different positions, the central state in Brazil, Chile and Mexico became highly interventionist. Welfare programmes – education reforms, an extension in social insurance provision and labour legislation – were stressed in all three. Mexico and Chile were the first in Latin America to establish official organizations that would become national development agencies, namely, Nacional Financiera (NAFINSA) and the Corporación de Fomento (CORFO) respectively. There was too a proliferation of price-support or state buying agencies for a range of domestic and export staples, all firmly under the control of the central government and, in Brazil and Mexico, exhibiting distinctly corporatist tendencies, often entailing the ‘representation’ of workers and employers, producers and consumers, as well as the state (Glade 1969; Gordon-Ashworth 1984). Government intervention in the commercialization of commodities displaced private, often foreign, agents. Greater state action in the banking sector also facilitated more adventurous monetary, exchange and external debt management strategies. Hence, these governments were depicted as ‘re-capturing’ control over monetary policy and adopting a nationalist stance in negotiations with foreign interests – and their domestic clients.

The Argentine and Colombia best typify the second group of countries (Palacios 1980; Kalmanovitz 1983; Peralta Ramos 1992; Alhadeff 2015). Here, despite similar developments in the banking sector and commodity marketing – and much innovation in economic strategy, there was less ‘ideology’ and less ‘project’. In the 1930s, the commitment to economic liberalism and the prevailing pattern of economic activities was more entrenched or, possibly, less challenged. There may have been less pressure for a radical redefinition of the reach and composition of the state. Perhaps domestic politics was too riven – or rival blocs too evenly balanced – to permit the emergence of an opening for change at this point. This may be the lesson of the up-surge in political violence in Colombia in the 1940s and the rupture in Argentinian politics represented by Peronism after 1946. The third group of states is probably best represented by Nicaragua and Cuba (Dunkerley 1988; Pérez 1988). These states might have acquired international recognition by the twentieth century and a degree of domestic sovereignty, but they had hardly secured the exclusion of external authority.

**Conclusion**

Innovative recent writing about governance in late-colonial Spanish America points to a state that was robust in response to external threats and sufficiently flexible in coping with internal challenges (Rodriguez 2005; Irigoin and Grafe 2008). Yet the shock of the French occupation of Spain in 1807 resulted in an implosion of Spanish rule, and conflict over resources that led inevitably to Independence in the Americas. There, as in Spain itself, what followed were decades of constitutional failure, political instability and poor economic performance, which explains the difficulty of reconstituting the state – and the imperative for economic reactivation (Irigoin and Grafe 2008: 1). As the imperial system had proved remarkably resilient for some 300 years, could it be reconstructed, or had domestic and global events of the early nineteenth century so changed circumstances on the ground that distinct alternatives had to be envisaged? Perhaps, precisely because they had bargained so effectively with absolutism to secure access to fiscal resources, most Spanish American elites were determined to retain access to those assets, but, in the absence of an arbitrating royal bureaucracy, were unable to agree amongst themselves how to distribute resources. In Cuba and Brazil, on the other hand, the existence of large
slave populations – and the example of successful slave revolt in French Saint-Domingue/Haiti in 1804 ensured the continuation of royal authority, albeit in Brazil in a different guise. Fear was a powerful cement, guaranteeing that intra-elite disagreement did not spill over into extended armed conflict that might trigger greater socio-ethnic violence. These factors influenced how the problem of governance was addressed during and after Independence, conditioning the formation of the oligarchic state, and methods deployed to make (or re-make) the market. Irigoin and Grafe are persuasive when arguing that the zero-sum game of the early national period, roughly from the 1810s to mid-century, frustrated efforts to construct legitimate authority. Only with an expansion of power resources, largely conditioned by exogenous conditions, was state reconstruction possible. Exponential growth in international trade yielded resources to make the state and strengthen the market. As the supply of resources increased, political accommodation became possible, and the prospect of future gains from securing order obvious: market and state became mutually reinforcing, conditioned by global currents.

In the second half of the nineteenth century, effective integration into the world commercial and financial system transformed Latin America, promoting institutional change on several fronts. Some of these were anticipated and welcomed, or relatively easily accommodated, others were not. For example, foreign immigrants were embraced as workers, settlers and vectors of social and ethnic ‘modernization’, but not when they introduced ideologies and practices that challenged domestic arrangements or when their consumption patterns and desire to remit funds threatened the external accounts. Similarly, foreign capital was much appreciated, save when clustered in key sectors or when foreign bankers, bondholders or investors voiced adverse opinions about host states or sought help from home government. Globalization in the late-nineteenth and early twentieth centuries offered opportunities and posed challenges for states in Latin America. The gains from international insertion were not, however, shared equitably by all sectors nor by all countries. Was this because some areas were but imperfectly integrated into the world economy, because international markets were inherently unstable and moving against Latin American producers or were the rules of the game rigged against Latin American players? There were certainly considerable differences in the export and general economic performance of the Latin American economies during the period of oligarchic liberalism. It is equally clear that economic ‘liberalism’ as practised around 1900 was far from orthodox. States intervened in the economy both to promote the formation of markets and to influence them.

If the oligarchic state had been forged by growth opportunities associated with the first globalization, it is hardly surprising that the deceleration of growth and crisis in the world system should have an adverse impact on political arrangements that had been largely created by it. The question is whether, during the good years, the oligarchic state had effected a change from authoritarian to democratic order, or whether it had not. Did the arrangement become more flexible and accommodating as the economy prospered, better able to accommodate demands from a broader spectrum of society for participation in the political game, and sufficiently competent to manage economic shocks and distributional conflict? If it had, the neocolonial compact might have become more national, more democratic and less ‘colonial’ – the state would have become ‘owned’ by society at large, rather than a clique. If it had not, as Halperin Donghi predicted, exclusionary unreconstructed oligarchic systems were doomed to break down.

Contemporary argument about exclusion and inclusion – and a capacity to accommodate new classes and new groups within politics – during the mature phase of the oligarchic state around 1910, when several countries in Latin America were marking the centenary of independence, sheds light on the flexibility (or otherwise) of oligarchic arrangement. The testing of the oligarchic state after 1900 prefigures similar challenges later in the twentieth and twenty-first
centuries. The oligarchic experiment suggests that growth eases distributional conflict and facilitates accommodation, though the formation of a national myth and shared ideology may be as important. Growth sustained strengthens states. The fostering of a national ideology can embed a shared political economy – a progressive project of nation and society, where the symbols and substance of effective citizenship compliment material progress.

Bibliography


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