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1

Those Were the Days: The Latin American Economic and Cultural Boom vs. the Spanish Miracle

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More than three decades ago, Albert Hirschman wondered why not enough attention had been paid to Latin America's post-war economic boom, certainly not while it happened.[1] Only in retrospect, from the "lost decade" of the 1980s, did the accomplishments of the developmental era become relatively clear. But even then, the comparison with East Asia that began during the 1980s diminished the region's achievements.[2] If anything, the period from 1945 to 1975 came to be seen as a lost opportunity, when Latin America supposedly took the wrong direction while East Asia cleared the path to its economic success. This perspective could not be more different than the attention paid to the "Spanish Miracle" – with its own Wikipedia entry! Spain's developmental achievements were seen as a victory for the Franco regime, whose replacement by a vigorous democracy made those achievements even better.

Much of the criticism of the Latin American cases was directed at the supposed failure of the developmental state in the continent. Developmental policies came to be seen as obstacles to the economic progress of the region, leading finally to the debt crisis of the early 1980s, and the subsequent collapse of the Latin American economic model.

In the present volume, we will examine both the achievements and failures of developmental states in Latin America and Spain. We will seek to clarify how developmental state institutions were conceived in the context of far-reaching visions for national affirmation and progress, and how they were designed and established since the early 1930s. We will analyze what the developmental states tried to do, and why they succeeded or failed at their many diverse tasks. We intend to use the contrasting views of the national cases under discussion as a source to continue our long-term investigation, begun with *Republics of the Possible*.[3] That previous volume discussed the politics and techniques of state and nation making in Latin America and Spain during the long "liberal era"

[1] Hirschman, 1987: 8. [2] For example, see Gereffi *et al.*, 1990. [3] Centeno and Ferraro, 2013.

from 1810 to 1930. The first volume on the liberal state, and the second or present volume on the developmental state, can be read separately without any loss of content or perspective, since they represent complete units by themselves. Nevertheless, the editors and the authors have followed some key issues, and employed some common categories of research, which we will briefly describe further below. At the conclusion of the first volume, we realized that while we could find significant variances between the countries under examination, a similar narrative could be told of the creation of a liberal order founded on domestic privilege and international dependence across the Hispanic-American world.

The Great Depression shattered that status quo. In the case of Spain, the subsequent Civil War, 1936–1939, left an economy much smaller and less vibrant than before, and a devastated society. The Spanish state after the Civil War, while not particularly strong, did enjoy a monopoly over political power, and it played a central role in defining economic policy. While Franco remained head of state until 1975, Francoism can be divided into two periods. During the first two decades of the regime, the government was dominated by Falangist and corporatist military officers and politicians, who favored an autarchic economy. Economic difficulties and the need to reach out to the rest of the world required a shift in power to a new generation of technocrats, especially after 1959. It was only in the 1960s that Spain became "different" from its own Black Legend, and began to acquire a new reputation as a dynamic society.

While Latin America largely avoided military conflicts – with the most prominent exception of the Chaco War, 1932–1935 – the collapse of commodity markets in the 1930s led to broad economic decline, and produced new social and political tensions. The post-depression era, however, also witnessed a growth in state capacity and the completion of the process of institutionalization initiated during the nineteenth century. Interestingly, Latin America began its return to prosperity much earlier than Spain. It was only in the late 1950s that the Spanish economy returned to 1929 levels, after spending almost three decades poorer than most of the continent across the Atlantic. It was not until the 1960s that Spain's national income per capita began to outpace the major Latin American economies.

Even during that decade, the cultural dynamism of Latin America could contrast with the conservative repression of Franco's Spain. The 1960s represented the zenith of the Latin American (almost uniformly white) middle class. Internationally, the continent was in the midst of economic expansion. Just as importantly, the region was a cultural and intellectual powerhouse as represented by the literary "boom" and the high regard in which Latin American artists, thinkers, and lifestyles came to be held. Yet, the global centrality of Latin America was temporary. Consider that in 1968, when Mexico hosted the summer Olympics, its economy was roughly the same size as Spain's. Twenty years later, the Olympics were held in Seoul, and Mexico was poorer than both Korea and Spain. By 1992, when the Olympics were held in Spain, the gap had grown even larger. By 2014, when the Olympics returned to Latin America, Spain and Korea's per capita income was more than double that of Mexico and Brazil. While the latter two's economies had largely flatlined, Spain and Korea had grown exponentially.

Why? There is not a student of Latin America who on visiting Madrid or Seoul does not ask themself the same question. The too-often heard explanation of "Confucian" discipline as opposed to "Latin" self-indulgence does not survive the inclusion of Spain in the comparison. What was it about the developmental state in Latin America that slowed growth, beginning in the late 1960s?

THE DEVELOPMENTAL STATE CONCEPT

Before we address in detail the issue of the consistent deceleration of economic growth since the late 1960s in Latin America, and its marked contrast to increasing growth in Spain, we will introduce the general concept of a developmental state. We will also describe, in this section, the dimensions or categories of state capacity that we employ as analytical tools in the book.

According to Woo-Cumings, the developmental state is a "seamless web of political, bureaucratic, and moneyed interests that structures economic life."[4] The term was originally used to describe the Asian "Tigers" and primarily Japan, followed by Korea and Taiwan. Intended as an argument against those who attributed Northeast Asian success to following market-centered economic policies, the concept involves a national commitment to development guided by career bureaucrats controlling state finances allied with private industry. The Latin American equivalent can be seen as sharing several characteristics: investment decisions made by the state, a "developmental discourse," and the partial exclusion of the popular sector (depending on regime type). Importantly, and as we will see, significantly, it does not include in a consistent way the Weberian, professional bureaucracy common to Northeast Asian countries.

For the study of the developmental state, we employ in the present volume four categories of research, which we define as dimensions of state capacity or strength: infrastructural, territorial, economic, and symbolic. The different parts of the book, as shown in the table of contents, are organized in relation to their focus on one or more of those categories. We employed the same pattern of analysis, based on four dimensions of state strength, for the first book on state and nation making in Latin America and Spain, published by the same editors a few years ago.[5] As mentioned above, the earlier volume discussed the politics and techniques of state building during the long liberal era from 1810 to 1930. The two volumes represent complete units by themselves, but the editors and authors have followed some central issues, and applied conceptual categories that connect both projects.

[4] Woo-Cumings, 1999: 1. [5] Centeno and Ferraro, 2013: 15.

Sociology and political science frequently employ the concept of state capacity and related terminology and ideas, such as strength, power, and influence. However, the notion of state capacity became a regular part of developmental literature only in the 1980s. Ideas such as strength and power are deceptively simple: the problem comes from attempting to use them in a systematic manner across a variety of cases. What is it that states do, and how can we trace the transformation of their various capacities across time in Latin America and Spain? Combining a variety of typologies, from Weber to Bourdieu and Mann, we propose four different categories or dimensions of state strength.

The first category of state capacity that we employ is based on the notion of *infrastructural* power, as originally introduced by Michael Mann.[6] According to Mann, infrastructural power refers to the capacity of the state to coordinate society by means of the diffusion of law and administration in many areas of social life, which had remained outside the scope of state concern before the vast expansion of this state capacity during the second half of the nineteenth century. Infrastructural power involves organizational and technical skills to collect and process information, build organizational structures, and maintain communication and interaction networks. Infrastructural power is a key dimension, because this is what makes modern states exceptionally strong.[7]

The expansion and diversification of bureaucratic organizations increases the penetration of the state in terms of infrastructural power. However, according to Mann, such increase of infrastructural power does not imply, as Weber mistakenly assumed, more vertical concentration of power in a central authority. Infrastructural capacity does not involve centralization of power; rather, the contrary is the case. First of all, modern state administration "almost never forms a single, bureaucratic whole."[8] The infrastructure of the modern state is formed by an array of bureaucratic organizations variously linked to power networks in civil society. Secondly, the expansion of infrastructural penetration predictably goes both ways: as a result of the embeddedness of relatively autonomous bureaucratic organizations, civil society's capacity to bring influence to bear on the state also increases. The expansion of infrastructural power occurs simultaneously with the widespread politicization of civil society.[9]

The second dimension of state strength we call *territorial power*, and it involves the classic Weberian notion of monopoly over the means of violence. Note that we explicitly do not specify the legitimate use of that violence as we wish to distinguish between a simple capacity to coerce from the much more complex notion of justifying such coercion. Mann also called this category of power *despotic*, and it represents the influence that state elites are able to exert over the population of a certain area, without having to enter into routine negotiations with other actors. The concept of despotic power captures the

[6] Mann, 1993. [7] Mann, 1993: 60, 66. [8] Mann, 1993: 68. [9] Mann, 1993: 56.

conventional perception of power as the capacity to issue and impose commands. This form of state power or capacity is the simplest to wield, as it merely requires the acquisition and utilization of enough relative coercive force to impose order on a certain territory. This is the state as disciplinary institution, and it takes place on two fronts: first, in relation to other states defining sovereignty; and secondly, against internal or domestic rival claimants and subjugated groups.

Before we consider the next two dimensions of state strength, economic, and symbolic, we will briefly examine the close interconnection of the first two categories during the developmental era. In the context of national development strategies, infrastructural and territorial power were thoroughly articulated by long-term institutional projects. In contrast, during the previous period of state building, the liberal era both in Latin America and Spain, territorial power in itself was a predominant concern of state elites, and they attempted to consolidate this capacity by creating and deploying military and police forces, including custom guards, in areas close to national borders and in rural spaces – the prominent and controversial Spanish *Guardia Civil* was created for this purpose in 1844. However, during the developmental era, the states focused instead on increasing their dominion over peripheral territories by creating new bureaucratic organizations, which took the form, on the one hand, of many regional developmental agencies created in Latin America since the 1940s. As unitary states, on the other hand, Chile and Spain avoided the creation of regional developmental agencies. However, the promotion of economic development by central agencies, in both countries, was deliberately targeted on peripheral regions, as shown by the case of Catalonia, for example, where substantial projects of state-led industrialization under Francoism were located.

Developmental strategies included from the beginning plans to achieve the modernization and professionalization of public bureaucracies, that is to say, plans to increase the overall infrastructural strength of the state. Almost in every case, moreover, the professionalization of the central civil service was carried out together with the creation of semi-autonomous developmental agencies. Those semi-autonomous developmental agencies were conceived and designed as institutions of superior bureaucratic quality, compared to the rest of the public administration. The concept of "islands of development" was created by Thurber to define precisely those "nuclei of strength, especially organizational strength" that developmental agencies represented.[10] In sum, the many regional development agencies created in Latin America, or the central autonomous development agencies created by Chile and Spain, were designed with the goal of increasing infrastructural power or bureaucratic capacity and, at the same time, improving the territorial – regional – reach of the state, its territorial strength. Since infrastructural and territorial power were so closely

[10] Thurber, 1973: 45.

intertwined during the developmental era, the corresponding part of the book – chapters five to eight – examine those two dimensions of state strength in combination.

We define the third category of state capacity as *economic power*, and this involves diverse connected processes. First, economic power is about the state promoting the general prosperity of a society. Prior to the Keynesian revolution, states mostly contributed to prosperity in the course of the unification of an economic space through the creation of a national market. Of greater relevance for our cases, the states may also increase prosperity by creating the physical and legal infrastructure supporting the insertion of their domestic economy into a global system of exchange. A second aspect of economic power involves the control over and appropriation of resources through the establishment of an efficient tax system. The third and perhaps most extensive aspect of economic power, during the developmental era, concerns the formulation and implementation of long-term economic policies, particularly industrial promotion, welfare and labour services and regulations, public credit, trade strategies, and others.

The fourth dimension of state capacity is what Bourdieu calls *symbolic power* or what Weber discussed as legitimacy. As Bourdieu notes, "what appears to us today as self-evident, as beneath consciousness and choice, has quite often been the stake of struggles and instituted only as the result of dogged confrontations."[11] The study of the state's symbolic power is the history of how it attempts to construct its own sense of inevitability. Symbolic strength is the quality that should – ideally – place the authority of the state out of the bounds of contention. Regarding this symbolic dimension, Joseph Strayer assigns a central role to what he calls "loyalty" during the consolidation of state power, a "shift in the scale of loyalties" from earlier societies, and a new "priority of obligation" towards public institutions, or what he later calls a "cult of the state."[12]

During the developmental era, new and powerful narratives of the national community emerged, and redefinitions of citizens' political and ethnic identities were attempted in several national cases. States were eager, of course, to take control of national narratives, and to position public institutions and official practices as stages for the performance of citizens' political identities, in order to expand and strengthen mass loyalties. Developmental projects were heavily invested with the symbolism of national destiny, while at the same time they were often conceived and carried out by new social and political actors that demanded to enter the public scene. States and public agencies tried to appropriate the symbolic potential emerging from those social and cultural transformations, by their own self-presentation as agents of change, with more or less success in the diverse national cases.

[11] Bourdieu, 1994: 15. [12] Strayer, 1973: 47.

DEVELOPMENTAL SUCCESS COMPARED

Why did some developmental states succeed, occasionally beyond all expectations, while others did not? The most popular explanations examine Latin America and Northeast Asia, arguing for instance that the geopolitical situation in Asia provided significant political will, as well as ample funding, resulting from the West's grand strategy during the Cold War. One aspect that has also drawn attention is the extent of policy continuity. For many, the consistency of the Northeast Asian model is critical. Others, however, point out that Latin America adhered for too long to the model of import-substitution industrialization (ISI). There was also a long debate about the extent to which democracies could not solve the collective action problems of rapid development, but this relationship was found to be generally weak.[13] Another interesting approach comes from Fajnzylber's critique of the "showcase modernity" in Latin America, which he argues was too focused on providing a middle-class lifestyle to urban professionals, as opposed to more effective policies of capital accumulation.[14]

The case of Spain provides a significant empirical comparison in this whole discussion. As mentioned above, the Spanish economy lagged behind several major Latin American countries at the middle of the twentieth century. The association of the developmental state with authoritarian policies was a feature of both the Latin American and Spanish cases during the 1960s, and the divergent fortunes of Spain and its former colonies were actually less predetermined than intuition suggests. In 1960, it was not obvious which country of the Iberian world would be better off by 1990. In the pages that follow, we will begin to address this question by comparing the Latin American and Spanish cases across diverse empirical measures.

ECONOMIES AND SOCIETIES

We begin with a well-known tale of economic history. In 1995, Spain's real gross domestic product (GDP) per capita was $12,860, almost $5,000 more than Argentina's and over double that of Mexico and Brazil, an apparently clear reflection of the global North–South divide.[15] But at the middle of the twentieth century, Spain's economic performance compared to that of Latin America seemed mediocre at best. Even before the Civil War ravaged its economy, Spain was far behind Argentina in terms of real GDP per capita. In 1925, Argentina's output was nearly $4,000 per capita (in 1990 dollars), compared to under $2,500 for Spain. Latin American economies would develop more rapidly for years to come. Between 1925 and 1960, real output per capita grew

[13] Centeno, 1994. [14] Fajnzylber, 1990.
[15] Source for GDP data: Maddison, 1995, 2001. Real GDP figures are in 1990 GK dollars.

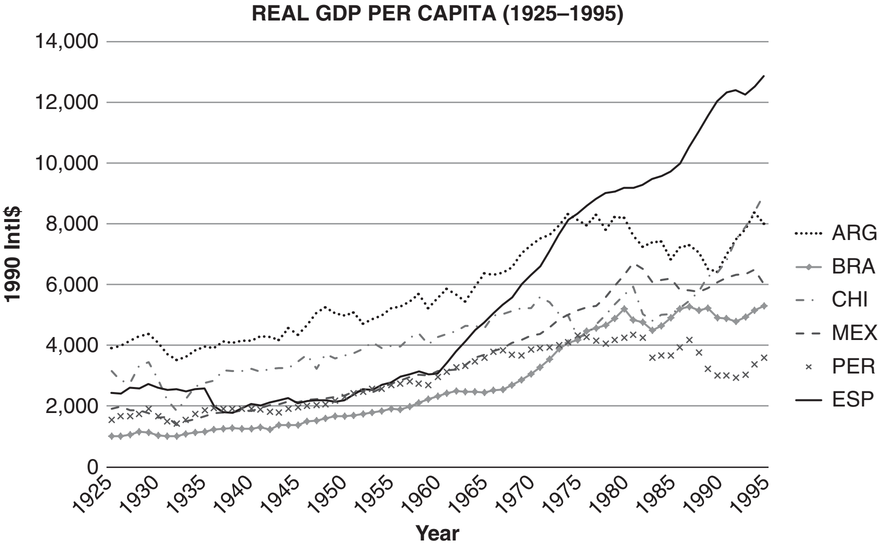

FIGURE 1.1 Real GDP per Capita, 1925–1995, for Spain and Select Latin American Countries, in 1990 Geary-Khamis (GK) dollars[16]

by 40 percent in Argentina, 65 percent in Mexico, and 133 percent in Brazil. Spain's output, meanwhile, increased just 25 percent during the same period.

It was only afterwards that the familiar North–South divide took shape. Figure 1.1 illustrates how, after decades of mediocre growth, Spain's real GDP per capita accelerated at an average rate of 9.1 percent *every year* between 1960 and 1995. By contrast, the Latin American economies – particularly Argentina's – floundered, in many cases actually losing ground.

The solid black line representing Spain sticks out on the chart. The drastic reversal of fortunes holds even when comparing Spain and Mexico to their highly developed neighbors. Despite high economic growth in Mexico between 1925 and 1960, the economy of the United States consistently remained twenty times as large. Events in the second half of the century, including industrialization, and the 1994 signing of the North American Free Trade Agreement (NAFTA), had a relatively modest impact: by the 2000s, the Mexican economy had settled at 9 percent the size of its American counterpart. As for Spain, when the Civil War ended in 1939, its economy was less than half the size of the Western European average, a ratio that only modestly improved by 1960. If Spain's growth could be explained by the post-war European boom, then we would expect this ratio to remain fairly stable. Instead, when the European Union formed in 1988, Spain's economy reached

[16] Maddison, 1995, 2001.

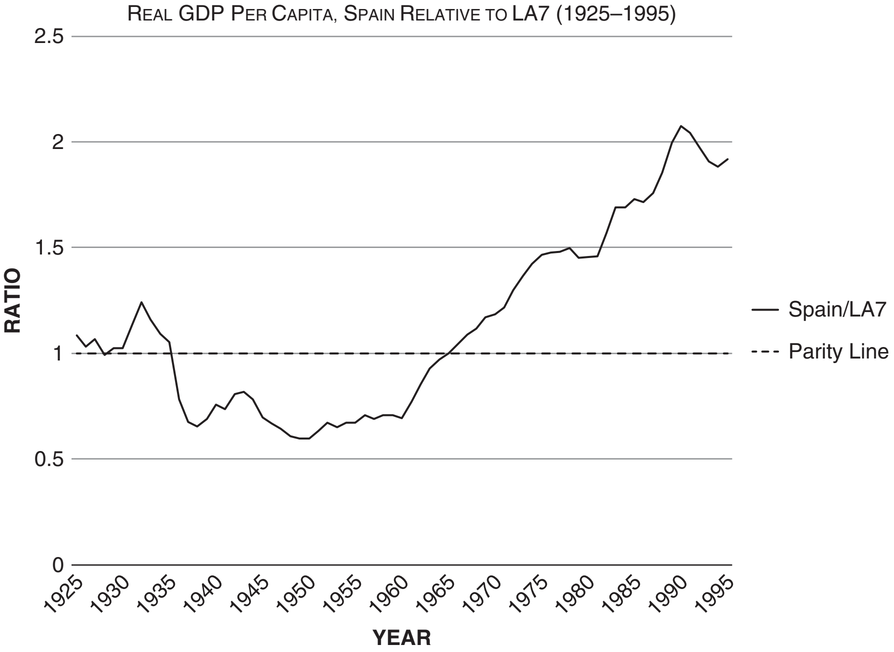

FIGURE 1.2 Spain's Real GDP per Capita, Relative to Seven Latin American Economies (LA7), 1925–1995
The dashed line marks parity. Excluding oil-rich and economically turbulent Venezuela from the comparison shifts the curve further left but doesn't change the underlying trend.[17]

parity with the continental average; by the early 2000s, it surpassed the Western European mean by a third.

Clearly, some profound transformation occurred in Spain during the 1960s. The economic boom has been associated with the authoritarian government's decision to replace, in leading public policy positions, old Falangists with young, highly influential technocrats.[18] Afterwards, the Spanish developmental state was very successful at promoting industrial production and export growth. Why similar Latin American attempts ended in disaster is less obvious. As we have seen, not only did the continent enjoy high levels of economic development in the first half of the twentieth century, but Latin American rulers emulated Spain's developmental model without delay. As early as the mid 1960s, the military dictatorships of Argentina and Brazil were eager to hire expert managers from Opus Dei, the same right-wing Catholic organization that trained Spanish technocrats.[19] And yet when these

[17] Maddison, 1995, 2001. [18] Casanova, 1983: 27.
[19] Jaguaribe, 1973: 532–533; Casanova, 1983: 29.

nations eventually emerged from military rule, only Spain could claim to have witnessed substantial developmental achievements.

Figure 1.2 plots Spain's GDP per capita as a ratio of the Latin American mean. Average Spanish citizens were earning just 60 cents to the dollar of their counterparts across seven Latin American countries (LA7: Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela) between 1935 and 1960. One generation later, they were making double. In other words, the Spanish developmental success is made more remarkable by the conspicuous absence of any Latin American equivalent.

Later chapters and the conclusion of this volume examine in detail why the developmental state did not reach any extraordinary results in Latin America, as it did in Spain. Before discussing the issue, however, let us define here the heart of this comparison: the inflection point circa 1960, when the Spanish and Latin American growth trajectories diverged. In the rest of this section we compare historic trends in Spain and Latin America across further empirical measures associated with developmental results. The broad period of analysis, from 1925 to 1995, provides thirty-five years of observations on either side of the inflection point. We examine economic, demographic, social, and political trends for peculiar historical circumstances that may help explain Spain's very fast economic growth. Our aim is to examine common explanations of developmental success (or failure) while understanding the inflection point in more detail. Two patterns stand out in particular: one, that for most of the twentieth century, Spain tracks closely with the Latin American average across a wide range of developmental measures; and two, the inflection point appears in the data with surprising frequency, albeit at different periods across measures.

MANUFACTURING AND TRADE

One plausible explanation for Spain's fast industrial growth during the 1960s is that Spain was simply more industrialized to begin with. The data, however, suggest otherwise. As late as 1970, Spain lagged behind Argentina, Chile, and Venezuela in its share of GDP per capita originating in industrial activity, a measure on which it historically resembled the Latin American average.[20] Over the next decade, however, Spain experienced a near-exponential rate of industrialization that dwarfed the linear growth paths of Latin American economies. By 1981, Spain's industrial GDP per capita had risen *eightfold* to more than double the level in Argentina, and two and a half times as large as the Latin American mean.

Crucially, Latin American nations did not "fail" to industrialize – they simply did so at linear rates that were no match for Spain's exponential pace. An identical trend occurs in the per capita production of steel and cement, a historic industrial activity easy to compare over time and space.[21] Spanish

[20] Maddison, 1995, 2001. Industrial GDP data from Databanks International, 2017.
[21] Sources for steel and cement production: Databanks International, 2017.

production levels were essentially flat between 1925 and 1955, lagging behind Chile and Venezuela. They began skyrocketing soon afterward, reaching a peak in the 1980s, when Spain annually produced 2.2 megatons of steel and cement per capita, *thrice* as much as the largest producers in Latin America, Brazil, and Mexico. Although these states significantly increased their output during this period, it remained a fraction of Spain's.

If Spain wasn't historically more industrialized, was it at least more integrated into world markets? After all, Spain was an imperial power that conducted vast military and economic operations for centuries. Perhaps trade linkages helped to "unlock" the growth potential of the Spanish economy. In fact, between 1925 and 1962, the average annual share of world trade among Argentina, Brazil, and Mexico (LA3) was 56 percent larger than Spain's.[22] This difference was especially pronounced during wartime: in 1937, Spanish trade was worth just 14 percent of Argentina's share and less than half of Mexico's (and it stayed that way until the 1950s). Here the data reveal another inflection point: Spanish international commerce surpassed LA3 in 1963, accounting for an even larger share of global trade throughout the rest of the twentieth century.

Spain's trade boom occurred in the early years of the Spanish period of intensive growth, suggesting that trade policy (along with steel and cement production) was central to the development strategies implemented by the technocrats. For example, absolute levels of Spanish exports often lagged behind two major commodity-rich Latin American economies – Brazil and Mexico – until at least the late 1980s. Behind the scenes, however, Spain transformed from a commodity-exports to a manufacturing-exports regime. The manufacturing share of Spanish exports (as a percentage of all exports) grew from just under 30 percent in 1962 to 73 percent in 1988. By contrast, value-added manufactured goods accounted for only 57 percent of all 1988 exports from Brazil and 49 percent of exports from Mexico. The changing nature of Spanish exports is thus an important qualitative distinction that can be directly linked to developmental strategies.

One critical aspect of trade provided Spain with a key source of foreign currency. The Net Travel and Tourism Balance (NTTB) calculates a country's revenues from travel and tourism after deduction of the money its nationals spend on travel abroad.[23] In 1995, Spain's NTTB was $20.8 billion, ten times greater than Mexico. But in 1960, Mexico's travel balance, at $260 million, was actually higher than Spain's. While tourism to Mexico suffered during the peso crisis of the 1980s, it expanded eighty-fold in Spain. Like other forms of trade, Spain's travel balance did not begin at high levels but rather hit an inflection point in the early 1960s.

22 Databanks International, 2017.
23 Source for NTTB data: Mitchell and Palgrave Macmillan, 2013.