The standard characterization of Latin America’s import-substitution model of development and its “failure” overlooks two important issues. First, models of development do not spring forth full-bloned with self-evident virtues or fatal flaws as politicized public policy analysts claim. They emerge over time as responses to international and domestic socioeconomic and political crises. They spring from attempts to restore economic growth and political order and are later formalized as models. In that sense, import-substitution industrialization had significant success for a number of decades. Secondly, given Latin America’s situation of dependency, international economic crises before and after World War II and the characteristics of the world capitalist economy that emerged after the war had a significant impact on the rise and fall of import-substitution industrialization. However, there was considerable variation in the timing and sequencing of this impact and the extent to which these international factors affected the rise and fall of the model in Chile, Argentina, Mexico, and Brazil. Differences in domestic factors, such as state formation, party systems, and the social coalitions that supported and opposed import-substitution industrialization, account for that variation. Moreover, the decline of the model should be understood in terms of the degree of departure from industrial policy and inclusive social policy, not in terms of some intrinsic incapacity.

Keywords: Latin America, Chile, Politics, Economics, Change

The socioeconomic and political crisis of liberal capitalism during the Great Depression and World War II spurred a search for new strategies to rekindle economic growth, reestablish social peace, and lay the foundations for political stability. The developed world responded with the Keynesian welfare state and social democracy. In Latin America, import-substitution industrialization replaced the commodity-export-led model that had faltered during the great international crisis. The new strategy relied on state-led efforts to construct basic industry, develop infrastructure, and build domestic manufacturing to substitute for imported manufactures behind high protective barriers to trade, subsidies, and restrictions on capital mobility. Taking into account the social and political dimensions of the crisis, income redistribution via the creation of a Latin American version of the welfare state was an additional component of the development model that emerged from the...
Great Depression. These policies produced a multiclass sociopolitical coalition to support the new development strategy. The features of this development model’s exhaustion are well known: slow economic growth, recurrent economic stabilization crises due to high inflation and balance-of-payments difficulties, mounting tension in the support coalition, and political instability.

This familiar rendition of the import-substitution model obscures variation across countries. Unique economic structures, social formations, and political institutions meant that the timing and sequencing of industrial and social policies, their content, and their sociopolitical support coalitions often differed, as did the tensions that undid the model. Some countries saw the violent overthrow of democratic regimes by military dictatorships. Others suffered enduring political instability or muddled through more evolutionary change. Moreover, some shifted to free-market economic reforms only after the debt crisis of 1982 (some as late as the 1990s) while others started in the mid-1970s. Finally, the end of import-substitution industrialization did not necessarily coincide with the collapse of democracy.

These differences suggest that the characterization of the import-substitution model contemporary analysts settled upon has limited utility for understanding the trajectory and significance of that development strategy. In general, there is a propensity to imbue “failed” development models built on such constructs with an inner logic and meanings that reflect present-day policy debates more than the concerns and choices of the period. As a result, the concept of a development model may not be very useful for understanding the causes of the emergence of a more or less coherent set of economic and social policies, their sources of support, and the way they (necessarily) change over time. What later becomes a model begins as a series of responses to crises that render existing public policy ineffective. Over time, the right policy mix evolves into a new set of coherent and effective policy responses that become formalized in a “modern” development model based on economic theory. For example, it took about 20 years, from 1930 to 1950, for import-substitution industrialization to emerge as a full-blown model. It also took about 20 years—from 1975 to 1995—for all of the dimensions of the current neoliberal development model to materialize from economic stabilization to second-generation reforms (Tulchin and Garland, 2000). When the problem is framed this way, whether the collapse of import-substitution industrialization was inevitable is not a useful question. Whether it was “doomed” is properly the subject of politicized public policy debates, usually raised by detractors. All human endeavors are subject to change. The question is more the degree to which change is adaptive and evolutionary or violent, with radical departures from past practice.

Import-substitution industrialization and national populism were, for a time, relatively successful responses to the problems of the day. They restored economic growth and political order and provided a measure of social equity missing from most of Latin America (Furtado, 1976; Thorp, 1998; Bulmer-Thomas, 2003; Haber, 2006; Weaver, 2000). Shifts in the initial international and domestic conditions that supported the model made change necessary. However, the direction of change was not inevitable. Industrial policy was the core of the import-substitution development strategy. Thus, the degree to which industrial policy was abandoned instead of reformed and redirected to generate a wide
range of industrial goods for export is a key analytical problem, as is the aban-
donment of a commitment to universal social welfare (Huber, 2005).

After a brief exposition of theoretical underpinnings and assumptions, this
article analyzes Chile’s political economy during the import-substitution period
(1930s–1973) and its implications for the radical neoconservative economic
experiment that followed. It then compares the Chilean case with those of
Argentina, Mexico, and Brazil to underscore how the distinctive features of each
case help explain their different trajectories into the present era. The exercise
strongly suggests that the periodization and the causation of the demise of
import-substitution industrialization are not as straightforward as frequently
posited. This implies that the causes and sources of support for free-market eco-
nomic policies probably require more careful scrutiny before concluding that the
current development strategy is the culmination of a development telos.

IMPORT-SUBSTITUTION INDUSTRIALIZATION
IN HISTORICAL CONTEXT

Import-substitution industrialization was not born as a cohesive develop-
ment model; it gradually emerged as a response to the socioeconomic and
political problems of the times. The successes of the liberal export-led model
between the 1860s and, arguably, the 1920s generated a process of urbanization
around trade, finance, and incipient industrialization that led to the rapid
expansion of new social groups, such as merchants, financiers, the middle
classes, and urban labor (Skidmore and Smith, 1997). The collapse of the liberal
export model brought social tension among these groups (then known as the
“social question”) into sharp relief, and many Latin American countries suf-
f ered from acute political instability. In the 1930s and 1940s (as today) rekin-
dling economic growth, restoring social peace, and reestablishing political
stability were the central issues. Thus, in its origins, import-substitution indus-
trialization is better understood as a bundle of industrial and social policies
implemented by political regimes that sought to include the interests of middle
and lower classes. They were the signature policies of the national-populist
period (Cardoso and Faletto, 1979). Conceptualizing import-substitution indu-
trialization as a bundle of economic and social policies allows for a fuller
exploration of the factors that account for its establishment and consolidation
and for the tensions responsible for its demise.

Given the calamitous “failure” of the laissez-faire export-led international eco-
nomic system during the 1930s, it is hardly surprising that the economic and
social policies of the national populist period in Latin America (1930s–1970s)
broke with economic orthodoxy. Suspicious of the bounties of the market,
national populists sought to regulate it, direct it, and partly replace it. Distrustful
of the foreign sector and the domestic elites that prospered along with it (“oli-
garchs”), they focused on national development and the social integration of the
popular sector. They designed and implemented nationalistic industrial policy,
recast labor relations to make them more favorable to labor, and constructed a
Latin American version of First World welfare states (which involved redistribu-
tive economic policies). National populism was quintessentially reformist not
revolutionary Marxist (Conniff, 1982). Latin American economies and societies remained capitalist, although not laissez-faire.

Undoubtedly, Latin America’s positioning on the periphery and semiperiphery of the world capitalist system places it in a situation of dependency in relation to the developed core, especially the United States (Cardoso and Faletto, 1979; Wallerstein, 1989; Cockcroft, Frank, and Johnson, 1972). Consequently, changes in the international capitalist political economy, especially crises, strongly affect the region. The more severe the crisis, the more direct and unmediated the effect of international factors. After World War II, less severe changes had more diffuse and mediated effects. These shifts centered on the reconstruction of world capitalism under the Bretton Woods system and its crises and evolution between 1971 and the mid-1990s—including the demise of the dollar standard, the oil crisis, stagflation, the debt crisis, and globalization. U.S. geopolitical interests also had strong effects on the region.

All of these international factors affected the emergence, evolution, crisis, and demise of import-substitution industrialization and attempts to build a welfare state in Latin America. However, with the exception of conquest, international shocks do not wholly determine outcomes. Domestic economic, political, and social conditions also play a significant role, especially when variation in similar international trends occurs across cases or responses are out of proportion to events. For example, Chile and Argentina undertook radical neoliberal reforms in the 1970s while Mexico and Brazil continued with import-substitution industrialization. And, although the debt crisis of the 1980s was much more intense than the diffuse economic changes of the 1970s, Mexico and Brazil undertook more gradual neoliberal reform programs after the debt crisis than Argentina and Chile did in the 1970s. Regarding key domestic conditions, political factors, rather than economic necessity, were responsible for the abandonment of import-substitution industrialization in countries such as Chile instead of adaptation of the policy to meet changed international circumstances as occurred in Korea and Taiwan during the 1970s (Haggard, 1990; Amsden, 1989; Wade, 1990).

State institutions and social forces are two domestic variables that strongly affect the politics of economic policy change. I assume that state policy makers have relative but not absolute autonomy from social forces (Evans, 1979; 1995). During the import-substitution industrialization period, political leaders concentrated on state building, centralizing state authority, and strengthening the autonomy of the state relative to domestic and international social groups, especially capital (Haggard, 1990). This was key to pursuing a development path centered on industrial policy and redistributive social policies. However, state managers also had to maintain conditions for capital accumulation, and therefore economic policy necessarily favored some fractions of capital or landowners even as it pinched other sectors (Poulantzas, 1973). In other words, political leaders require social support for their governments and policies (Haggard and Kaufman, 1995). Thus, I assume, at minimum, that political leaders must broker multiclass social coalitions capable of sustaining them. If they cannot, eventually social forces will challenge them and participate in efforts to change their policies, the government, or the political regime.

Peter Gourevitch (1986) offers a useful framework for analyzing the effect of social coalitions in comparative public policy. It establishes the sources of support for the political bargains and institutions that sustain development.
strategies and elucidates the tensions that unravel them. He argues that international crises induce tension within social coalitions because the policy mix that held the coalition together no longer generates economic growth. Interests among members begin to diverge, and they cast about for new policies to renew economic growth, provide political order, and restore social peace. His approach also considers how institutions such as the state and political parties mediate social coalition building and influence the politics of change.

Four characteristics of social coalition formation affect levels of support and tension for the import-substitution industrialization development strategy. First, the inclusiveness of the coalition in terms of upper class (landowners and business, large-scale or medium-sized enterprises), middle class, or labor (urban and rural) appears to have been a key factor (Anderson, 1967). Of course, by the twentieth century “middle class” referred less to small property owners than to the middle managerial sectors of corporations and professionals. In either case, these social groups could ally themselves with capitalist or working-class interests depending on whether large-scale capital or labor presented the greater perceived threat to their advancement. Second, the means of inclusion, especially for urban and rural labor, were also significant, whether through state corporatist arrangements, labor parties, or independent confederations (Collier, 1999). Third, the political institutions that mediated the interests of the social coalition, especially party systems—one-party dominant, two-party, or multiparty—were crucial (Gourevitch, 1986). Fourth, access of coalition members to state institutions involved in the policy process, such as representation on the boards of development banks or other public institutions and lobbying the legislature, also mattered (Conaghan and Malloy, 1994).

**IMPORT-SUBSTITUTION INDUSTRIALIZATION IN CHILE, 1930s–1973**

In the context of the Great Depression and World War II, import-substitution industrialization began spontaneously in early industrializers like Chile, evolved to the use of loosely related industrial policies, and later became formalized as a model (Furtado, 1976). In the context of diffuse changing international circumstances, the political consequences of the model’s economic bottlenecks brought it down.

**INITIATION OF IMPORT-SUBSTITUTION POLICIES, 1933–1938**

In Chile as elsewhere, the collapse of the international economy during the Great Depression led to mistrust of laissez-faire policies and greater acceptance of government intervention as a means to regenerate economic growth and employment. Neither international trade nor finance possessed the capacity to fuel capitalist accumulation and therefore economic growth. World War II extended the limitation. The United States, as part of the war effort and in collaboration with Latin American states, fixed low commodity prices and restricted capital movements.

In this context, import substitution began spontaneously during the 1930s and 1940s in countries such as Chile that already had incipient industries tied
to the export sector; it was not formalized into a model until the early 1950s with the birth of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), headquartered in Santiago, Chile (Furtado, 1976; Hira, 1998). In Chile, import-substitution industrialization became a matter of government policy in the mid-1930s, during the second administration of Arturo Alessandri (1932–1938). It introduced deficit spending, public works projects, and special loans and tariff protection for industry and landowners (Mamalakis, 1966; 1976; Muñoz, 1972; Kirsch, 1977).

Although these policies constituted breaks with economic orthodoxy, they were still distant from the bundle of policies that became associated with the import-substitution model of development. First, although the government had introduced countercyclical fiscal policies and a mild industrial policy, the developmental state with a commitment to public enterprise had yet to appear. Second, industrial policy did not discriminate against agriculture in favor of non-traditional basic industries such as steel production and petrochemicals or manufacturing industries such as textiles and consumer durables, which was another key feature of the classic import-substitution model. Instead, Alessandri’s industrial policy promoted industries that complemented the agricultural sector instead of competing with it by mainly stimulating existing manufacturing in food processing and leather (Cavarozzi, 1975; Petras, 1969).

The social bases of support for these policies came largely from financiers, merchants, landowners, and incipient industrialists. In fact, they had been demanding these policies since 1931. The international economic crisis made them aware that internal economic expansion and stimulation of domestic industry might be the only way of reviving the economy (Drake, 1973 and 1978; Ellsworth, 1945; Muñoz and Arriagada, 1977). Since the industrial policies Alessandri adopted did not discriminate against landowners, the intersectoral conflict between them and industrialists so common with the classic import-substitution model was avoided. Landowners also actively supported industrial policy because the early 1930s were a period of high unemployment and social unrest and the agricultural sector could not absorb idle labor quickly enough (Carriere, 1981; Loveman, 1979; Zeitlin and Ratcliff, 1988; Wright, 1982; Bauer, 1975).

Alessandri accommodated the policy demands of these upper-class socioeconomic groups in part because he was committed to regaining the confidence of the Chilean upper classes following the disintegration of the Parliamentary Republic and a period of intense political instability that included brief left-wing military putsches. By the same token, his government’s employment-generating public works programs and mild prounion labor reforms were intended to restore social peace and garner the support of organized labor. His measures, however, proved too weak to capture substantial labor support. This set the stage for the Popular Front government, which established the basic enduring features of Chile’s import-substitution industrialization development model.

BUILDING THE CLASSIC MODEL, 1938–1952

The rebuilding of international capitalism after World War II under the Bretton Woods system, led by the United States, underpinned new inward-looking
development efforts in a context of relative stability. The dollar standard offered monetary stability and inexpensive credit. New international institutions—the World Bank and the Inter-American Development Bank—along with bilateral aid and the resumption of international trade and private capital markets provided the major source of external capital for Chile’s industrial policy. More than two-thirds of it came from multilateral development banks and bilateral development aid agencies, most prominently from the United States. The rest came from supplier credits trailed by foreign private banks and financial institutions (Mamalakis, 1976: 299; Drake, 1996; Stallings, 1987). Moreover, the new International Monetary Fund (IMF) functioned as a lender of last resort for governments to avoid default on loans and the potential collapse of international finance.

This period witnessed the establishment of a key element of the classic import-substitution industrialization model: the developmental state with the institutions and expertise to plan national economic and social strategy and the instruments to implement them. In Chile, this involved creating the Corporación de Fomento de la Producción (Chilean Development Corporation—CORFO) in 1939 by the Popular Front government of Pedro Aguirre Cerda (1938–1944). Between 1940 and 1950, CORFO designed and implemented an industrial policy in which industry’s share of the gross domestic product (GDP) rose from 13 percent to 21 percent. CORFO managed a portfolio that built up nontraditional manufactures in textiles, clothing and footwear, chemical products, nonmetallic mineral products, and metallic products (Mamalakis, 1976: 152). CORFO, which became a model for other Latin American countries, also laid the basis of the mixed economy in Chile. It not only planned and subsidized targeted industries but also built public enterprise and joint ventures with the private sector to develop electrification, transportation, energy production (oil, gas, and hydroelectric), steel foundries, ironworks, coal mining, pulp and paper works, and beet sugar production (Furtado, 1976: 112–113). In addition to public enterprise and subsidies, targeted industrial sectors also benefited from high protective walls in the form of tariffs and differential exchange rates.

A second feature of the classic import-substitution model emerged during this period. Industrial policy, tariffs, and exchange-rate management in Chile discriminated against the traditional agricultural and mining sectors (Kirsch, 1977; Mamalakis, 1966). They had to pay higher prices for machinery, parts, and foreign exchange than they would have under a free-trade regime. Variation in the incorporation of these sectors into the international political economy meant that they experienced discriminatory industrial policy differently. Large-scale mining of copper, Chile’s principal export product and foreign-exchange earner, was mainly in the hands of U.S. companies such as Anaconda and Kennecott (Moran, 1974; Sigmund, 1980). They could absorb the costs, especially since they received preferential tax treatment and other incentives to exploit mineral concessions in Chile. By contrast, landowners suffered under an industrial policy that made agricultural inputs more expensive while cheapening competition from imports. This was because traditional agriculture, centered on cattle, dairy, wheat, cereal, and legume production, had not been internationally competitive since the late nineteenth century. As a result, agricultural production remained virtually stagnant, growing at an average of slightly less than 1.5 percent between 1933 and 1955 (Mamalakis, 1976: 130).
The Popular Front government that initiated these policies was rooted in Chile’s enduring tripartite political party system. That system included socialist and communist parties on the left, conservative parties on the right, and reformist parties in the center, each segment garnering roughly a third of the vote. The system worked best when flexible centrist parties dominated an electoral alliance with either the left or the right to win presidential elections. In such a party system, the Popular Front was led by the dominant centrist party of the time, the middle-class Radical party in coalition with the Socialist and Communist parties (Drake, 1978; Gil, 1966; Jobet, 1955; Stevenson, 1945). Given the fact that the Popular Front coalition included middle-class and labor parties, it is not surprising that in addition to nationalism and planning the Popular Front also initiated social policies favorable to the rising managerial and professional middle classes and organized urban labor. By the 1950s, wage earners and salaried workers benefited from minimum-wage legislation and relatively favorable labor laws (Drake, 1978 and 1996) as well as price controls on essential consumer goods and public services and a social security system that included pensions and public health care for blue- and white-collar workers (Raczinski, 1999).

By the 1950s, then, Chile possessed the main features of the classic import-substitution industrial model. Politically, the troubled times of the 1930s and 1940s gave rise to national-populist and leftist parties that built developmental states, encouraged industrial policy, and implemented social welfare measures. In Chile, this was the work of the Radical party governments until 1952, in association with either leftist or conservative political parties. These policies shaped a tacit social coalition—a third major feature of the classic import-substitution model—that supported the general development strategy, the center-left political parties, and Chilean democracy. The social coalition included industrialists, the managerial and professional middle classes, and urban labor. Industrialists benefited from industrial policy, the middle classes and labor benefited from social policies, and urban labor additionally benefited from more favorable labor laws. The developmental state apparatus and centrist and center-left parties were the threads that held these disparate interests together, for large-scale industrialists were certainly not allies of organized labor and the middle classes and blue-collar workers did not see eye to eye. Instead, reformist centrist political parties mainly represented middle-class constituents, leftist parties those of organized labor and intellectuals, and conservative parties the upper classes. To the extent that centrist parties held the ambitions of leftist parties at bay, industrialists reaped the benefits of the economic model and did not protest modest labor advances. Landowners and peasants were largely excluded from this coalition. Political parties secured landowner acquiescence by keeping in check efforts to challenge their tenurial rights over peasants, the least advantaged social group in this arrangement. Large-scale mine owners constituted a foreign enclave with separate rights and privileges.

FORMALIZATION, LIMITS, TENSIONS, AND UNRAVELING, 1952–1970

Import-substitution industrialization became part of the structural model for Latin American socioeconomic development elaborated by ECLAC in the
late 1940s and early 1950s (Hirschman, 1961 and 1971; Hira, 1998). The institutional home itself was evidence of the influence of international factors on the model. More important, the model posited that Latin America’s position on the periphery of the world capitalist economy was responsible for structural bottlenecks in the domestic economies of Latin American nations. Development required breaking those bottlenecks. The theory assumed that industrialization was the path to the modern world; therefore, key bottlenecks were the lack of adequate investment for industrialization and inefficient land tenure arrangements. State-led industrial policy and agrarian reform were two key policy recommendations. Training a skilled workforce was also considered important.

During the 1950s and 1960s several problems associated with efforts to break those bottlenecks appeared. First, it became clear that public outlays for industrial policy coupled with expenditures on social welfare were contributing to strong inflationary pressures. Second, taming these pressures required periodic IMF-sponsored economic stabilization efforts that gave industrial policy a stop-start character. It also fueled social and political unrest, as did increasing efforts to design and implement agrarian reform in some countries. Third, periodic international recessions contributed to fiscal difficulties because the foreign-exchange earnings of the agro-mineral export sector paid for a good portion of the import-substitution industrialization development strategy. Not only that, but growth in this sector generally remained stagnant because of the emphasis on inward-looking development (Hirschman, 1971; Prebisch, 1970).

Investment from the World Bank, bilateral aid, and U.S. supplier credits did not suffice for sustained economic growth. These international and domestic economic limitations placed Latin American policy makers in a difficult position. By the end of the 1950s they were well aware that the so-called easy phase of import-substitution industrialization had reached its limits and that achieving the next level would require substantially increased investment. The problem was that early industrialization efforts had concentrated on assembly industries or industries with low technological requirements (textiles, for example). Building basic industry and consumer durables was the next challenge. Structural economists were also aware that domestic manufactures had to become more competitive with imports (Prebisch, 1970).

Chile suffered from all of these problems. Policy makers faced difficult decisions that were driven as much by political needs as by economics. By the 1950s balance-of-payments difficulties and inflation had become chronic. Industrial growth came in fits and starts. Economic stabilization policies following the Korean War and the international recession of the middle 1950s signaled the ominous beginning of stop-start economic growth (Mamalakis, 1976: 163–164). This created tension within the social support coalition for import-substitution industrialization over who paid the adjustment costs (Stallings, 1978). The problem was aggravated by changes in the party system, the mediator of otherwise conflicting interests (Valenzuela, 1978). In the Chilean case, it was these political factors more than concrete economic constraints that brought about the end of import-substitution industrialization and the rise of a free-market development strategy.
The presidency of Jorge Alessandri (1958–1964) ushered in administrations based on a single party. Alessandri was an independent probusiness president brought to power by conservative political parties. During his administration, capitalists managed to shift the brunt of adjustment costs onto labor. It was an onslaught against hard-earned gains by organized labor and its left-wing and centrist political party allies. Capitalists chafed under plans to force greater industrial efficiency, but renewed economic growth, especially in the industrial sector, beginning in 1960 muted their protests. By the same token, landowners became uncertain when Alessandri’s administration designed and partially implemented a mild agrarian reform program (Stallings, 1978; Loveman, 1979).

Expansion of support for the Socialist and Communist parties led to conservative support for the Christian Democratic party, which had displaced the Radical party as the dominant centrist party. Once in office the Christian Democrats, under President Eduardo Frei, declined to form a coalition government with the right as the Radical party had done. They were a reformist party with ambitions of becoming Chile’s majority party (Sigmund, 1977; Fleet, 1985).

The Frei administration inherited an expanding manufacturing sector from the previous government, but it wanted to establish the basis for a transition to the next level of industrialization, beyond the “easy phase.” Given Chile’s situation of dependency in the world economy, the Christian Democratic government offered strong incentives for foreign direct investment, especially in setting up subsidiaries. It also sought to reduce protection for national industries, but businesspeople were able to block that initiative through their lobbies in congress (Sergio Molina, interview, Santiago, May 1989). In a climate of deepening nationalistic sentiment in Latin America and to keep the profits from export earnings in Chile, the Frei administration also passed legislation to nationalize the copper industry with compensation to foreign owners (Moran, 1974). None of these policies could stop a slowdown in the growth of the manufacturing sector.

Although the rate of economic growth slowed, the more serious difficulties with maintaining the import-substitution industrialization strategy within a market economy came from sociopolitical tensions. The party system no longer mediated potentially conflicting interests between the members of the social coalition that supported import-substitution industrialization and their political parties. The Christian Democrats angered leftist parties and unions by organizing the unorganized shantytown populations (the “marginals”) and peasants in their bid to become a majority party. Socialists and Communists and, increasingly, new left parties like the Movement for the Revolutionary Left stepped up their revolutionary rhetoric and redoubled their efforts to recruit from those social sectors. The Frei administration’s strong agrarian reform project deepened that competition and set landowners against it as well (Silva, 1996; Sigmund, 1977; Valenzuela, 1978; Fleet, 1985; Kay and Silva, 1992; Kaufman, 1972).

The ascension of Unidad Popular, a coalition of leftist, mainly Marxist, political parties, to the presidency in 1971 marked the beginning of the end of the social coalition that supported import-substitution industrialization and of the party system that mediated the interests among them. The political
problems of that period (1971–1973) have been well documented in a number of works (Gil, Lagos, and Landsberger, 1979; O’Brien, 1976; De Vylder, 1976; Roxborough, O’Brien, and Roddick, 1977; Valenzuela, 1978; Collier and Sater, 1996). All I wish to add is that the question of property stood at the core of the problem. The political situation deteriorated in strong correlation with the rate of nationalization and expropriation of large-scale international (U.S.) and Chilean firms (Silva, 1996). These expropriations galvanized property owners and their political allies, such as the U.S. government, to increasingly strong attacks on Unidad Popular. Unidad Popular took countermeasures, among them the organization of parallel social organizations to distribute food and educational system reform, and encouraged organized labor to seize control of factories when locked out by owners. The spiraling polarization and confrontation led to the collapse of democracy and introduced a harsh military government, all supported, aided, and abetted by the U.S. government.

The severity of class conflict, the debilitation of property rights, and the condition of the property itself contributed to the shift from import-substitution industrialization to a free-market-based development strategy under military rule (Silva, 1996). Even then, the shift was not automatic. It took from 1975 to about 1979 for the first phase to materialize. The second phase emerged after the 1981–1983 economic crisis and lasted till the end of the dictatorship (1984–1990). After redemocratization in 1990 a third adjustment took place, mainly to address social-equity concerns.

THE CHILEAN CASE IN COMPARATIVE PERSPECTIVE: ARGENTINA, BRAZIL, AND MEXICO

Furtado has shown that import substitution was initially a spontaneous response to the collapse of international trade and finance during the Great Depression in countries that had already developed industry tied to export sectors and agriculture during the liberal period leading up 1929. In 1929 industry’s share of GDP was 22.8 percent in Argentina, 14.2 percent in Mexico, 11.7 percent in Brazil, and 7.9 percent in Chile (Furtado, 1976: 108–109). Import substitution between 1930 and 1939 originally concentrated in already established nondurable goods industries, but there was no effort to build an industrial system, which would have required diversification of production (Bulmer-Thomas, 2003).

The development trajectories of Mexico, Brazil, and Argentina support the argument that industrial policy after the period of spontaneous import substitution was part of a larger effort to renew long-term economic growth and restore political order and social peace, that is, to build viable polities. They were, of course, subjected to the same international constraints and opportunities as Chile. The perceived unreliability of the international economy and its agents as a result of the Great Depression meant that nationalism permeated policy makers’ outlook. The rebuilding of the international political economy after World War II and the emergence of new international institutions offered opportunities for obtaining foreign investment from multilateral sources, bilateral aid, and supplier credits, later augmented with borrowing from expanding international liquidity. International recessions, the end of the
dollar standard, oil price shocks, debt, and political turbulence around the cold war caused problems, as did IMF-sponsored stabilization policy and direct and indirect U.S. intervention in domestic politics.

Nevertheless, the winners and losers of import-substitution industrialization, the timing of the model’s collapse, the “radicalness” of neoliberal reforms, and its effects on regime change varied across cases. The diffuse international economic crisis of the 1970s was accompanied by radical economic change in Chile and Argentina, whereas Mexico and Brazil resisted wholesale dismantling of industrial policy after the more severe international crisis of the 1980s. As I have argued earlier, domestic factors largely account for this variation.

Thus, in the context of the same overarching international economic and geopolitical conditions that affected Chile and as occurred in Chile, the period from the 1930s to the 1950s in Mexico, Brazil, and Argentina was one in which political elites and their (usually populist) parties mediated multiclass support coalitions and engaged in the necessary state building to conduct industrial and social policy. The timing and sequencing of this process in each case depended on the problems countries faced in the establishment of nationalist governments that included the interests of subordinate social groups and exercised some autonomy from domestic upper classes. Following Furtado (1976), whether the foreign sector or national economic groups controlled the export sector and the national political elites’ capacity and willingness to confront them were also important in the development (and unraveling) of import-substitution industrialization.

Overall, the broader the support coalition, the more subordinated urban and rural labor were to business and landowning elites and middle classes, and the more entrenched each social group was within the state apparatus, the more gradual the shift away from import-substitution industrialization to free-market economic policies and the less the likelihood of violent political change. As we shall see, Mexico, which scored highest on these measures, and Brazil, which came in a close second, had less political and social polarization and more gradual economic adjustment and neoliberal reform programs than Chile and Argentina.

BUILDING AND CONSOLIDATING IMPORT-SUBSTITUTION INDUSTRIALIZATION, 1930s–1950s

Mexico began the process of state building with a nationalist focus that became the bedrock of industrial strategy in the 1920s and early 1930s. The fact that Mexico had recently ended a social revolution was a significant factor in this early development. The Mexican Revolution created a relatively autonomous state whose banking reforms of the 1920s established state financial institutions charged with channeling resources to domestic agroindustries, such as sugar and cotton, as well as to its development bank, Nacional Financiera (Hamilton, 1982: 82). In Mexico, powerful international groups controlled the export industry. Prior to 1934, Mexican administrations worked closely with them and with domestic capitalists to maintain a good investment climate. This changed in 1934 with the presidency of Lázaro Cárdenas. In an intensely nationalistic atmosphere, Cárdenas expropriated the foreign-owned oil industry and implemented a broad agrarian reform program. He also established the foundations of the
state-corporatist Mexican system of interest intermediation, whose remnants survive to this day, by including organized labor and peasants in the structure of governance. Subsequent administrations between 1940 and 1970 developed a nationalistic industrial policy favoring domestic industrial groups that was called “stabilizing development.” Targeted industrial sectors included food, textiles, chemicals, and metals. Manufacturing output grew at a rapid pace (Knight, 1991: 301). Moreover, inflation was not a problem. During this period the Partido Revolucionario Institucional (Institutional Revolutionary party—PRI) mollified business elites by using the corporatist system to control labor while the middle classes reaped the benefits of state employment and access to higher education. Social welfare policies were also established.

These policies melded together the familiar import-substitution social coalition of domestic manufacturers, urban middle classes, and urban labor plus, because of the Mexican Revolution, rural labor. The dominant political party in Mexico’s one-party-dominant political system (the PRI) mediated these interests. Mediation was particularly effective because the PRI officials, including technocratic bureaucrats, controlled state institutions and, through them, most labor and peasant unions.

Argentina’s path differed markedly from that of Mexico. The Great Depression generated political unrest, ending in a military coup in 1930 that destroyed Argentine democracy and 14 years of Radical party rule (1916–1930). The military government that followed had no interest in nationalism or industrial policy. Instead, in close collaboration with domestic agrarian landowning elites, it established incentives to reinvigorate the production of beef and wheat (P. Smith, 1969).

The situation changed in 1946, when Juan Domingo Perón became president in an election that restored Argentine democracy (Corradi, 1985; Rock, 1987). Perón had built a political base in organized labor between 1943 and 1946 under a new reformist, nationalist military government. Thus, his party, the Justicialista party, became the vehicle for incorporating the interests of labor into politics. It quickly expropriated (with compensation) British-owned railroads, U.S.-owned communications, and French-owned ports. State-building efforts also included the establishment of government control over foreign trade with the Foreign Trade Institute, which gave the state a monopoly over the export of key agricultural products (Skidmore and Smith, 1997: 88). Perón’s industrial policy—financed through the Banco Industrial (the state development bank)—favored medium-sized and small-scale producers who were protected by high tariff barriers. It also discriminated heavily against agricultural interests that paid for industrialization and large-scale industry tied to them (Waisman, 1987: 138). As a result, agricultural production, which generated most foreign-exchange earnings, remained stagnant. Inflation and balance-of-payments difficulties appeared at the beginning of the 1950s.

The support coalition for the Peronist development strategy was narrower than in any of the other cases. It included organized urban labor, medium-sized and small-scale industrial producers, and the managerial and professional middle classes. It had powerful interests arrayed against it: agrarian and large-scale business interests and the armed forces. These cleavages generated more tension and political instability than was the situation in Chile and Mexico because
the party system did not mediate these potentially conflicting interests. No political party expressly defended the interests of the propertied classes.

Brazil, like Chile and Mexico, followed a more stable state-building path and industrialization policy than Argentina from the 1930s to the 1950s (Skidmore, 1967). Before implementing an industrial policy after World War II in the latter half of the 1940s, Brazil engaged in a period of state building and political system consolidation in the 1930s and 1940s during the Estado Novo of Getulio Vargas. In the Estado Novo period, Vargas centralized power in the federal executive and laid the institutional foundations for the state corporatist incorporation of labor into the political system (Haggard, 1990). He also established some basic industries, such as steel, as public enterprises. But, in contrast to those of Chile and Argentina, his policies did not discriminate against export agriculture (coffee). Brazil democratized in 1946, and Vargas became president again in 1951. He created a national economic development bank in 1952 that financed an emerging industrial policy including state enterprise in basic industries and infrastructure. The administration of Kubitschek (1956–1960) provided an element of continuity and a sense of developmentalist mission and produced “a strong system of industrial promotion agencies” (Thorp, 1998: 183). As in Chile and Mexico but not Argentina, the Brazilian public sector collaborated closely with the private sector. Given the absence of discriminatory policies, the agrarian sector expanded more than in the other cases and, in contrast to the Chilean situation, produced an adequate supply of food. Thus, a relatively autonomous state and a weakly institutionalized multiparty system mediated a support coalition of industrialists, landowners, middle classes, and, in a very subordinate manner, urban labor. International capital and peasants were largely excluded.


It is well documented that this strategy for industrialization began to reach its limits in the 1950s and 1960s. Economic growth slowed down, foreign-exchange shortages were common, fiscal deficits mounted, national account figures worsened, inflation threatened (except in Mexico), and governments frequently resorted to start-stop fiscal stabilization policies (Hirschman, 1961 and 1971). It was clear that the development strategy had to be adjusted and that the adjustment would require spurring exports of manufactures (Prebisch, 1970). Although economic adjustment initially followed similar paths, political conditions, support coalitions (the degree of social inclusion in the benefits of the model), and the timing of the abandonment of the import-substitution model differed. In other words, the long crisis of import-substitution industrialization had very different outcomes in our cases. The political outcomes of the social tensions generated by the stagnation of the development model rather than economic necessity caused most of the variation.

Our cases initially reacted to the economic slowdown in the 1950s and 1960s by intensifying industrialization through diversification into the production of consumer durables and increased development of basic industry. O’Donnell (1973) called this process the deepening of industrialization. Brazil advanced farther and longer on this path than the other three countries. It developed the steel, automotive, pharmaceutical, aeronautical, household appliances, electronic,
communications, and weapons industries in addition to expanding the apparel and processed-food sectors. Mexico followed a close second, sans airplane and weapons programs. Argentina and Chile followed suit. Foreign direct investment, in association with public enterprise and domestic capitalists, provided most of the capital for the industrialization drive (Evans, 1979). Countries also attempted to diversify exports from agro-mineral commodities to industrialized products such as apparel, processed foods, and intermediate parts for consumer durables. Latin American regional trade associations were the main market for these goods. Exports of semielaborated commodities such as fish meal and wood pulp for paper from Chile also expanded.

The treatment of the agricultural sector varied. Economic policy under import-substitution industrialization is said to have discriminated against the agricultural sector, causing it to stagnate. Most countries fit this pattern, and ECLAC called for reforms to rectify the situation (Prebisch, 1970). Nevertheless, as we have seen, Brazil was an exception in that it actively pursued diversification into agricultural export crops such as soybeans, and in the 1970s Mexico began to develop winter vegetable crops such as tomatoes and lettuce for export to the United States.

Although Chile, Mexico, Brazil, and Argentina employed similar strategies to overcome the problems of import-substitution industrialization, they did so under varying political regimes and with different approaches to social policy. Chile attempted industrial policy and agricultural adjustments under a democratic regime (1960–1973) that consistently broadened the social agenda. The effort ended in military dictatorship at the end of 1973. In Brazil (1964–1985) and Argentina (1966–1973), the bulk of policy corrections took place under military governments that replaced democratic regimes. The governments of the armed forces reversed more inclusive social policy, thus placing much of the burden of economic adjustment on labor. Meanwhile, Mexico’s semiauthoritarian one-party-dominant political system guided the deepening of industrialization with an expansionary social policy (1970–1982).

These differences occurred more because of the political consequences of the social tensions involved in adjusting import-substitution industrialization than because of economic determinism. How those tensions worked themselves out depended in no small measure on the characteristics of the social coalitions and mediating institutions involved. Argentina was far more politically fragmented, polarized, and unstable than Chile. Two political parties, neither of which represented the interests of capital and landowners, dominated electoral politics. The armed forces were bitterly opposed to Perón and his party. As we have seen, the social basis of support for import-substitution industrialization was also narrower than in any of the other cases. As a result, in addition to the armed forces, large-scale capital and landowners also abhorred Perón and his policies. Perón and his party were banned from politics by the military in 1955, and military governments punctuated by brief periods of Radical party rule ensued. Radical governments imposed various economic adjustment strategies with fitful results. The real problem, however, was that every time the Radical party tried to include the Peronist party (and, therefore, organized labor) in electoral politics to restore Argentina to full political democracy, the armed forces intervened. When they intervened in 1966, ushering in a new authoritarianism (1966–1973), they forged an alliance that included domestic and
international capital and the middle classes in an effort to rid the country of Peronism, discipline the Radical party, break organized labor, cut welfare expenditures, and deepen industrialization (W. Smith, 1991).

Brazil also deepened industrialization under a military dictatorship that built alliances between the state, foreign and domestic capital, and, to some extent, the managerial and professional middle classes. Labor and labor parties—rural or urban—were excluded (Evans, 1979). The Brazilian armed forces took over government in 1964 to restore order and economic growth after they had had enough of a center-left administration that attempted land reform and sought to give organized labor and peasants more rights (Skidmore, 1967). As occurred in Argentina, the center-left government of João Goulart alienated businesspeople, large-scale landowners, and the middle classes, thus destroying the support coalition for a development path that included social and labor policies for urban and, to a much lesser extent, rural labor. As had been the case in Chile, the main problem was not economic, although economic difficulties with import-substitution industrialization certainly existed and adjustments (including stimulating exports) had to be made. The principal issues were political: leftist governments that nationalized large-scale foreign and domestic enterprises, agrarian reform, increasing controls on capital, and attempts to strengthen social and labor rights, especially with respect to the countryside.

In contrast to Chile, Argentina, and Brazil, Mexico embarked on the deepening of industrialization without a political rupture either in regime type or in support coalition. To be sure, there were economic reasons for this. The success of stabilizing development gave Mexico more economic stability than either Chile or Argentina (Bethell, 1991; Hamilton, 1982). Moreover, Mexico, which had plenty of oil reserves, reaped the benefits of a sharp increase in world oil prices. However, even in the midst of this relative plenty, Mexico’s political institutions contributed significantly to this different outcome. In its one-party-dominant political system, the PRI held together the support coalition. Because the party had center-right and center-left wings, shifts in one or the other direction did not strain the political system to the breaking point. Because of the revolution and its aftermath, the military was firmly under civilian control. Also because of the revolution, agrarian reform and peasant organization had been accomplished in the 1930s and 1940s, and therefore peasants were already included in the support coalition. This eliminated some of the causes of political breakdown in Chile and Brazil in the 1960s and 1970s. Moreover, because of strong state corporatism in which the ruling party also represented labor, urban and rural labor had less independence than in any of the other three cases.

The turn away from industrialization and toward neoliberalism also varied in its timing (between 1975 and the mid-1990s), pace, and the types of regimes that initiated the change. Chile’s began under military rule when it applied the “shock treatment” program in 1975. This was a sharp break from import-substitution industrialization and a shift toward orthodox IMF-sponsored stabilization and economic liberalization. Chile then experienced two periods of neoliberal reform, 1975 to 1979 and 1985 to 1990 (Edwards and Edwards, 1987). Argentina followed suit in 1976, also under military rule, although its program was not as radical as Chile’s, especially with respect to privatization. The experiment ended in economic crisis in 1981. After the return to democracy in
1983, a heterodox stabilization policy for dealing with the 1982 Latin American debt crisis induced hyperinflation, and Argentina redoubled its efforts to implement neoliberal reforms in the 1990s during the presidency of Carlos Menem (1989–1999). Mexico, the initiator of the 1982 Latin American debt crisis, began a slow process of IMF-sponsored economic stabilization under Miguel de la Madrid between 1982 and 1988, followed by economic liberalization under Carlos Salinas de Gortari between 1988 and 1994 (Lustig, 1998). Meanwhile, Brazil, also buffeted by the 1982 crisis, gradually undertook neoliberal economic reforms only in 1990 and, despite substantial changes, has not dismantled the developmental state or abandoned industrial policy to the extent that the other countries have (Weyland, 1996).

International economic factors certainly contributed to the latest policy shift. However, these changes varied in intensity and type over time. In the 1970s they were relatively diffuse and included the end of the dollar standard, the increase in international private financial resources as opposed to public funds for development, international economic recession, and stagflation. Beginning in 1982, the Latin American debt crises and the consequent deep economic crises in virtually all Latin American nations, as well as the expansion of international financial capital and the reorganization of global production by transnational corporations, put more direct and stronger pressures on governments to liberalize their economies (Weaver, 2000). However, not even then did Latin American governments respond in a uniform manner.

Therefore, while international economic factors were undoubtedly significant in forcing adjustment, domestic political and economic factors were mainly responsible for differences across cases in adjustment patterns. In Chile, the extent of political polarization between class-based social groups and the political parties that represented them, the decimation of the propertied classes, and the lack of political and governing experience of the armed forces paved the way for a sharp break from import-substitution industrialization in favor of neoliberalism beginning in 1975. As in Chile, social and political forces in Argentina were more sharply polarized than at any time before the collapse of Perón’s administration in 1976 and the severe economic crisis in the wake of his death in 1974. Under these conditions, the military saw neoliberalism as a tool for undermining and controlling strong unions and labor parties. The Argentine military may have drawn from Chile’s example in its turn to neoliberalism. However, past experience with governing a developmental state and direct economic interest in public enterprises may partially explain its comparative reluctance to privatize. The turn to neoliberalism after redemocratization in the 1990s was one in which the Peronist party attempted to mediate a complex coalition that included international and internationalized domestic capital and (perhaps) landowners, and, by controlling inflation, it accommodated the middle and working classes.

Mexico’s economic reform process took place in the context of much less political polarization, again largely because of the one-party-dominant political system and a corporatist system of interest intermediation that included peasants and was controlled by the dominant political party. The shift to the center-right of the PRI did generate political tension and social conflict, but Mexico’s institutions kept these from reaching the degrees of social and political polarization of Chile and Argentina. In short, the ruling political party,
with effective control of the state, mediated a new coalition with the support
of internationalized Mexican capitalists and international capital and with
tight control over urban and rural labor. Given the inclusion of labor, no
matter how subordinated, social policies were explicitly included through the
Solidarity program, among them targeted benefits to (mostly urban) commu-
nities and subsidies to the hardest-hit peasant sectors.

In Brazil, politically driven social polarization has been less than in the
other cases. In part, this is because of the characteristics of the political parties
that mediate social group interests. They are less ideological and institution-
alized. Thus, radical breaks with the past are less likely. Moreover, the military
has a long, uninterrupted history of involvement in and support of the develop-
mental state (Skidmore, 1988). Under democracy, there has been a gradual
shift to more free-market economic reforms in the mid-1990s but without
abandoning a commitment to industrial policy and agribusiness develop-
ment. The fragmentation of the party system, entrenched social interest repre-
sentation in the state, and the interests of the state bureaucracies themselves
have contributed to this outcome (Weyland, 1996).

CONCLUSIONS

Because of our contemporary technocratic propensity to think of import-
substitution industrialization as a self-contained model of development, it is
common to hear and read of it as a failed development path rescued by the
return to a free-market development model. This is not a fruitful way to think
about the political economy of change or the process of constructing viable
polities. Like most human endeavors, import-substitution industrialization is
better understood in historical and comparative perspective and as a process
that involved much more than economic change. It was a response to the col-
lapse of the original free-market export-oriented model during the Great
Depression and World War II. Countries needed to find a way to restore eco-
nomic growth in order to build social peace and political stability in hard eco-
nomic times. Import-substitution industrialization, with its emphasis on
planning, nationalism, and public enterprise—the antithesis of the previous
laissez-faire strategy—offered an answer to these multiple problems.

Given the complexity of the problem posed by the crisis of the 1930s, to
understand the evolution and demise of import-substitution industrialization
it is best to conceive of it as a bundle of economic and social policies. This
approach may contribute to uncovering the causes and sources of stability of
more contemporary transformations. Import-substitution industrialization
did not materialize full-blown as a development model (Furtado, 1976).
Rather, it began as spontaneous import substitution during the 1930s in coun-
tries that already had built significant industry. Later, in the 1940s and espe-
cially in the 1950s and 1960s, import-substitution industrialization became
shorthand for the state-led pursuit of a diversified industrial system capable
of leading the nation’s socioeconomic development. Because industrialization
demanded a heavy import component in capital goods, technology, and inter-
mediate manufactured goods, these policies, of course, no longer aimed at
replacing imports. Instead, they sought to replace imported consumer products
with local manufactures and to build infrastructure to sustain the effort. In the late 1940s and early 1950s this development effort became formalized into a model.

In addition to these economic policies, import-substitution industrialization is best understood by reference to a broader set of social policies. In its origins, import-substitution industrialization was a strategy for restoring economic growth and employment. Thus, the “populist” or center-left or “fascist” political parties that implemented it were also seeking ways to incorporate the interests of the middle classes and, especially, urban labor into public policy as a means to construct social peace. Therefore, from the beginning import-substitution industrialization was linked to welfare and labor policies that benefited those social groups. Public enterprise and the employment it provided were links to both as well. Initially the policies had the desired effect of restoring social peace and political stability in all of our cases except Argentina.

Development strategies are responses to problems in the context of specific international and domestic conditions. As those conditions change, development models are adjusted or abandoned. Thus, faced with altered conditions, import-substitution industrialization had to change. In that sense, its original more or less exclusively inward-looking formulation, for which it has been roundly criticized, “failed.” However, there was nothing inevitable about the direction change took. Consequently, rather than focusing on “inevitable failure,” the main question was whether change would be adaptive or a rupture with past practices. To build on Haggard’s (1990) formulation, one might ask why, instead of adjusting industrial policy to promote development based on the export of manufactures, most Latin American countries adopted the neoliberal economic model. Even here, however, responses have not been uniform. The main reasons for the differences in the extent and timing of the neoliberal turn in individual cases, in which Chile and Brazil occupy the extreme ends of a spectrum, have been political rather than the result of inexorable economic laws.

The trajectory of import-substitution industrialization development resulted from a combination of international economic and domestic factors. International conditions were permissive, not determinant, factors and were not uniform in their effects. They were more direct in the 1930s because of the severity of the crisis induced by the Great Depression. They were more diffuse in the less severe long transition of the Bretton Woods system from 1971 to the mid-1990s, which included the demise of the dollar standard, the oil crisis, stagflation, the Latin American debt crisis, and globalization. Domestic factors included economic conditions such as limitations and problems with industrial policy, foreign-exchange management, financial system development, and welfare state policies. These economic pressures notwithstanding, domestic political factors—social forces and political institutions—accounted for most of the variation in adjustment-cum-reform strategies. These factors included party systems, the relationship of political parties and social forces to the state, and the capacity of state and parties to mediate the interests of the supporting social coalition.

In particular, the capacity of “populist” parties and of the political systems they were a part of to mediate the conflicting interests of a broad social support coalition was an important explanatory factor for the rise and demise of import-substitution industrialization. The broader the coalition, the more subordinated urban and rural labor were to business and landowning elites and
the middle classes, and the more entrenched each social group was within the state apparatus, the more gradual the shift away from import-substitution industrialization to free-market economic policies and the less the likelihood of violent political change.

Although it is fashionable to focus on the shortcomings of the import-substitution industrialization strategy, it made positive contributions to Latin American development. Rosemary Thorp (1998) and Frederick Weaver (2000) have pointed to the significant transformation of infrastructure (plant, equipment, transport, and energy) and state institutional capacity, which produced important social changes, a sizable middle class, skilled industrial and service workers, and domestic capitalists. They argue that state planners and think-tank social scientists understood the limitations of the model and how to correct them, although political expediency often resulted in their not being heard (Chile was a clear case of this in the 1960s). Other scholars have called attention to dramatic increases in education, literacy, and life expectancy, decreases in infant mortality, and improved income distribution among social groups, all of which were necessary building blocks for the implementation of free-market reforms.

The building of political regimes and the development of industrial and social policy took about 20 years, from the Great Depression to 1950, and it has taken about 20 years (1975 to 1995) to move from import-substitution industrialization to a free-market model of economic and social development. Now, as then, one of the main questions is how to renew sustained economic growth to restore political order and social peace. If the evolution of the sociopolitical factors mentioned above was important for understanding the basis of the order established from the 1930s into the 1970s and 1980s, then perhaps we should try to understand our own time in those terms. Some scholars, such as Haggard and Kaufman (1995), Collier (1999), Murillo (2001), and Grindle (2000), have already begun this task.

A historical perspective on models of development raises two additional points about our present era that I share with Weaver (2000). First, the neoliberal model is not immutable; it has evolved and adapted according to the problems of the day. Second, neoliberalism has not delivered on its promise of growth with equity and thus will likely suffer pressure for reform. Weaver describes the international forces that caused the neoliberal turn and the interests of the social groups that won and lost under this development path. His work, however, does not address variation among neoliberal cases and leaves open the question of how sociopolitical forces might interact to reform neoliberal capitalism. For now, I limit myself to an all-too-brief exposition of neoliberalism’s evolution and shortcomings.

As did import-substitution industrialization, the neoliberal model evolved over time. In the 1970s and 1980s, Chile’s successes and failures formalized a model for the timing and sequencing of economic stabilization and liberalization policy. The Bolivian and Mexican experiences from 1985 to 1994 consolidated the model. Two important features were added to ensure stability and social support: the need for effective (albeit limited) state institutions and some social assistance compatible with neoliberal principles. In the 1990s, Argentina and Brazil benefited from their experiences. Nevertheless, despite the formalization of this model, the extent to which individual countries have
adopted it varies. The model also faces pressures for further modification, such as unruly markets forcing “re-regulation” (Taylor, 1999).

In the final analysis, the trajectory of import-substitution industrialization should give free-market reformers pause. They have little reason to be complacent about their accomplishments. Most countries have undertaken the economic and social policy reforms they prescribe on the assumption that these reforms are the path to a revival of sustained, decent economic growth rates, the framework for social equity, and, hence, the bedrock of political and social stability in the region. However, after all this time this remains more assumption than reality in most countries. This has created a social and political backlash, such as the Workers’ party victory in Brazil in 2002, Hugo Chávez’s old-time populism in Venezuela, massive social mobilization in the central Andes, and center-left governments in Argentina, Bolivia, and Uruguay in the mid-2000s. In the movement of history and politics, especially in Latin America, nothing stands still.

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