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The Politics of Developmentalism

The Midas States of Mexico, South Korea and Taiwan

John Minns

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The Midas States of Mexico, South Korea and Taiwan

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For my father Bob Minns and
to the memory of my mother Margaret Minns

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List of Acronyms

General

EPRs	Effective Protection Rates
ESRs	Effective Subsidy Rates
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
IDB	Industrial Development Bulletin
IMF	International Monetary Fund
ISI	Import Substitution Industrialisation
NICs	Newly Industrialising Countries
OECD	Organisation for Economic Cooperation and Development
PRC	People's Republic of China
SMEs	Small and Medium Enterprises
WHO	World Health Organisation

Mexico

CANACINTRA	Cámara Nacional de la Industria de Transformación
CCE	Consejo Coordinadora Empresarial
CCI	Central Campesina Independiente
CCM	Confederación Campesina Mexicana
CD	Corriente Democrática
CGT	Confederación General de Trabajadores
CIOAC	Central Campesina Independiente
CMHN	Consejo Mexicano de Hombres de Negocios
CNC	Confederación Nacional Campesina
CNOP	Confederación Nacional de Organizaciones Populares
COM	Casa del Obrero Mundial
CONAMUP	Coordinadora Nacional del Movimiento Urbano Popular
CONASUPO	Compañía Nacional de Subsistencias Populares
CONCAMIN	Confederación de Cámeras de Industria
CONCANACO	Confederación de Cámeras Nacionales de Comercio
COPARMEX	Confederación Patronal de la República Mexicana

COSEI	Coalición Obrera Campesina Estudiantil del Istmo
CROM	Confederación Regional Obrera Mexicana
CSUM	Confederación Sindical Unitaria de México
CTM	Confederación de Trabajadores de México
CUD	Coordinadora Única de Damnificados
CUT	Confederación Única de Trabajadores
DINA	Diesel Nacional
EZLN	Ejército Zapatista de Liberación Nacional
FAT	Frente Auténtico del Trabajo
FDN	Frente Democrático Nacional
FSTDF	Federación Sindical de Trabajadores del Distrito Federal
IMSS	Instituto Mexicano de Seguridad Social
ISSSTE	Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado
MRM	Movimiento Revolucionario del Magisterio
MSF	Movimiento Sindical Ferrocarrilero
NAFIN	Nacional Financiera
NAFTA	North American Free Trade Agreement
PAN	Partido Acción Nacional
PARM	Partido Auténtico de la Revolución Mexicana
PASCO	Pan-American Sulphur Company
PCM	Partido Comunista Mexicano
PEMEX	Petróleos Mexicanos
PFCRN	Partido del Frente Cardenista de Reconstrucción Nacional
PL	Partido Laborista
PMS	Partido Mexicano Socialista
PNR	Partido Nacional Revolutionario
PPS	Partido Popular Socialista
PRD	Partido de la Revolución Democrática
PRI	Partido Revolucionario Institucional
PRM	Partido de la Revolución Mexicana
PSUM	Partido Socialista Unificado de Mexico
SNE	Sindicato Nacional de Electricistas
SNTE	Sindicato Nacional de Trabajadores de la Educación
SNTMMSRM	Sindicato Nacional de Trabajadores Mineros, Metalurgicos y Similares de la República Mexicana
STFRM	Sindicato de Trabajadores Ferrocarrileros de la República Mexicana
STPRM	Sindicato de Trabajadores Petroleros de la Républica Mexicana

SUTERM	Sindicato Unico de Trabajadores Electricistas de la República Mexicana
TAMSA	Tubos de Acero de México
TD	Tendencia Democrática
UNAM	Universidad Nacional Autónoma de México
UOI	Unidad Obrera Independiente,

Korea

CGWU	Chonggye Garment Workers' Union
CPKI	Committee for the Preparation of Korean Independence
DJP	Democratic Justice Party
DRP	Democratic Republican Party
EPB	Economic Planning Board
FEZs	Free Export Zones
FKI	Federation of Korean Industry
FKTU	Federation of Korean Trade Unions
GTCs	General Trading Companies
HCIP	Heavy and Chemical Industry Plan
HHI	Hyundai Heavy Industries
JOC	Young Christian Workers
KCIA	Korean Central Intelligence Agency
KCTU	Korean Confederation of Trade Unions
KDP	Korea Democratic Party
KSE	Korean Stock Exchange
NBFIs	Non-bank financial institutions
NDP	New Democratic Party
ONTA	Office of National Tax Administration
PDP	Peace and Democracy Party
POSCO	Pohang Iron and Steel Corporation
ROK	Republic of Korea
UIM	Urban Industrial Mission
UNP	Unification National Party
UPP	United People's Party
USAMGIK	US Army Military Government in Korea

Taiwan

CEPD	Council for Economic Planning and Development
CFL	China Federation of Labor

CIECD	Council on International Economic Co-operation and Development
CUSA	Council on US Aid
CY	Control Yuan
DPP	Democratic Progressive Party
EPC	Economic Planning Council
EPDC	Economic Planning and Development Council
EY	Executive Yuan
FEC	Financial and Economic Committee
GSMC	Grace Semiconductor Manufacturing Corporation
JCRR	Joint Commission on Rural Reconstruction
KMT	Kuomintang
LY	Legislative Yuan
MOEA	Ministry of Economic Affairs
ROC	Republic of China
TEPU	Taiwan Environmental Protection Union
TPB	Taiwan Production Board

Preface and Acknowledgements

The dramatic industrial transformation of a small number of countries since the Second World War has provoked a variety of responses. For some observers, the appearance of these Newly Industrialising Countries (NICs) has been a verification of their faith in the ability of world capitalism to raise the incomes of the poor. That these transformations have often been based on the uprooting of millions of people, extremely low wages and sweatshop conditions has been seen, in this view, as a temporary condition – merely the birth pangs of modernity. This generally optimistic, pro-capitalist outlook has been soured by two factors. The first is the rarity of the NICs – the limitation of the economic 'miracles' to relatively small sections of the world's population. The second is that each of them has, at different times and to different degrees, disappointed its supporters – ceasing to post high growth rates and even suffering major economic crises. Their rankings in the global hierarchy of economic power have fallen as a result.

On the other hand, various radical theorists were committed to the view that world capitalism could do nothing but continue to underdevelop countries such as Mexico was in 1940, Taiwan in 1949 or South Korea in 1961. One response from this perspective has been to deny that any real transformation has happened at all. But the evidence of major change – in the form of large industrial workforces, urbanisation, and increases in the relative and absolute size of their manufacturing sectors – has continued to accumulate.

These theoretical difficulties posed by the NICs have suggested the need for an analysis which emphasises their peculiarities – those individual attributes which may have made a degree of industrialisation possible – and the specific contexts in which they were able to undertake that process. There have been numerous valuable studies of the industrialisation of Mexico, South Korea and Taiwan. Broader theoretical work has followed with various models being suggested. Most have been based either on neo-classical economic theory or on neo-statist analysis.

This book takes the view that the industrialisation of Mexico, South Korea and Taiwan is not a vindication of the neo-classical world view, but a repudiation of it. The model outlined here revolves around the nature of the state in each and the ways in which the class structure of these societies contributed to an unusually rapid form of industrialisation. Just as the development of capitalism in Europe, North America and Japan was the product of classes and class struggle, so too is the transformation of the more recently industrialising countries.

Moreover, the economic 'miracles' have not and, it will be suggested here, cannot continue indefinitely. Rapid economic transformation of the kind that Mexico, South Korea and Taiwan have experienced is possible in the capitalist world system. But it is likely to be far more rare than neo-liberalism might suggest. Each instance of it has turned out to be more limited than its proponents claimed. Ultimately, the industrialisation of each of the first generation of NICs has ceased to be as rapid or 'miraculous' as once thought.

I owe many people debts of gratitude for their support in the time it has taken to produce this book. Foremost among these are two of my teachers and mentors, Professor Michael Pearson and Dr Jim Levy. Both nurtured my interest in questions associated with development and underdevelopment in the Third World. Their encouragement, example and, on occasion, patience, was indispensable.

The friendly efficiency of Jen Nelson at Palgrave Macmillan has made the process of submission, review and editing of the manuscript rapid and pleasant. The enthusiastic response of Professor Tim Shaw, as editor of the International Political Economy series encouraged me to continue and make the substantial cuts needed to make the book fit to publish.

On a more personal level, and above all, I must thank my partner, Sophie Singh, whose love and encouragement has kept me going. Finally, I would like to thank my father, Bob, who laboured so hard to see his children succeed, and my late mother, Margaret Minns, who had great confidence that I could undertake this work, but sadly did not live to see it completed.

John Minns

1
Newly Industrialising Countries and the State

King Midas had the power to turn everything he touched to gold. A similar touch was apparently possessed by the states of South Korea, Taiwan and Mexico for at least several decades. They were among a very select group of Third World nations which, since the Second World War, made the transition from primarily agricultural economies to industrialised ones. In each case the state, rather than private business, was both driver and engine of growth. If there was a 'Midas touch', it was the state which had it.

The first argument of this book is that the abilities of these Newly Industrialising Countries (NICs) derived from historical trajectories which left the state in an unusually dominant position relative to the social classes of each. On the basis of this dominance, they were able to focus all available resources on key development projects. Furthermore, such a focus enabled them to position their economies in world capital and commodity markets to greater advantage than was the case for most Third World countries. A necessary condition of this advantageous alliance with world capitalism was the domestic supremacy of the Midas states. Although the Mexican, South Korean and Taiwanese states all enjoyed such dominance, its nature, forms and origins were different in each case. Each of these states employed correspondingly different methods to achieve their industrialisation objectives.

There was, of course, a less fortunate side to the newly-acquired powers of Midas. His children, food and everything else turned to gold when touched. So that which brought him wealth also threatened to destroy him. In the end, Midas was forced to sacrifice his alchemistic abilities in return for mere survival. In the same way, the states of these three NICs found that their very success in transforming their societies undermined the precious peculiarity which enabled them to do so in the first place. As industrialisation proceeded, their freedom of manoeuvre and relative independence from the main social classes of their countries was eroded.

With industrialisation, the Midas states faced new demands from private capital demanding more control over their investments, from middle class groups demanding more democracy and from working classes no longer content with rapid but very inequitable economic growth. Under these conditions, political and economic concessions by the state were the price for avoiding social explosions. After – usually tumultuous – periods of transition, each state was forced to change its strategy – and to cease leading a 'miracle' economy as it once had. In the process of losing its powers, the internal composition and structure of the state itself was also transformed.

Thus there are ascending and descending phases of the Midas states. In the ascending phase, policies to promote rapid growth are linked to high levels of state autonomy. The descending phase is characterised by a thorough reorientation of economic strategy, involving a decline in the level of state intervention and slower growth as the state's autonomy is eroded. The Midas state model may well have implications beyond these three examples. These three cases studied are good tests of the model.

All enjoyed high growth rates and quite broadly-based industrialisation over at least several decades. Their spurts of growth were not flashes in the pan. Industrialisation and economic development has also been rapid in other developing economies. But in some cases, it is too early to tell how sustained this growth will be. In others, growth has been rather narrowly based. Each of the three NICs selected has a substantial population and market. Their economic growth is not that of a city-state, an entrepôt or a financial crossroads, as is the case with Hong Kong or Singapore, where it is necessary to see the local economy as an adjunct of a larger hinterland.

The choice of these three countries allows examination of a range of development policies, strategies and abilities. A tendency of the last two decades in popular commentary has been to consider the NIC phenomenon as an entirely Asian one. Often it is forgotten that in the 1960s and 1970s, theorists marvelled at the Mexican economic 'miracle' and strained to discover the secrets of its success. Also, since much of the recent discussion about the NICs has centred on East Asia, there has been some return to the introduction of cultural elements – especially neo-Confucianism – as central to explanations of rapid economic growth. Apart from the disturbing tendency here to equate or conflate all East Asian cultures, the argument has little explanatory power outside the regions which may have been affected by neo-Confucianism. As one Korean theorist has noted: 'the "developmental" conception mires itself in a unique East Asian configuration, attributing too much similarity to Japan, South Korea, and Taiwan…'[1] The introduction of Mexico as a case study may prevent us from becoming mired in this way and, in particular, suggest comparisons beyond the question of culture.

Finally, a great deal of effort has been expended, especially by economists, on attempting to discover the precise policy 'mix' which led to success for the NICs – in order that it might be repeated elsewhere. Not surprisingly, proponents of various policies have discovered in particular NICs, those policies which seem to validate their views. Yet the policies pursued by the Mexican, South Korean and Taiwanese states were quite different from each other, and for a considerable time they all led to success. Clearly, government policy is important and some policies would have made development impossible. But comparing three NICs which took different policy paths to development allows the analysis to go beyond the question of state policy and, instead, to look at the nature of the state itself, why it chose the policies it did and how it was able to carry them out with uncommon and single-minded ruthlessness.

The notion of 'development'

The term 'development' is fraught with difficulty. It seems to imply some form of progressive change. Yet what is progressive for some is not for others. It is far from clear that the changes which took place in Mexico, South Korea and Taiwan since the Second World War were welcomed by all in those societies. Indeed in many, perhaps most, cases since the first industrial revolution in eighteenth and nineteenth century England, economic transformation has initially meant higher standards of living for a minority while much larger numbers experienced increased hardship. Economic growth in largely agricultural countries has involved a transfer of resources: from the countryside to the cities, from agriculture to industry, from some social classes to others. In Mexico especially this process has seen rural dwellers become poorer. Most of those who were forced off the land and drawn to the shantytowns around the cities found conditions there as appalling as those they had fled. Even in South Korea and Taiwan, where early land reforms improved the material condition of many farmers, the economic 'miracles' of the 1960s and 1970s were accompanied by the creation of a highly exploited factory workforce often made up of young women. What 'development' means or should mean is deeply contested. But, whether for good or ill, life in these three countries has been profoundly transformed by the process described by this difficult and inadequate term. Our aim is to discover how that transformation happened.

Since the Second World War, development theory has been dominated by two debates. The first, raging most fiercely from the 1950s to the late 1970s, was between theories of modernisation and theories of dependency. The second, between neo-liberalism and neo-statism was, to some degree, derived from these earlier controversies. The change in the terms of the argument was in part a response to a perceived impasse in the earlier debate. In part it also reflected the decline during the 1970s of what was known as 'Third Worldism'. But this shift in the terrain of the argument was also a response to the development of the NICs themselves, whose emergence posed major theoretical challenges for all who had concerned themselves with development in poor countries.

Modernisation and dependency

Central to the modernisation framework is the notion of stages of development – that between the traditional and the fully modern are a number of points common to all societies undergoing the transition between them. Understanding the characteristics of these stages was not simply a matter of noting what had happened – it was a practical guide for developing countries in defining their objectives at each stage and dealing with the obstacles to moving to the next. The theory was diffusionist – linkages between advanced capitalist societies and others would speed the process of modernisation. Integration in the world capitalist economy should therefore be an objective for poor countries – modernisation was determinedly and optimistically pro-capitalist.

In contrast, the dependency theorists – known as *dependistas* in recognition of the largely Latin American origins of the school – saw capitalism as the root cause of the problems of what eventually became known – rightly or wrongly – as the 'Third World'. One of the great strengths of dependency theory was its ability to view the present state of underdeveloped countries both from the perspective of the totality of the world economy and with an historical approach. Poverty was seen as part of an historical process by which capitalist countries incorporated other regions into the capitalist system and so 'underdeveloped' them. But if, as the *dependistas* claim, greater integration into the world economy leads to greater dependence and therefore a process of underdevelopment, then the emergence of the NICs becomes completely incomprehensible. Cardoso and Faletto have pointed out that, on this score, history has prepared a 'trap for pessimists'.[2] South Korea, Taiwan and Mexico all industrialised in the 1960s and 1970s in the context of an increasing volume of trade with the advanced economies. If integration in the world economy was to mean inevitable underdevelopment, then in all of Latin America, Venezuela, with its dependence on oil exports, rather than relatively isolated areas such as the Brazilian northeast, should be the most underdeveloped.[3] In Asia, highly export-dependent Taiwan and South Korea should have been underdeveloping since the 1960s while a more autarchic economy such as Afghanistan would be spared that fate. In fact, the opposite is the case.

A great strength of dependency theory has been its insistence on considering the context of the world economy in analysis of Third World countries. But, at times, the complexity of the local class forces and their role in choosing a relationship to the international environment has been crudely downgraded. Despite some exceptions, a tendency to reduce local class struggle to a reflection of international pressures remains. One of the indications of this is a fairly cavalier treatment of the concept of class and a tendency to confuse it with 'elite', 'strata' or 'sector'.[4] So dependency theory spawned a kind of internationally-oriented determinism in which the options for local classes are severely limited. Curiously, for a theory which set out to attack the optimistic determinism of the modernisation theorists, it has produced its own form of determinism in response.

Neo-liberalism and neo-statism

By the 1980s, it seemed that the dependency and modernisation perspectives had fought each other to a standstill. An impasse had apparently been reached in development theory. Moreover, modernisation theory had been shaped in important ways by the Cold War, dependency theory by sympathy for the Third World. Both of these considerations began to recede in significance to many Western intellectuals in the 1980s. However, a new debate – on the relative importance of states and markets in the process of economic development – soon took its place. Although both sides added the prefix 'neo' to describe their positions, the debate was not new. It echoes through economic controversies – especially those about 'late' development – since at least the 1830s with the arguments made against adulation of the free market by protectionist economists such as the German, Friedrich List and the American, Henry C. Carey.[5]

Neo-liberalism

Until the 1970s most conservative, pro-Western theorists had no objection to a degree of government planning and state economic intervention. Indeed it was one of the few things which many of the modernisation theorists and some of the *dependistas* had in common. This broad consensus on the need for development planning and state intervention was challenged in the 1980s by those who called themselves neo-liberals. They argued that economic resources are allocated most efficiently when decisions – and especially prices – are left to the market. High levels of government intervention could only distort natural prices and the comparative advantages of various branches of production in each country and so would reduce the ability to produce wealth. The argument was applied to both rich and poor countries. In the former, Reagan, Thatcher and many others carried out at least some of the neo-liberal prescriptions. In developing countries the argument was promoted even more vigourously by the World Bank and the International Monetary Fund (IMF) whose neo-liberal missionary zeal was facilitated by the great explosion of Third World debt of the late 1970s and early 1980s.

By 1982, Mexico had failed to make its debt repayments and was forced to submit to IMF intervention. Thus the main period of Mexican economic success had passed before the neo-liberal argument became the orthodoxy among many Western economists, the IMF and the World Bank. But because of its continued industrial triumphs in the 1980s, East Asia was a crucial testing ground for neo-liberalism. In 1993, the World Bank produced the most influential of neo-liberal accounts: *The East Asian Miracle: Economic Growth and Public Policy*.[6] The difficulty, however, for neo-liberals in their analysis of the East Asian NICs, was that it was abundantly clear that massive state intervention was involved in each – whether it occurred via direct state ownership, high protective tariffs, state control of finance or state planning. Neo-liberal analysis has tended to fall back on the proposition that state action in East Asia merely 'simulated' market conditions at a time when no developed markets existed.[7] This argument immediately attracted criticism. Commenting on the

World Bank report, Jene Kwon made a point since repeated many times. The report suggested that:

> If government is to deserve any credit, it only does so because its myriad interventions (in pricing, interest rates, wages, bank credit, monetary and fiscal policy, protection of domestic industries, export promotion and subsidies and industrial policies, and so forth) must have, by some magical coincidence, jelled into a neo-classical formulation.[8]

In other words, the neo-liberal position suggested that even when state intervention happened and was successful, it was really something else. The invisible hand of the market was somehow temporarily operating through the very visible one of the state. But if states are so ineffectual in properly distributing economic resources, why was it that, in these East Asian cases, they apparently possessed such acumen? In fact, these states did not intervene only to correct minor distortions in markets. Nor did they operate simply to liberate private business from non-market constraints. They did so with the conscious intention to industrialise and were prepared to radically alter the operations of the market to achieve that end. They were not anti-business, but they were willing to discipline and, on occasion, trample on the rights of private business to achieve industrialisation. Moreover, they openly declared this to be their aim – evidence which the neo-liberals consistently ignored.

Neo-statism

Partly in reaction to the rise of neo-liberal theory, and partly to that of the East Asian NICs themselves, a neo-statist position began to form in the mid-1980s. The thrust of this view was to argue for a new emphasis on the role of the state by political scientists and developmental economists. In particular, following work by Chalmers Johnson on Japan, the neo-statists emphasised the importance of a particular kind of state – a developmentalist state – in economic growth in late developing countries.[9] Under certain circumstances, states, whether to maintain domestic political control or because of the external threats they face, may be forced to initiate economic development. In doing so they consciously distort market rationality. Rather than simply allow their countries to be subject to the laws of comparative advantage, the state in successful late industrialisers such as Taiwan and South Korea and, in an earlier period, Mexico, constrains market 'rationality' in order to promote rapid industrialisation. The strongest empirical examples supporting the arguments of the neo-statists were Taiwan, South Korea and Japan.

Developmentalist states are necessary in poor countries, according to the neo-statist perspective, because of their extreme shortage of capital and because of the enormous advantages in technology and scale of production enjoyed by their competitors – those countries which have already been industrialised. The developmentalist state must concentrate scarce capital and maximise whatever small advantages the late developer possesses. Therefore, a 'congenital characteristic of twentieth-century late industrialization [was] a greater degree of state intervention'.[10]

Neo-statism provides an important starting point for understanding the success of the NICs. It is the contention of this book that not only are the neo-liberals wrong in their analysis of the modern NICs, they are wrong in relation to many other late developing countries, including those of nineteenth century Europe and Japan. Later chapters on Mexico, South Korea and Taiwan will detail the enormous importance of state intervention and the conscious limitation of market forces in the interests of rapid industrialisation in these countries during the ascending phases of their development.

During the 1980s, the conception of the developmentalist state replaced modernisation and dependency as the dominant paradigm competing with the neo-liberal framework. But as the decade wore on, all of the East Asian nations started to behave less like developmentalist states. They became less interventionist, began to sell state assets and to loosen trade and investment controls. Secondly, no other developing countries such as China or Malaysia have adopted such high levels of state intervention as did South Korea, Taiwan and Mexico. Questions were immediately posed which the neo-statist position was not easily able to answer. Why did the successful NICs decide to shed the statist powers which had apparently worked so well for them? Why didn't other states, having witnessed the progress of their predecessors, decide to use the same methods? By the late 1980s, the shine had worn off the neo-statist position as well.

The model of the Midas states developed in this book builds, in part, upon much of the neo-statist case. However, it also does so with an emphasis on the significance of class and class conflict to an understanding of the dynamics of the state in capitalist society. Such an emphasis adds several new dimensions to the neo-statist position: an appreciation of the varied forms of state historically created by differing class configurations, and an awareness of the dynamics of the NIC state and its changing powers and possibilities as the balance of class forces shifts.

Numerous theorists have contributed to the literature on the nature of industrialisation and its historic importance. One of the most important and pathbreaking is Alexander Gerschenkron. Among the huge body of work on the 'rise of the West' and industrialisation in Europe, his is distinguished by its systematic attempt to compare industrial development in different periods; specifically, to compare early and late industrialisation. His *Economic Backwardness in Historical Perspective* made an attempt to understand the changes in the industrialisation process by linking them to the organising principles of 'backwardness' and the 'lateness' of development; that is, how long after English industrialisation the industrial development being studied took place and in how 'backward' a region.[11] The relevance of this comparison of early and late development in the nineteenth century to an analysis of the post-Second World War NICs is obvious. The NICs industrialised in circumstances which could be considered very late and very 'backward' by Gerschenkron's standard. Moreover, even a preliminary glance at their development suggests that it took a very different course and used different means from the industrial countries which preceded them.

A key element of Gerschenkron's analysis was that the later developers of the nineteenth century faced an already economically powerful Britain. For them, the path to industrialisation taken by Britain was blocked by this simple fact. Much greater centralisation of capital and conscious coordination of the accumulation process was required for them to face the British challenge and catch up. For Gerschenkron, variation from the British pattern of industrialisation was a necessity for those countries whose industrialisation followed it. Rather than a single path to industrialisation, the actual route taken was related to the degree of economic, political and social 'backwardness' at the time of the 'spurt' of industrial growth.

In other words, the size of the gap between the already developed country or countries and those on the verge of industrialisation determined the new course that the late developer would take. In particular, what can be seen as prerequisites in the British case – a long-term build-up of capital, a potential industrial labour force, entrepreneurial ability, a credit system and many others – did not usually develop in the same way or were not present in the same measure as they had been in Britain in the middle to late eighteenth century. Therefore substitutes had to be found for them. The more 'backward' the economy, the greater the importance of such substitutions.

According to Gerschenkron, six general changes mark an industrial spurt as relative 'backwardness' increases. The more 'backward' a country is at the time of its spurt of growth, the faster the spurt; the greater the concentration on large-scale production; the greater the stress on producer goods; the heavier the pressure on the consumption levels of the population; the greater the part played by special institutional factors such as banks or the state; the less likely that agriculture will play any major part in the process.[12] Of these six, we are most concerned here with the institutional means which late developers might employ.

England

The state played an important facilitative role in England's industrial revolution but its direct part in capital accumulation was much more limited. It facilitated industrialisation in three ways. The state created a system of financial and political stability conducive to industrial entrepreneurship. Secondly, over several centuries preceding the industrial revolution, it helped to speed the development of capitalist agriculture. Thirdly, the British state carved out and maintained an empire which provided both sources of raw materials and markets for British industry.

The so-called 'financial revolution' of the 1690s created a recognisably modern capitalist structure of finance and fiscal management. By the end of that decade, the Bank of England had been established, there was a *de facto* gold standard, a market in mortgages existed, the stock exchange became important, marine and fire insurance had been created and a financial press was being published.[13] A measure of the degree of financial stability provided by the British state was the ease with which it was able to raise loans. Through the wars of the eighteenth and early nineteenth centuries the British government was able to find substantial credit easily on the basis of its reputation for stability and fiscal rectitude.

A second long-term means by which the British state helped to create the pre-conditions for industrialisation was its encouragement of market-driven agriculture. Above all the enclosure of common land was a major force in the growth in the number of gentry farmers and 'improving' landlords with a capitalist orientation and, eventually, cash to spare. By 1700 around 70% of England was already enclosed.[14] But enclosure was not a conscious attempt to stimulate industrialisation – it began several centuries before the first factories were established. It did, however, speed the breakdown of pre-capitalist relationships in the countryside. It eventually created – with much misery – a dispossessed labour force of former small farmers which could be turned into an industrial proletariat. Enclosure also promoted the rise of a class of capitalist farmers with savings, some of which found their way into industry. All of this had a crucial bearing on the emergence of Britain as the first industrial nation, but it was not calculated government intervention aimed at achieving industrialisation.

The third area in which the British state had a significant impact on economic development was its construction of an empire. But those who began the small manufacturing establishments associated with industrialisation in this period were not in foreign trade. Indeed they were a world apart socially and economically from the great merchant monopolists who were most associated with intercontinental trade.[15] They tended to start their enterprises with small outlays of capital and funded themselves primarily by reinvesting profits or through family and local connections.[16]

Direct government investment in industry was minimal. Even infrastructural projects such as turnpikes and canals were developed by private interests. Nevertheless, the lack of direct government involvement does not prove that *laissez-faire* was a pre-condition for industrialisation. The reason is that the British model was not followed by later industrialisers in the nineteenth century. As we shall see, it could not have been.

France

Whereas in Britain the controllers of the industrialisation process were the industrial entrepreneurs themselves, in France and especially Germany, banks played a far more important role. The brothers Péreire, the figures behind the famous *Crédit Mobilier*, pioneered a new kind of banking from 1852. Supported for a time by Louis Bonaparte, the Emperor Napoleon III, it was no longer designed, as were the old banks, merely to provide short-term credit; the *Crédit Mobilier* was pledged to the industrialisation of the country. In doing so it found itself in a bitter struggle with the old banks – particularly the Rothschilds. The Emperor, eventually finding that he needed the support of the old financial establishment, refused to allow it to raise further capital in 1862–63 and it collapsed in 1867. Nevertheless, by the time of its demise it had already forced its competitors to adopt its own methods. It had created the first universal bank – a type soon copied in Germany and elsewhere in continental Europe.

The *Crédit Mobilier* was the kind of institutional 'substitute' claimed by Gerschenkron to be necessary in late industrialisation. It is, of course, not inevitable that such substitutes will be found or, if found, that they will be developed and used to the degree necessary to ensure a major 'spurt' of industrial growth. Indeed, the absence of an institutional lever for growth such as the *Crédit Mobilier* before 1852 may have postponed France's industrial spurt and made it less intense when it did occur. Lacking the means to attract savings into large-scale investments, the French economy, according to Tom Kemp: 'tended to be slowed to a snail's pace, leaving the country as a whole still largely in the grip of an "eighteenth century" economy of small units and archaic techniques'.[17]

Britain's first stage of industrialisation in the eighteenth century did not require a *Crédit Mobilier*. But the larger scale of enterprise in the nineteenth century demanded greater outlays of capital. If it was to succeed, some new arrangement had to be found. This is not to say that a conscious search occurred in France for an institution such as the *Crédit Mobilier* as a means to industrialise. But it found in the government of Louis Bonaparte a supporter who could see its potential as a counter to the Bank of France and other established bankers who were unfriendly to the regime. In the end, the *Crédit Mobilier* itself had only a slight direct influence on industrialisation. The main outlets for its investment were public works and railways. Nevertheless, it forced its competitors to look to investment banking and thereby pointed the way to the future for later industrialising countries.

Gerschenkron's thesis also seems, at least temporarily, sustained by the role of the state in the 1850s. The French state, for a short time, also provided a great spur to industrialisation under the Bonapartist regime after 1851. State spending rose by 50% between 1852 and 1855 before levelling off.[18] The new government forged ahead with railway construction after years of prevarication by previous regimes. Ninety thousand miles of track were laid between 1852 and 1857.[19] The government was prepared to risk deficit financing to develop industry. But soon it was to move away from its interventionist role. A free trade treaty with England in 1860 – the Cobden–Chevalier Treaty – signalled the retreat. Nevertheless, Gerschenkron's most important insight – that late development requires new forms and methods in order to succeed – seems to fit the French case quite well.

Germany

In the case of German industrialisation, there is indeed a dramatic 'spurt' of the type anticipated by the Gerschenkron model. Although there had been a slow but important development of manufacturing in a number of German states from the end of the Napoleonic Wars, the critical period from which we can date such a qualitative breakthrough is around the late 1830s and early 1840s – the point at which large scale railroad construction began to fuel a boom in heavy industry. From then, industrialisation proceeded very rapidly indeed. The momentum built up was sufficient to allow German industry to grow continuously through the international recession of 1849 and to further strengthen its heavy industrial base in the 1850s.

The German 'spurt' was based on heavy industry, not as in England, on the production of light consumer goods. Cotton textiles, the 'leading edge' industry of the English industrial revolution had no chance to play the same role in Germany. After 1815, when restrictions imposed by Napoleon's Continental system were lifted, cheap British cotton textiles flooded into Europe and virtually destroyed the embryonic Prussian and Saxon industries. Facing such competition, latecomers such as the German states had little choice but to emphasise heavy industry if they were to industrialise. In fact, it was the German railways which led the industrial advance. By the 1840s Germany had the second most extensive railway network in Europe, with more than twice as much track as France. Railways in turn stimulated other heavy industry – iron and steel, mining and engineering – in some areas even outstripping their English counterparts. The pace of German development and the rapidity with which it could catch up with Britain in some areas should not be surprising. Germany had the great advantage of being able to 'borrow' technology from Britain.

The capital requirements of heavy and relatively high-technology industries were vastly greater than those of the English textile industry in its critical period of development in the late eighteenth century. As such it was rare that an individual entrepreneur alone could finance such undertakings. The only recourse for prospective industrialists was the banks, not merely for short-term loans as in the English case, but for long-term capital requirements. In the 1840s and 1850s new banks were formed with the express purpose of providing these funds. The *Crédit Mobilier* was their model. Its form of aggressive, industrially-oriented banking, now taken up on a large scale in Germany, shocked both British and French observers.

The long-term credit provided by these banks to industry made them partners in management. In many cases, they purchased large blocks of securities and, to minimise their risks, then sought seats on the board. German industrial capitalism had developed foundations fundamentally different from those of both Britain and France. What the *Crédit Mobilier* had merely hinted at as a possibility in France came to fruition in Germany.

Participation by the banks also changed the structure of industrial capital. Bankers' instincts were to limit industrial competition in areas in which they were involved by facilitating mergers and cartels. The severe recession which struck the newly unified Germany in 1873 intensified the process – prompting many banks themselves to merge for protection. Because of the banks' close connections with industry, cartelisation and concentration of industrial companies was advanced still further.

The German credit banks and their part in industrial growth is a key difference between the British and German industrial revolutions. But just as the *Crédit Mobilier* had presaged future developments in Germany, so German industrialisation brought forth its own innovation which would become more important in later years and in other countries. This was the conscious involvement of the state in stimulating, protecting and, in some cases, owning and controlling industry. Whereas the English state has often been compared to the 'nightwatchman' – guarding business but not usually interfering with it, the German states were involved at a much higher level. The pressure of international competition drew the German states into a greater role in industry in the critical period of the 1830s and 1840s. The Prussian state set up metal and engineering plants and factories to produce woolen cloth. It had its own shipping line and, in an attempt to reduce Prussia's trade imbalance, even involved itself in the manufacture of luxury goods.

The Prussian state owned and operated nearly all the collieries in the Saar and several in Upper Silesia and produced about 20% of all the coal mined within its borders. It also had extensive salt mines and a virtual monopoly on salt production. Similarly, the Bavarian state owned two coalmines, ironworks, saltworks and even porcelain factories in the mid-nineteenth century. Many other enterprises were joint ventures between governments and private businesses.

But even this understates the level of state direction of industry in the early critical phase in the 1830s and 1840s since public officials were often involved in closely overseeing business in which there was no state investment. In some areas they made day-to-day decisions such as whether to allow new seams to be opened in mines. Furthermore, state credit was important to a range of enterprises – giving governments additional leverage and control.

In the railway industry – the most important for German industrialisation – state involvement was pivotal. From the 1830s and 1840s railways in some states – Baden, Wurttemburg and Bavaria – were entirely built by governments. In Prussia, the Diet, seeking political concessions from the King in the 1840s, refused to vote for the necessary bond-raising that would have established government-owned railways. Nevertheless, the Prussian state still guaranteed the profits of private railway companies and invested heavily itself.

German governments did not plan industrial development in a rigorous way. On the other hand nor did they have any objection in principle to state involvement or adhere to any serious *laissez-faire* prejudices. Part of the interest of states in industrialisation was for reasons of defence. Railways and shipyards attracted state support partly for strategic and administrative reasons. Following the 1873 depression, German unification and the intensification of competition between the major European powers, the German state moved to even more aggressive intervention – nationalising railways and directing private investment more strictly. But probably the most important form of state involvement was the tariff. Before the spurt of the 1830s and 1840s, German tariffs were generally low. Industrialisation, especially railway development, created pressure for tariff protection as entrepreneurs saw the new opportunities opened up in industries supplying the railways. The tariff law of 1844 was a decisive turning point. Before it, coke-fired bar iron had entered Germany duty-free. Afterwards it attracted a duty of 68%. With the recession of the 1870s, levels of protection rose sharply, and even more than direct state ownership or partnerships it became the main form of government intervention in the economy.

Russia

Russia's economic spurt in the 1890s – four to five decades after Germany's had begun – took place in a Europe where industrialisation had already changed the balance of power between states. A new hierarchy had been established – based as much on levels of industrial development as on military prowess. Indeed the connection between the two was obvious. The military imperative had become clear to

Russia's rulers in the Crimean War of 1853–56. Humiliating defeat at the hands of Britain, France and Turkey prompted a massive attempt to catch up with the West. When, in 1878, Russia became estranged from Germany – the leading industrial power on the continent, its own industrialisation became even more urgent.

Russian industrialisation also took place in a state which, in the 1890s, was far more economically 'backward' than Germany had been in the 1840s. Agriculture was much less efficient than in France, Germany or Britain. Indeed, serfdom had only been formally abolished a scant few decades earlier in 1861. This fact, and because it was to happen half a century after that of Germany, meant that the attempt to imitate and catch up to the West required enormous efforts and different means. Yet the Russian rate of industrial development outpaced all of its predecessors for a time. Industrial output had been increasing for decades and, in the second half of the 1880s rose by an annual average of 6.1%. But the turning point, a genuine 'spurt' in Gerschenkron's sense, was the 1890s. Industrial output grew by an average of about 8% over the decade, faster than in any other industrial nation at the time.

Furthermore the industries created were more concentrated than was the case in even the most advanced of the older industrial nations. Russia had attained a greater level of industrial concentration (though not output) by 1900 than existed in Germany or the United States. As in Germany, the driving force of heavy industry was the construction of railways. Russia had the world's fifth most extensive railways in 1890. By 1900 only the United States had a larger network. By that time, the railroads employed 400,000 people.

Even more than in Germany, it was the state which was the motor of industrialisation – especially in the part it played in building the railways. Whereas in the 1860s and 1870s about 80% of railway development was done by private capitalists (though often with state support), from the 1880s, the Tsarist state shouldered most of the burden. For several decades afterwards, the railways consistently lost money, but the losses were absorbed by the state. In addition to the demand created by the railways, the metal industry prospered as a result of substantial state orders for arsenals and naval dockyards.

A further way in which the Russian state contributed to industrialisation was through a tough tariff regime. The move away from a free trade policy began with the tariff rise of 1877. Tariffs were increased by about one-third. Further rises in tariffs in 1881 and 1882 followed. Then in 1891, a 'monster tariff' was introduced. The result was that