

FROM STRUCTURALISM TO THE NEW INSTITUTIONAL ECONOMICS:

The Impact of Theory on the Study of Foreign Trade in Latin America

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This paper originated with Jonathan Brown's invitation to participate in a LARR-sponsored panel at the 2004 LASA Congress, commenting on the lectures offered by John Coatsworth and Joseph Love. The discussants' task was to relate the general ideas presented by these scholars to our own field of specialization, which in my case happens to be the history of foreign trade. Therefore, this article summarizes the evolution of economic ideas with respect to Latin America, with special emphasis on foreign trade and commercial policy. It explains the basic positions held by the structuralist and dependentista schools, the shift brought about by the return of neoclassical economics, and the partial departure from orthodoxy made by the New Institutional Economics (NIE). This article concludes with a discussion of how these changes in paradigms were generated and how the evolution in ideas contributes fresh approaches to the historical interpretation of the role of foreign trade in Latin America.

Latin American structuralism was probably the first original comprehensive explanation about the causes of the region's own underdevelopment that originated from the third world. It represented a radical departure from mainstream economics and from the classical international trade theory, yet it was theoretically and politically far from Marxism. Although many economists had grasped by intuition some of the ideas that were to make up structuralism, as Joseph Love affirms, "urdir los diferentes hilos en una trama argumental coherente desde la perspectiva de la periferia fue el gran aporte de [Raúl] Prebisch y [Hans] Singer" (Love 1993, 66). The seminal work done by these two economists set for decades the canon for the way scholars interpreted the Latin

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American economic evolution, and its influence spread to many other third world countries. The research also inspired a more radical approach to the study of Latin American underdevelopment, namely dependency theory (or, in Robert Packenham's words, the "dependency movement"; Packenham 1992).¹ As John Coatsworth and Alan Taylor remind us, under the shelter of structuralism some of the first systematic attempts to gather statistical data about the Latin American economies were undertaken, and the first economic histories of the region were written (Coatsworth and Taylor 1998, 2; see also Coatsworth this issue).

Structuralists were the first to call attention to the striking differences that separated the development of Latin America from that of the North Atlantic economies. They also stressed that these differences would not to be overcome by patience and the passing of time. On the contrary, these were structural differences and characterized the particular way in which backward, underdeveloped countries had evolved and participated in the world economy. These structural differences called for a substantially different analytical approach than the one offered by neo-classical economics. Thus, the rejection of "monoeconomics" was from the beginning a distinct feature of the structuralist approach.²

Another distinctive trait of structuralism was its negative stance on foreign trade and its role in the history of Latin America. Like some of the pioneers of development economics, structuralists conceived foreign trade as "a 'zero-sum game' enabling the rich advanced countries to prosper at the *expense* of the poor backward ones" [emphasis in the original].³ Furthermore, according to this view, "the disparities between the centre and periphery are reproduced through international trade" (Kay 1989, 26–27). This critical stance towards the role of foreign trade evolved in what came to be known as "export pessimism," or the notion that primary exports were detrimental to those economies that specialized in their production. Export pessimism found its roots in the beginning of the Great Depression in 1929, "when the export-led growth mechanism essentially broke down" (Thorp 1996, 141). The Depression

1. It is worth noting that structuralism is also characterized as a "movement" in Love's contribution to this panel.

2. In this and other respects, Latin American structuralism coincided with a current of thought that emerged after the Second World War and came to be known as development economics. The best known of its founders (authors like Albert Hirschman, Arthur Lewis, Gunnar Myrdal, and Ragnar Nurkse) also held the perception that underdeveloped countries shared particular structural traits, that Latin American countries should pursue industrialization, and that the state had to play a central role in this process (Bustelo 1999, 21–22 and 115–31).

3. This was the extreme view held by Myrdal (see Lal 2000, 22–23), but more moderate propositions on the same direction were advanced by Nurkse, Lewis, and others. *Ibid.*, 18–25. See also Bustelo 1999, 125.

exhibited the vulnerability of those economies that relied on primary exports to sustain their growth processes. Furthermore, according to many contemporary analysts, the experience of the Depression showed that the purchasing power of these kinds of commodities deteriorated faster than that of industrial products during times of crisis, and that their supply was relatively price-inelastic, as compared to that of industrial goods (Love 1993, 63). In fact, the Great Depression was interpreted as the worst of a series of alarming signs about the risks and costs of relying on the external market to foster and sustain growth. In the aftermath of the Depression, pushed in part by the circumstances and in part by this growing conviction, some Latin American governments started to promote a more inward-looking development by means of tax exemptions, subsidies, tariffs, and currency devaluation (Thorp 1988).

According to Prebisch and Singer, the main reason for export pessimism was the trend towards deteriorating terms of trade for the countries producing primary commodities, starting in the last third of the nineteenth century.⁴ On the other hand, this trend originated in the “dynamic disparity of demand” between Center and Periphery. This is, in reality, a corollary of the Engel’s law, a statistical relationship between increased income and a shift in the demand pattern of consumers away from basic products (“inferior” goods) towards durables. Furthermore, for some export pessimists of the mid-twentieth century, the low income elasticity of demand for primary products could naught but worsen, as synthetic substitutes would take their place, tightening even further the demand for raw materials in industrialized countries.⁵

According to Prebisch and Singer, the terms of trade for primary exporters also tended to deteriorate as a result of the power of organized labor and oligopolistic industries in the developed world. The former were able to maintain high wages, and the latter to control production rates instead of reducing prices, when demand fell. Neither of these conditions held for primary commodities, or for the countries producing them. In any event, deteriorating terms of trade meant a continuous transfer of the benefits from increased labor productivity in the export sectors of underdeveloped countries, benefits that gravitated towards the developed world.

There were also other motives at hand for export pessimists. One was the external disequilibrium, due to the higher propensity of underdeveloped countries to import industrial goods than to export primary products. Another one was the overspecialization in the primary activities that generated the bulk of export goods, as it produced structural distortions and

4. There is “an eternal debate” as to whether or not there actually was such a historical trend. For the more recent discussion see the literature cited in Love 2004, notes 6 and 7. For a critical view see Haber 1997, 12.

5. This is the view of Ragnar Nurkse. See Lal 2000, 18.

imbalances throughout the domestic economy. Finally, the negative stance with respect to foreign trade was extended to other links with the international economy, which were considered in general disadvantageous for the underdeveloped countries (Coatsworth 2005, 135). For instance, foreign investments were opposed on the grounds that they constituted “enclaves” detached from the rest of the economy of the recipient country. It was Singer who pointed to the distorting effects of enclave activities: they “never became a part of the internal economic structure of those underdeveloped countries themselves, except in the purely geographical and physical sense . . . Economically they were really an outpost of the economies of the more developed investing countries” (cited by Szentes 2002, 265).

For several decades the specter of export pessimism haunted Latin America. The era of Latin American history characterized by an export-led pattern of growth (lasting roughly from the last third of the nineteenth century to the economic collapse of 1929), was identified as the origin of modern underdevelopment in the region, and, as such, was severely criticized.⁶ In order to overcome the distortions generated by that model, structuralists advocated a path of development that relied basically on internal forces and resources and was inward looking and thus less vulnerable to external factors. This meant essentially three things: first, Latin American countries should promote industrialization, producing what had been previously imported from abroad; second, they should rely basically on the internal market to find demand for their new industrial production; and third, as the structural changes that were necessary to achieve these aims could not take place spontaneously, the state should play a central role in shaping this industrial pattern of growth (Bagú 1986).

It has been argued that structuralists did not originally advocate an inward-oriented pattern of growth, but rather “development from within,” a model that “was not exclusively inward-looking,” but foresaw protection as a temporary device that would allow the development of new export capabilities. According to Rosemary Thorp, “the phrase ‘desarrollo desde adentro’ occurs in Prebisch’s early writing, in contrast to the later description of reality ‘desarrollo hacia adentro’, and expresses the idea that the Latin American economies should be integrated to the international economy, but in a way that reinforced internal capacities, respected autonomy and built up long-run comparative advantage” (Thorp 1996, 145). In fact, as Love notes, Prebisch himself

6. In an early review of Latin American economic history, Stein and Hunt (1971, 345) expressed the common opinion on this issue: “puede decirse que después de 1870, la rápida integración a la economía mundial, a pesar de las letanías de confianza, había fracasado en cuanto a la modernización de las estructuras económicas latinoamericanas; hubo crecimiento pero no desarrollo, y la integración condujo a la deformación y a la dependencia y no al crecimiento equilibrado y a la industrialización.”

criticized the excesses and distortions of the import-substitution industrialization (ISI) model as it was being implemented in Latin America (Love 2005, 106). In any case, what prevailed in theory as well as in practice, was an inward-oriented model of industrialization based entirely on the internal market and with a strong anti-export bias.

Most of the Latin American historiography that was written by authors from the region between the 1950s and the 1970s (works by Celso Furtado, Aníbal Pinto, Aldo Ferrer, René Villarreal, Osvaldo Sunkel, and Pedro Paz, among others)⁷ was dominated by the structuralist perspective or by its more radical offshoot, dependency theory—often represented by the same people, as Coatsworth points out (Coatsworth 2005, 133). Most of the historical literature shared the idea that the links with the international economy were essentially negative and had ill-fated consequences for national development and that those domestic groups that acted on behalf of the links with the international economy were betraying the national interest. Paul Gootenberg explains dependentista interpretations of nineteenth-century Peru:

The old villains of history—the conservatives and erstwhile “barbarians” who obstructed liberal Progress, including free trade—have suddenly become its new heroes. And al revés: the old modernizers, particularly liberal Europeanized thinkers, have become the century’s malinches. (Gootenberg 1989, 10)

The influence of structuralism went well beyond university classrooms and theoretical debates, profoundly affecting public policies throughout Latin America. Maybe for the first time in history, a theoretical paradigm became a development program, consciously followed by national governments and supported by international agencies. As a matter of fact, structuralism was the only third world school that had the privilege of being embedded “in an international research institution enjoying direct contacts with economic decision-makers, advisors and other researchers in national banks and finance ministries” (Love 2005, 116). By these means, ISI became the route of Latin American development for several decades.

Neoclassical interpretations did not disappear in the meantime, however. On the contrary, authors like Jacob Viner, Gottfried Haberler, Hla Myint, and Max Corden confronted the structuralist thesis theoretically as well as empirically, underpinning the case for free trade (see Haberler 1959; Myint 1965; Corden 1965; Viner 1955). In short, their contention was that comparative advantage held benefits equally for developed and for underdeveloped countries, that there was no intrinsic advantage of industry over agriculture, and that there was no reason why the exportation of primary products had to be necessarily unfavorable, as the cases of Denmark and New Zealand showed (Viner 1961, 73–75; see also Kay

7. For a list of some of the best known works by these authors see Love 2005, n. 48.

1989, 4–7). At some point, the neoclassical approach was enriched by a more intensive use of formalized models and mathematical techniques. Their application to historical analysis gave birth to the New Economic History. Soon enough, some scholars, either born or educated in the United States, adopted this perspective to study Latin American countries.⁸ Their approach did not always escape entirely from the attractive force of the structuralist-dependentista paradigm, resulting sometimes in interpretations that used neoclassical techniques with a dependentista touch. For instance, the first scholars that analyzed Latin American economic history using this new approach, found it very hard to depart from the idea that the connections with the international economy had a negative side. Although at the time the New Economic History found little echo in Latin American scholarship, its contribution was crucial in many respects: the innovative ways of addressing old and new issues, the systematic use of quantitative data and quantitative methods, the definitive insertion of Latin America case studies into wider international debates about economic backwardness and economic growth.

Was ISI successful? It depends on the parameters that we choose to evaluate it. It provided the Latin American economies with an industrial base, and generated sustained growth for a few decades. ISI not only raised the share of manufactures in GDP but also “contributed about 50 percent of the growth in industry” from the Great Depression to the early 1980s.⁹ As the same structuralists recognized, however, industry grew under the shelter of protectionism, and thus was inefficient and unable to compete in the international market. On the other hand, growth was concentrated in particular sectors and its benefits did not spread throughout the whole society. In fact, income distribution deteriorated in some cases.¹⁰ To make things worse for the supporters of ISI policies, the world soon became aware of the extraordinary success of the East Asian economies, a success that relied at least to some extent on the opposite growth recipe: outward orientation, limited levels of protection, and limited state intervention.

Whatever its success may have been, by the early 1970s the ISI model showed clear signs of exhaustion. Its demise, along with the old and new criticisms to the structuralist approach, stimulated the resurgence of neoclassical economics in the interpretation of the role of foreign trade

8. The best known cases are Coatsworth 1981; Haber 1989.

9. This is what Victor Bulmer-Thomas found, as cited by Love 2005, 104.

10. This is clearly what happened in Mexico, where 50 percent of the population (composed of the poorest families) saw its income decline from 19 to only 15 percent of total income between 1950 and 1969; distorted income distribution occurred in other Latin American countries. For Mexico see Wilkie 1987, 542, and Hansen 1974, 74. For a comparison of several Latin American countries, see Bustelo 1994, 49–82, table 2.

in economic growth. The classical view that stressed comparative advantage and the idea that international trade was beneficial for all the participants were reformulated in more sophisticated ways, and they finally prevailed. The return of neoclassicism was greatly reinforced by the emergence of the New Political Economy, which produced an impressive body of literature against protectionism and for free trade.

The new paradigm spread somewhat slowly and found some resistance within the Latin American scholarship, to the extent that most of the new research was at first undertaken within the U.S. academy. Notwithstanding that, little by little, it led to a reinterpretation of the two contrasting phases of development in the contemporary history of the region: the first export-led growth phase between the late nineteenth century and the early twentieth century on the one hand, and the age of protectionism and ISI, on the other. With respect to the former, new assessments were made that paid more careful attention to the role of exports in the economic development of Latin America. They tried to evaluate the return value of export activities, their possible linkages with other sectors, and their overall effects on the rest of the economy. Under this new light, economic historians became more aware of the complexity of export-led growth. Maybe exports were not always so bad after all. Perhaps the so-called enclave activities were not that isolated from the rest of the economy. Possibly the rise in per capita GDP during this era had something to do with export-oriented growth.¹¹ Furthermore, as Steve Haber suggests in a forthcoming essay, it is likely that “the impetus for industrial development came from the expansion of foreign trade,” and that ISI and export-led growth are not conceptually or historically contradictory (Haber forthcoming). As for the age of ISI, critical assessments from a neoclassical point of view have been common since the 1970s.¹² More recently, the New Political Economy contributed to them by showing “that protection was more costly than demonstrated by the conventional neoclassical welfare analysis of the impact of trade restrictions.” This was so because protection fostered rent seeking and other forms of “directly unproductive profit-seeking” activities, “which yield zero direct output” and “absorb scarce real resources.”¹³

11. A more balanced assessment of Latin America's export-led growth phase can be found in Cortés Conde and Stein 1977, 19–20 and *passim*. See also Díaz-Alejandro 1983, 21–53. For case studies on Argentina and Chile see, among others, Díaz-Alejandro 1988; Meller 1998, 23–29. For a more recent comprehensive assessment of the region, see Bulmer-Thomas 1996.

12. A remarkable early example is Díaz-Alejandro 1970. See also the essays by Díaz-Alejandro on economic history compiled in Velasco 1998, 181–260.

13. Snowdon 2002, 176. A particularly clarifying paper about the assessment of protectionism from the point of view of neoclassical economics in general, and of the New Political Economy in particular, is Krugman 1993.

The pioneers of the so-called “neoclassical counterrevolution” (scholars like Bela Balassa, Jagdish Bhagwati, Anne Krueger, and Ian Little) from the beginning criticized state intervention, protectionism, and ISI, or what Deepak Lal has called “the *dirigist* dogma.”¹⁴ As happened with structuralism, their neoclassical views not only influenced scholarship but also had a great impact upon public policies, by means of international agencies like the International Monetary Fund (IMF) and the World Bank. More specifically, they contributed to the formation of what has been known as the Washington Consensus, the growth policies that have been applied to Latin America in recent decades and include trade liberalization, deregulation, and an outward orientation of the economy among their central components.¹⁵

It is interesting to describe the way in which, according to the man who coined the term, the Washington Consensus originally emerged. John Williamson explains that its origin lies back in 1989, in his attempts to gain support for the Brady Plan before a U.S. congressional committee. There he argued that some Latin American countries were making profound changes in their economic policies and that they deserved some debt relief from the industrial countries. A few weeks later, at a seminar at the Institute for Development Studies, he was asked by Hans Singer to identify the policy changes that he “regarded as so welcome,” to which he replied with the ten reforms that came to be known as the Washington Consensus. The consensus was not meant as a “neoliberal manifesto,” because Williamson did not agree with all of the economic policies pursued by Ronald Reagan and Margaret Thatcher under the inspiration of Friedrich Hayek and Milton Friedman. Likewise, Williamson does not claim to identify himself with any of the following attitudes: “the imposition of economic correctness by Washington, or dependency, or the arrogance occasionally displayed by employees of the IMF and World Bank in their dealings with member countries, or the triumphalism of the American right at the collapse of communism” (Williamson 1996, 20). Far from that, his intention in drawing out the text was merely to offer “a lowest common denominator of orthodoxy” or, as someone put

14. Quoted in Lal 2000, 129. A look at some of the works published by these authors gives a very good idea of their position towards this issue. See, for instance, Little et al. 1970; Balassa 1982; Bhagwati 1987.

15. The main strategy outlined by the Washington Consensus is: “liberalization of trade and financial markets, devaluation to make exchange rates competitive, privatization of state companies, deregulation and tax reforms, removal of discrimination versus, and of the barriers to entry of foreign firms, the safeguarding of property rights, the diminution of the role of the State in the economy (restricting it to public security, environment protection, etc.) and an ‘outward-orientation’, ‘openness’ of the economy.” Szentes 2002, 340. See also Snowdon 2002, 13.

it, "the outcome of an opinion survey."¹⁶ In order to work out a document that could pretend to have a consensus it was necessary to leave aside some social concerns, which would have been rejected by the conservatives, and some policies like minimization of taxation or the abolition of capital controls, which would have been unacceptable to the progressive side of the spectrum. Last, he admits not only that the consensus should be broadened to include a clearer emphasis on social issues, but also that "the application of those rather general principles to specific situations" deserves an in depth discussion before it takes place (Williamson 1996, 17–18, 21). In spite of all these caveats and reservations, Williamson is aware that the "term 'Washington Consensus' did a disservice to the cause by suggesting that the reforms were being made in response to pressure from Washington rather than because of local recognition that the changes were desirable." He also recognizes that despite a change of mind in the direction of the consensus within the context of Latin American governments, "public opinion [in Latin America] was still hostile" (Williamson, 1996, 16).

To Williamson's own reservations one may add that there is strong evidence suggesting that pressures from the international financial agencies in favor of implementing the consensus have existed and do exist, and that the consensus' policies have become a frozen set of prescriptions that leaves little room for a thorough analysis of particular circumstances and broader social needs. Furthermore, as we know, there is no consensus at all about the validity of the Washington Consensus for each and every country in Latin America (Coatsworth 2005, 143). Criticism from the theoretical point of view includes the idea that the consensus is "nothing but an old, ahistorical explanation of the phenomenon called 'underdevelopment,' taking it out of the context of the world economy and even of the structural, institutional and sociological legacies of the past" (Szentes 2002, 341). On empirical grounds, there is the fact that "in the twenty-odd years of the 'Washington' consensus, the Latin American economies have experienced their worst two decades since the catastrophic first half of the nineteenth century" (Coatsworth 2005, 137). In the end, opposition to the consensus also has an ethical side, as it goes to the very question of how development should be understood, and the conviction that "its version of the goals of development is far too restricted, both in its instruments and objectives."¹⁷

16. Williamson 1996, 21. See also Snowdon 2002, 123, where the author summarizes the way in which Williamson perceived the Washington Consensus by saying that it "captured 'the common core of wisdom embraced by all serious economists' and had emerged from a process of intellectual convergence arising from economists' theoretical and empirical research."

17. This is Joseph Stiglitz's view, summarized in Snowdon 2002, 14. See also Dower 1996.

Criticism of the Washington Consensus is likely to increase as a result of the poor performance of the Latin American economies, and some critiques may well have a structuralist tone. Just to mention some relevant examples, authors like José Antonio Ocampo and Lance Taylor have restated structuralist views on the common grounds of their opposition to the Washington Consensus.¹⁸ In fact, structuralist approaches have not disappeared. However, the idea that there is a general theory that explains Latin American development has been replaced by the more modest assessment that there are particular explanations for groups of similar countries (Bustelo 1999, 186, 245–46). Besides, as Joseph Love reminds us, the new structuralists have entered original fields of research, making important contributions to the analysis of the informal sector, inflation, and stabilization policies, among other topics.¹⁹ Moreover, in the ideological arena the old structuralist thesis about state intervention and inward-looking industrialization still enjoys great popularity, and is brandished by leftist leaders and international organizations in their efforts to contain the forces of globalization. Whatever the impact of these critiques may have been, the truth is that the market fundamentalism characteristic of the early phase of the neoclassical resurgence has yielded to more moderate positions. Basically, it is now recognized that the state has played and should play a significant role in supporting economic growth, as in the various forms of “strategic trade policy” that, as most neoclassical economists agree, can improve the functioning of the market. At the same time, it has become evident that there is no single recipe for economic development, and that the dominant paradigm has had rather uneven outcomes (to say the least) in Latin America. As a result, a more open approach to the problems of development has emerged, which calls for “more instruments and broader goals,” as Joseph Stiglitz, a former World Bank officer, affirms.²⁰

One particular current within the New Political Economy has represented an interesting (even though moderate) departure from pure neoclassical economics. I refer to the New Institutional Theory (NIT, also named New Institutional Economics [NIE]), which, applied to third world countries, has yielded remarkable results, with historical as well

18. See, among others, Taylor 1999, and the recently published volume by the same author, 2004. For an alternative strategy to the Washington Consensus from the CEPAL point of view, see Ocampo 1998.

19. For a representative list of the new interests of structuralists, see *Revista de la CEPAL*.

20. This is the title of Stiglitz’s 1998 annual lecture at the World Institute for Development Economics Research. Reproduced in Stiglitz and the World Bank 2001, 17–56. Also in contrast with the prevailing stance, Stiglitz states that “the role of the economist is not to tell governments what to do but to lay out the consequences of various courses of action and allow the country to make the decision.” Quoted in Snowdon 2002, 14.

as theoretical implications. Typically, neoclassical economy has ignored the importance of institutions. Institutional theory, particularly in the form developed by Douglass North, suggests that it takes more than neoclassical rationality to explain real economic phenomena, that markets are imperfect and transactions costly, that institutions matter, and that values and beliefs are all crucial, not only for private life, but also because they effect the choices made by economic agents.²¹ All this is nothing but to state that culture matters and history matters.²² Economic change towards a more efficient equilibrium is not as easy and linear as neoclassical theory assumes, and the reason is threefold: first, because individuals make choices based on other criteria besides just maximizing rationality; second, because institutions are not necessarily created to be economically efficient; and third, because path dependence “makes it difficult to alter the direction of an economy once it is on a particular institutional path.”²³ Against the image of a single world created by neoclassical economics, the New Institutional Theory has shown that there are indeed differences among countries, and among regions, and that these differences condition the particular shape that development is going to take. In contrast to the structuralist paradigm, the NIT posits that these particular features are not created by external factors, but by common historical trajectories; even so, they generate patterns and common traits that separate, for instance, the path of development followed by Latin American countries from that followed by the North Atlantic economies (Coatsworth 2005, 138). Certainly few scholars are under the illusion any longer that one general theory, with a relatively small number of variables, is capable of explaining everything in Latin American development.

In his contribution to this panel, John Coatsworth states that both structuralists and dependentistas shared “the preoccupation . . . with institutions as key determinants of economic success or failure,” suggesting that there is some line of continuity from structuralism to the New Institutional Economics. This suggestion is confirmed by the phrase

21. For more on the NIE approach, see North 1973; 1981; 1990.

22. “This oversight [of history by neoclassical economics] is unfortunate. Historical work opens a rich database of institutional experience that has not been adequately exploited by the public choice, comparative or international relations literatures. Beyond mere data, history also highlights the importance of sequence, which now goes under the name of ‘path dependence.’ Understanding contemporary events requires a study of history because yesterday’s events allow some choices today and preclude yet others” (McGillivray, McLean, Pahre, and Schonhardt-Bailey 2001, 4).

23. The complete sentence defines path dependence as “the parallel characteristic of an institutional framework that has shaped downstream institutional choices and in consequence makes it difficult to alter the direction of an economy once it is on a particular institutional path” (North 1997, 15).

that “the structuralist and dependentista emphasis on issues of political economy and institutional development also has a newly contemporary ring” (Coatsworth 2005, 133, 136). It may be true that the two Latin American schools “focused on institutional ‘structures,’ such as the concentration of land ownership” (Ibid., 134). However, there is at least one important reason why I doubt that a line of continuity could be traced between those approaches and the NIE: the attention given by the former to the external factors of underdevelopment diverted the sight from the study of internal hindrances to growth. On the other hand, the focus on the latter created a whole different path of research, which started with growth economics (à la Kuznets) and ended up recognizing the importance of institutions in economic performance.²⁴

In contrast with the structuralist movement, which found its origin and development in Latin America, the NIE irradiates its influence from the United States. In fact, the early studies about Latin American countries employing a NIE approach were written by American scholars (I think specifically of the contributions made by John Coatsworth²⁵ and Steve Haber²⁶), and it has been largely under their auspices that some Latin American scholars have started to adopt this approach.²⁷

SOME CONCLUDING REMARKS

To conclude, what do these developments mean for the study of foreign trade in Latin America?

1. There does not seem to be conclusive evidence to seal the debate on the interpretation of the historical role of export-led growth and import-substitution industrialization. It seems clear that the export pessimism of structuralism and dependency theory does not account for the contribution of exports and export-led growth to the Latin American economies, but neither does the naive export optimism of neoclassical economics. The same may be said when it comes to the interpretation of the inward-oriented growth of the mid-twentieth century, or even of the current stage of globalization. Recent research by Angus Maddison suggests that Latin

24. See Haber 1997, Introduction.

25. For some of Coatsworth’s works containing early insights about institutional constraints to growth see 1990, chapters 2 and 4. A more recent contribution is Coatsworth and Tortella Casares, 2000.

26. Among the books he has written or edited in which the NIE approach is explicitly used are Haber 2000; Haber, Maurer, and Razo 2003. Another recent work about a Latin American country employing institutional analysis is Beatty 2001.

27. Some examples of books edited by American scholars and co-authored by Latin American scholars that include a NIE approach are: Coatsworth and Taylor 1998; Haber and Bortz 2002.

America grew at roughly the same rate that the United States did during 1870–1970, which is to say that it grew both under an export-led pattern of growth and under an ISI model of development (cited by Coatsworth this issue). Throughout decades of research, both paradigms have accumulated an impressive array of empirical evidence to support their cases. One can argue about the rigor of the methodologies employed in either case, or feel attracted by the thoroughness of a particular analysis, but the truth is that it would be very hard to prove that one of these explanations is utterly wrong and the other one is completely right. As Coatsworth states, “since the structuralist and dependentista scholars apparently got the growth issue wrong, succeeding scholars have tended to overlook what they got right” (Coatsworth 2005, 135). Likewise, those who oppose the current state of affairs in general, may find it hard to acknowledge that some of the ingredients of the Washington Consensus constitute a good growth policy after all. The fact is that it does not seem to be the scientific superiority of either one of these paradigms what has made it prevail over the other at any given period of time, and that, at some point, there is an ideological and political confrontation that makes them irreconcilable and mutually exclusive.²⁸

2. In trying to understand the transitory nature of theoretical paradigms, it may be useful to refer to Paul Krugman’s assertion that economic ideas have cycles, and what is the conventional wisdom today may seem stupid and irrational tomorrow (Krugman 1996). Historical evidence supports Krugman’s assertion. For instance, the idea that state planning and import substitution were crucial for a successful growth strategy, which seems so wrong today, was the general consensus thirty years ago. Likewise, free market and outward orientation were the conventional truths of the 1920s, exactly as they are today.²⁹ According to Krugman, there is a cultural aspect in conventional economic wisdom,

28. Colin Bradford puts it neatly by saying: “el estilo predominante de los debates ha sido el de plantear dicotomías. La exposición se ha centrado en uno u otro término, y los esfuerzos se han encaminado exclusivamente a eliminar los paradigmas o ideologías contrarias planteadas en torno a esas dicotomías. En consecuencia, hasta hace poco han sido escasas las convergencias de opiniones, síntesis entre diversas perspectivas o consensos hacia los que nos hayamos orientado. En ese sentido, quizá el debate económico haya sido intelectualmente satisfactorio, pero ha planteado a los responsables de política económica disyuntivas tajantes, exigencias de optar de una vez por todas entre paradigmas contrapuestos, lo que probablemente es menos útil que ponerlos frente a una gama de problemas y opciones dentro de un marco razonable de análisis.” Bradford 1993, 159.

29. An appraisal of the Latin American economic historiography appearing in the early 1970s testifies to this changing state of mind taking precisely the 1929 market crash as a breakpoint. Stein and Hunt 1971, 339–45.

which makes intellectuals and policy makers adopt certain beliefs about economics that nobody then dares to deny (Krugman 1996). This set of beliefs is what makes up the orthodoxy of the time. However, as Richard Auty and John Toye point out, "Orthodoxies are no longer just sets of beliefs. They are beliefs to assent to which one feels some kind of social and psychological pressure" (Auty and Toye 1996, 1). In any event, in embracing or rejecting a paradigm it is worth keeping in mind that all of them are historically transitory and that the ascendancy of one over the other(s) is culturally (and, one could add, politically and ideologically) conditioned.

3. Even though it is unlikely that structuralism will reemerge as a dominant paradigm for the interpretation of Latin American development, the "Big Questions" it poses are still out there waiting to be answered.³⁰ Neo-classical economics, especially the more pragmatic Washington Consensus, does not seem to be especially concerned with these big issues, but rather with the short term and with microeconomic analysis. This is one of the reasons why the development of the New Institutional Economics creates a welcome opportunity to get rid of the conceptual and ideological rigidity of conventional modes of thinking and to approach Latin American reality in original and innovative ways. As the structuralists, the "new institutionalists" are interested in the factors that foster or hinder growth in the long term, as well as in the historical itineraries that created "structures" (path dependent trajectories) which configure "conditions of rough but durable equilibrium . . . that may open or foreclose opportunities for long run economic growth" (Coatsworth 2005, 138).

4. With respect to foreign trade, one of the great advantages of the New Institutional Theory is that, although rooted in neoclassical economics, it does not have any preconceived notion towards the role of international trade, trade policy, or the desirable orientation of the growth process. Its concern has to do with the creation of efficient institutions and better defined property rights. One can presume that trade liberalization and lower tariff barriers fit the notion of more efficient institutions, but in a way that is by no means incompatible with strategic tariff protection, export promotion or other means of "sophisticated government intervention."³¹ Furthermore, the New Institutional Theory provides historians with strong analytical tools without depriving them of the serious intention of looking into the past. As somebody has put it, the

30. Both Coatsworth and Love praise the interest of structuralism and dependency theory on the "big issues" and on the long run. See Coatsworth 2005, 126, 137; Love 2005, 111.

31. The notion belongs to Krugman as quoted by Snowdon 2002, 176-77.

NIT “represents a victory, intellectually, for historical analysis over abstract theory” (Vendenberg 1998, 24). By these means, it is capable of recognizing different paths to development, and of finding a place for historical diversity within theoretical reflection. In short, the NIT is a healthy, even if unintended, denial of dogmatic “monoeconomics,” which is always refreshingly good news.

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