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CENTER DISCUSSION PAPER NO. 118

THE SECOND PATH TO CAPITALISM: A MODEL OF  
INTERNATIONAL DEVELOPMENT

Stephen A. Resnick

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The Second Path to Capitalism: A Model of  
International Development

by

Stephen A. Resnick

Introduction

This paper endeavors to accomplish two things: to offer an historical explanation for the possible emergence of a capitalistic mode of production in the development process; and to suggest how this particular path has been constrained and moulded by the international economy. The argument presented is basically theoretical in nature but does attempt to transcend the somewhat narrow interpretation of development economics in terms of the dualistic and/or surplus models. There is a limit, however, to how far theoretical analysis can go without careful presentation of empirical cases. The purpose of this paper is only to suggest certain key elements in a given country's economic history which might make it a candidate for the particular scenario described by the model. By so doing perhaps various special cases of capitalistic development may be understood as being part of a wider historical process.

Are there any specific elements which suggest that in a given under-developed country a capitalistic mode of production may be emerging? Three important factors need to be considered:

1) The import-substitution or forced industrialization programs since World War II can be viewed as an attempt by the government to create or further the development of a class of private businessmen or entrepreneurs who will be willing to hold and manage industrial assets.<sup>1</sup> This is what is meant by the emergence of a capitalistic mode of production. If this notion is accepted, then what historical factors were present which produced a class

receptive to the various stimuli provided by the state? Connected with this is the further question of whether there now exists elements of the class structure which tend to limit capitalistic development? Does the landlord class or "comprador" element form a possible barrier to capitalistic development in a given underdeveloped country?

2) Post-war industrial development can be characterized by the emergence on a national scale of the same uneven development that was the outstanding feature of the previous international colonial system.<sup>2</sup> Similar to what occurred under colonialism, there has been a deepening of capital, a rise in wages, and an expansion of manufacturing employment for a few privileged workers while most of the population continues to live in poverty, especially in the rural areas. Historically, however, these two periods differ in that colonialism was marked by accumulation principally for the benefit of a foreign class while successful capitalist accumulation in the post-colonial world must involve the active participation of a national bourgeois class. In this sense, there is one rather than two distinct phases of capital accumulation but the agents of change have been modified. If this interpretation is accepted, then again the question arises concerning the nature of this bourgeois class, its source of wealth, and its particular relationship to the now independent state. For example, should one regard industrial progress since the War and strategies used by the government as constituting an environment favorable to the creation of a capitalistic mode of production? Has the emerging bourgeois class been successful in seeking new ways of investing its wealth in new forms of production?

At this point, it is useful to distinguish between what Marx referred to as two paths to capitalism,<sup>3</sup> and to raise the question of which path might appropriately describe the transition to capitalism in certain underdeveloped

countries. Is the development pattern observed similar to what historically occurred in the United Kingdom where, according to Marx, "the producer becomes merchant and capitalist" and "is the really revolutionizing path;" or is it closer to the second path where elements of the merchant class become capitalists?<sup>4</sup> This paper suggests that the economic experience of certain underdeveloped countries conforms to the second route or merchant to manufacturer path rather than to the English (or West European) model. A problem arises, however, in that Marx referred to this second path as being non-revolutionary in that the merchant class became eventually "an obstacle to the real capitalist mode of production and goes under with its development."<sup>5</sup> What are the socio-economic conditions then which tend to make this process culminate in a capitalistic mode? In particular, what is the relationship between the agrarian and industrial sectors and how does this determine the characteristics of capitalistic development? This brings us to our third important element.

3) The government or state in an underdeveloped country plays a crucial role in fostering the accumulation of capital and correspondingly the development of capitalists. Once again the contrast between the colonial and post-colonial periods becomes crucial for the analysis. Whereas government activity under colonial rule was mostly directed to investment in export-biased infrastructure, the "big push" once independence was gained is to be found in expenditures on education, roads, power or, in general, upon industry-biased infrastructure. By using various instruments, especially that of protection of domestic industry, the state has attempted to raise the price received by the capitalist class for his output and/or lower the price for his input. As noted this has led to uneven development. It is almost as if an "internal colonial policy" was followed where industry exploited agriculture and led, as will be seen, to an alliance of the capitalist and landlord classes and to an

underdeveloped class of free peasants and workers. Equally important for the argument of this paper is an attempt by the government to gain a degree of independence from foreign capital for the development of a national bourgeois class. Here the crucial question concerns the role of the multinational corporations as a possible barrier to the growth of an indigenous capitalist class. The resolution of this conflict will, in fact, have much to do with determining the type of process described. For if control over the emerging industrial surplus is in the hands of foreign capitalists, then the national bourgeoisie will turn out to be little more than junior partners of international corporations based at the center. And this result would preclude the possibility of capitalistic development as we have defined it.

These three related points form the basis for the following discussion. We begin with colonialism for its history is an important key in understanding the complex processes that have occurred since World War II.

### Colonialism

From about 1870 to World War II, international capitalism engendered a commercial revolution in much of the third world. The extension of the market led to a reallocation of resources from those activities linked to an agrarian type of society to those associated with an expanding commercial economy.<sup>6</sup> Production for international markets rather than for own use affected as well the relationship of the peasant to the landlord, the division of labor based on the family or village, and traditional tenure or property rights. The degree to which all of this occurred throughout the third world was, of course, uneven. Different types of colonial rule found in various areas together with different types of crops and associated techniques of production can be expected

to produce several forms of results. Furthermore, many countries were marked by regional differences such that the economic history of a region was not that of the country as a whole. Nonetheless, certain broad similarities seem to be evident among agrarian societies and their relationship to colonial or external forces, and specific differences may be easier to understand if the general model is understood.

From the mid 19th century on, agriculture in the hinterland became increasingly a branch of world industry dominated by capital accumulation and capitals in the center. This was not the first time that an increase in commodity demand was known in the third world. Some form of markets seem to have always existed as evidenced, for example, by the historic triangular trade among India, China, and Southeast Asia prior to the coming of the West. Nonetheless, this trade does not seem to have been of quantitative importance and international markets remained underdeveloped in character. The great expansion of trade after about 1850, however, was based on the social and economic circumstances brought about by the Industrial Revolution. Technological innovations based on capital accumulation, general improvements in international transport and methods of communications, and the establishment of a financial center based on London--all tended to make capitalism a universal force thereby drawing the countries of the third world into the development process and commercializing their land and agriculture. It is in this sense that Capitalism preceded the commercial transformation of the underdeveloped countries and made economic dependence a universal form.

The economic development of the agrarian sector implied increasingly the separation of the producer from owning his means of production and tended to undermine the traditional or agrarian life centered on the family and village.

The extension of the market meant the production of surplus value rather than product as the internal division of labor based on a personalized agrarian society was replaced more and more by the impersonal forces of international specialization and division of labor. Colonialism or external circumstances became then a primary social force in undermining the old agrarian structure and tended to bring labor power into being in much of the third world. Historically, colonialism in many areas of the world did not lead to underdevelopment in the sense of making men independent of markets and exchange value; it began the development process by establishing the necessary infrastructure for the primary accumulation of capital, and for some countries, laid the foundation for the transition to capitalism via the (second) route referred to previously.

Is there then an evident pattern in a country's economic history which tends to explain why such a mode may develop? Although the extension of the market undermined the agrarian society, in some areas of the world or in some regions, capitalism seems to have harnessed a pre-capitalistic mode without destroying the ties of the peasants to the soil.<sup>7</sup> In fact, the labor services of the peasant to the indigenous landlord or foreign capitalist were, if anything, reinforced. In other areas, the agrarian sector was truly transformed by the introduction of new investments and social organizations but again there seems to be no agricultural revolution in the sense of producing a rising bourgeois from the ranks of petty producers or farmers.<sup>8</sup> In fact, the development of the agrarian sector by capitalistic influences seems to have produced several different forms of social organizations and no single case of what might be called a successful bourgeois revolution. One of the keys in understanding why one of these forms may result in the emergence of a capitalistic mode is to be found in the way one treats the relationships among the peasants,

the indigenous merchant class, and the state. Where, for example, the landed classes did make a successful adjustment to the external market and where they formed a successful political coalition with the power of the colonial government, they then served as a vehicle for the transition process. This implicitly assumes that this class or its potential growth and development was not fragmented by colonial administration. Colonialism or external events acts rather as the midwife for the development of commercial impulses among its ranks.

It is the landed classes then or, from within its ranks, an emerging merchant class that tends to be the revolutionary agent rather than petty producers in the villages or towns. Obviously not all landlords make this adjustment and in this case they tend to become a barrier to further change. Nor does the transition process proceed smoothly for the political relationships remain tenuous in nature especially those with the foreign government. And in fact it takes a major international event that of World War II to shatter finally the magic of colonial power thereby allowing this class to make the necessary changes for industrial advances.

Perhaps the most important relationship is between the peasants and the landlords. Although the agrarian sector is being transformed, there does not seem to be a corresponding development of a free and independent class of peasants or petty bourgeois producers. Labor power is being produced increasingly for the lord rather than directly for the market economy and a wage-labor system only slowly emerges (at times peculiar to certain crops and/or regions). Indeed, it is only after World War II when industrial capital tends to dominate that one can speak of the existence of a capital-labor system.

The landed upper class is able to preserve if not strengthen its political and economic position while extracting a marketable surplus from the

rural society. The essential point is that the commercial development of the country whether it directly or indirectly serves a foreign class leads to an intensification of the social relationships between the indigenous landlord class and the peasant sector. A fusion of interests emerges between this landed class and the state to maintain the oligarchic system while sufficient reforms or changes are introduced from above to generate a surplus that can be exported profitably. Correspondingly, a variety of political and traditional devices are used to tie the peasant to the land rather than relying upon a labor market to ensure the necessary work force for the growing export economy. The police power of the state together with the intensification of different types of tenure and peonage arrangements and the attempt to maintain traditional social relationship between peasant and lord serve to create a new equilibrium. Simultaneously, external events act to reduce the autonomy of village life, fragment rural industry, and bring about increased specialization. Thus, the very rationalization of the economic order under commercialization acts paradoxically to preserve the dominance of the landed elite over the large peasant sector. At this point, a concrete example of this type of agrarian organization is provided.

The Philippines provide a good case study of the type of historical process so far described. A vigorous class has appeared within Filipino society whose economic interests are increasingly tied to industry rather than to agriculture. Yet, a capitalistic mode is emerging without the destruction of the historic base of peasant agriculture. It is in this sense that there has never been an agrarian revolution in the Philippines. The character of Filipino capitalism is that it has been erected on the basis of an alliance between the larger merchant families and the ruling class of landlords, and

the historic source for this relationship is to be found in colonial rule, first Spanish then American.

What is important to an understanding of why capitalistic development may be viable within the Philippines is the realization that a relatively powerful native elite was initially formed under Spanish colonialism and further encouraged and strengthened under American rule. This class often having its initial source of wealth in agriculture under Spanish rule and then in monopolistic profits of agrarian induced manufacturing under American becomes responsive to the favorable industrial environment treated by the new commercial policy of import substitution in the 1950's and 1960's. The dominant position of the landlord class can be traced back to the type of political and economic Hispanization experienced where the government conferred special political privileges and rights to land holdings upon a small group of Filipinos in return for their help in administrating the colony.<sup>9</sup> In fact, in land holdings there has been a continuity from early Spanish times to the present, and various forms of tenant farming and debt peonage have existed for centuries.<sup>10</sup>

The very class (and religious) system relied upon by Spain to govern produced a class quite capable of mounting the first organized anti-colonial movement in Southeast Asia (1896). The increased income and political power enjoyed by this class, once Spain seriously opened her colony to world trade, led paradoxically to the downfall of Spanish rule. For too long Spanish rulers had remained on the sidelines watching a kind of free play of economic forces among Filipinos and the relatively newer western interests (British and American foreign traders) attracted by profitable opportunities.<sup>11</sup> And once (in the 1890's) the colonial government attempted to resist the pressures brought by the native elite for continued economic if not social change, a conflict ensued. In a sense, Spain had been too "successful" in creating an

indigenous class of potential entrepreneurs; the Spanish tended to become an underdeveloped elite in their own developing colony.

When the Americans arrived upon the scene, a responsive Filipino class was willing and able to take advantage of the increased market incentives soon to be opened to the colony. American colonialism did little to disrupt the class structure inherited from Spain. The native elite was granted more or less political and economic power over the economy as a fusion rather than a conflict of interests emerged between this class and the colonial government.<sup>12</sup>

The free trade arrangements imposed by the Americans, especially between 1910 and 1934, lead to increased agrarian specialization. This process actually dates back to 1870 when the Philippines had begun the transformation into an export economy. Resources were reallocated from producing mainly food crops to increased specialization in exports, e.g., sugar, abacca, tobacco, and then during American rule, copra and coconut oil. Various events tended to reflect this overall movement from 1870 to 1938.<sup>13</sup> The economy became a net importer of rice as regions increasingly specialized in export crops according to their comparative advantage. As labor requirements in agriculture rose, its needs were met by the decline of labor-intensive rural industry which was more or less destroyed by 1938. Here foreign imports replaced home produced manufactures and this substitution was most dramatic in the growing importation of textile manufactures.

The surplus generated from the gains-from-trade between the United States and her colony remained within the Philippines providing the basis for an induced industrial growth of agrarian related industries, some import-substitution in manufactures, and for government investment in productive activities. Macro evidence suggests significant agrarian and non-agrarian expansion.<sup>14</sup> The motivating force behind much of this growth was the emerging

merchant-capitalist class whose origin can be found in the Spanish period and whose effectiveness is nurtured by American policy. In fact, it was often the case that the established landlord and new merchant class not only came from the same sugar provinces but they were the same people or members of the same family. And it was wealth based on land holdings concentrated in a small class of Filipinos that tended to dominate political power throughout American rule.<sup>15</sup>

The new trading opportunities imposed by the Americans did have profound effects on Filipino society. Not only was there an intimate relationship between the growth of exports and the expansion of manufactures but it was during the period of rapidly growing exports that much of the change in agrarian organization, government bureaucracy, and health and education advancements took place.<sup>16</sup> Thus, the growth of external trade had an important if not leading role in changing agricultural production and thereby relationships within the agrarian society. It was as well the necessary catalyst for changes in the commercial life of the Philippines.

What is to be stressed, however, is that these events were not independent of changes in the structure of Filipino society. Trade expansion of the colony first under Spanish then American rule was not the sole instrument producing the transition from an agrarian to a commercial economy. Spanish colonialism and the commercial and social policies of the following American rule provided the necessary environment for the eventual flourishing of a Filipino merchant-capitalist class. A class whose source of wealth was formed in the trading fortunes generated by the export boom. Thus to understand the development of Philippine capitalism, one must analyze carefully both the growth of the export economy and the changes in the underlying institutional or class structure. The interaction among peasants, landlords, and the government bureaucracy provides the essential social and political framework within

which the story of the export economy can be told and analyzed. What was necessary was that the cacique class produced under Spanish colonialism became the merchant capitalists under American colonialism and then manufacturing capitalists under the protection policies of the 1950's and 1960's.

One needs to be careful to distinguish between the emergence of a merchant-capitalist class and the introduction of a new sector that of manufacturing. The mode of production in the pre-war Philippine economy was not capitalistic in the sense of private entrepreneurs owning and managing industrial assets. This complex awaits the 1950's and 1960's. What is implied by the colonial period is the initial beginnings of industrialization as the merchant-capitalists begins to transform the agricultural surplus into both agrarian related manufacturing such as sugar and rice milling and non-related industry such as printing, saw-milling, and cement.<sup>17</sup> The source of wealth remains agriculture and in some sense the new merchant-capitalist is the dual of the landlord who is inclined both to agriculture and industry. Given the structure of Philippine society, it is difficult to distinguish between them in any meaningful sense. Nonetheless, whatever name one wishes to provide, the relevant point concerns their behavior in the generation of a surplus and its effective use.

Even though commercial influences were permeating rural life, the attachment of the peasant to the soil and the relationships between lord and peasant were intensified rather than weakened. Although the agricultural sector became relatively less important than manufacturing as a contributor to national product between 1902 and 1938, the relative size of the labor force in agriculture vis-a-vis non-agriculture did not show a corresponding decline.<sup>18</sup> Agriculture remained the major source of employment while the Philippine economy was transformed from an agrarian to a semi-industrial country.

Within the agrarian sector, rice output more or less expanded to meet population growth and the importation of rice declined monotonically from 1902 to 1938. Export production expanded dramatically from 1910 to about 1934. Rural industry especially that of rice and sugar milling was replaced by organized manufacturing with a much higher productivity. This was especially true in the case of sugar processing. The labor thus released from very labor intensive rural industries flowed into agrarian activities but mostly rice production given the more capital intensive nature of export (mainly sugar) cultivation. Rice production became then more labor intensive.<sup>19</sup>

The power of the landlord over the peasant was reflected in a variety of ways. As the upper class turned increasingly to the market economy, the ownership of land became more important as a factor of production than as a traditional symbol of prestige. Peasants who either had legally owned their land or, more likely, who had been farming land thought to be their own soon found themselves in a tenant relationship where up to 50 percent of the crop went to the lord. And as in many agrarian societies, debt peonage was a well known characteristic of rural life. Historically, these rents seem to be relatively constant based more on custom and tradition than on any estimate of the implicit shadow rental of land. When tradition came under pressure, there was recourse to private armies by the landed elite.

Peasant life remained, therefore, closely linked to this dominant class. Tenure arrangements far from declining under commercial development steadily increased from 1902 to 1938. Those regions in which growth of an agricultural surplus was most pronounced were the same in which the rate of increase in tenancy was highest. The rice and sugar lords were able to extend labor services and, on the basis of the tax, squeeze a surplus out of the

peasants to support their position. And it was a portion of this surplus that was financing the expansion of the non-agricultural sector.

### The Emergence of a Capitalistic Mode of Production

The weakness of the center as reflected by the depression of the 1930's and the world war of the early 1940's ushered in a new political and economic era for many countries of the third world. The ideology of national independence and the organization of industry were clearly at the heart of the change. One of the most important characteristics of the post war period was the attempt of the government to manufacture a class of businessmen or capitalists who would be able and willing to hold and accumulate industrial assets. This has been a long and costly process and the contradictions of the involved policies are as well known as the successes. Nonetheless, where colonialism or foreign influence did not frustrate the development of a native bourgeois class, the post-war investment in capitalist learning has tended to result in the emergence of a capitalist mode of production. As just argued, the Philippines would be such a case.

The government promoted industrialization in several ways.<sup>20</sup> The most obvious example was provided by its investment in social infrastructure; power plants to feed industry; roads and communication systems to break down internal barriers to trade and create new channels for information to be diffused; and education to train a work force to have the necessary attributes and discipline for factory work. Equally important was the government's role in stimulating industry by protectionist policies or what has now become known as import-substitution programs. These various activities of the state are no doubt a product of the society at a certain stage of its economic development. For many developing countries, however, government action of one form

or another has had a long tradition. Moreover, the economic experience of developed countries has produced a stock of rather sophisticated techniques of state management and control upon which the late-comer government can draw. There are good historical reasons then which make government action so characteristic of our era.

Yet, the government may be forced to act as an engine of capitalist development because of the particular development process experienced. It is quite possible that the so-called second path to capitalism would not be a viable route if the native merchant capitalists, produced by commercialization, could not direct government expenditures to their own needs and uses. The coalition between the landed and industrial elite requires a strong state not only to promote the economic interests of this class (by creating an environment favorable to the accumulation of capital) but also to preserve its political position over the large peasant sector and newly emerging industrial labor class. A capitalistic mode is established without destroying the old political order. And state policy is used to maintain this structure especially by keeping rural and urban workers in place while encouraging the capitalist to get on with his business of accumulation.

This process is, of course, neither smooth nor potentially very stable. The very coalition between landlord and industrialist increasingly comes under pressure as the latter group inevitably gains more economic and therefore political power. It is true that the bourgeois were associated with the landed elite from the beginning of colonialism (as in the Philippines), or were derived from the same family, but over time one would expect newer elements to appear who might threaten the old equilibrium. The rise of new industries, for example, may imply new sources of capitalist power. In addition, the emerging urban professional classes, often associated with government employment,

give rise to new needs and desires. Thus, the class system tends to change as some landlords become industrialists (and perhaps vice versa), new sources of capital and capitalists are formed in the cities, and with the heavy emphasis on industrialization, there is a relatively quick emergence of an urban proletariat.

Nonetheless, the inherent contradictions of the strategies followed are perhaps more pronounced under this path to capitalism than the first, or "producer to capitalist" route. There is a basic unevenness of development and its benefits which produce the ever present danger of revolt in the countryside, and create new possibilities of unrest in the cities. A large peasant sector remains intact while landed wealth continues to be concentrated in a few hands. In the urban area, a manufacturing sector develops rapidly where a small group of privileged workers in well-organized capital intensive establishments co-exist with a large body of poorly paid workers in unorganized crafts and service establishments. The basic political and economic hegemony of the landed and capitalist class is not broken and, as under colonial rule, a middle class in both the rural and urban areas is underdeveloped and politically weak. The gap between rich and poor widens. Thus the continued underdevelopment of the countryside and the generation of a new peasant strata in the cities pose the greatest internal threat to the coalition which forms the core of the political structure. In other words, the rate of return on the second path is relatively high so long as an alliance between rural and urban poor is prevented.

The effect of government action and industrialization fall mostly on agriculture. Resources, food and labor, must be reallocated from this sector to industry. The overall protection afforded the industrial sector allows in turn profitable opportunities in which the agricultural surplus can be invested.

The effective use of this surplus in one period further increases output therefore surplus in the next period. This dynamic process depends on the wage rate, the level of technology, and the demand for the goods being produced. But the essence of the capitalistic route is that a class of private businessmen or entrepreneurs in whose hands the ownership of wealth has been historically concentrated must be willing to transfer relatively unproductive assets into means of production, or industrial claims on wealth.<sup>21</sup> Where colonial rule or foreign influence provided the basis or did not destroy the possibility for concentration of wealth in a landed and merchant class, state policy after World War II was reshaped by this group to provide the profitable opportunities inducing the transfer of a portion of this wealth into industrial capital.

This does not mean that a foreign class under colonial rule did not benefit from the exploitation of agriculture. Even in the Philippines, American investors had non-negligible interests in sugar processing and overriding claims on public utilities and mining.<sup>22</sup> What is meant, however, is that landed wealth remained mainly in native hands and a significant share of the trading fortunes generated were held by local groups to make them visible as a relatively powerful class. Where an alien complex dominated agriculture and/or the import-export trade, the above scenario would not be appropriate.<sup>23</sup> Nonetheless, even in the case of the Philippines where evidence suggests that some merchant capital was directed to industry, widespread industrialization based on a capitalistic mode was not present. Industrial wealth was located and owned by capitalists in the center while landed wealth was controlled by a small group of Filipinos. And, as previously indicated, there was a fusion rather than a conflict of interests between the two groups. Thus, the statement made that accumulation under colonialism was for the benefit of a foreign

class means that only this class was able to realize the benefits of transferring the gains-from-trade into industrial capital.

Given then an enriched class of lords and merchants who have the means to invest, what incentives are provided inducing them to invest in industry? Various instruments--tariff protection, subsidies, tax credits, infrastructure, the fostering of a banking and financial structure--are used to raise the internal price of goods the capitalist sells while attempting to maintain or lower the prices of his inputs. Basically, labor is in plentiful supply from the agricultural sector and imported raw materials and capital equipment are priced below their opportunity cost or less than what they would have been under an equilibrium exchange rate.<sup>24</sup> Easy access to scarce foreign exchange is provided once an import license is obtained and a premium is thus placed on the politics of business.

Ready access to subsidized credit and tax benefits are provided which often permit investment in manufacturing with a minimum of equity and a maximum of borrowing. The fostering of a banking and financial intermediary sector helps to provide capitalists with a high degree of individual security, i.e., portfolios weighted towards low-risk non-industrial securities, while encouraging investment in industry. In fact, to the extent that the government can provide a suitable financial structure, accumulation of industrial assets can proceed while satisfying the preference of wealth holders to include bonds and real estate in their portfolios.<sup>25</sup> The banking system itself is often intimately associated with the class structure so that loans are arranged on the basis of family connections rather than on the impersonal mechanism of the market interest rate. The supply of credit may be restricted to the economy as a whole but this does not necessarily mean that it is an operating constraint for all

of its members. A well placed phone call is often more important in obtaining back credit than a balance sheet.

In summary, then, the pattern of concentration of wealth is a legacy of the colonial past. The state under the program of import substitution provides the necessary environment in which there is a profitable rate of return on manufacturing. And a financial system encourages the transfer of old wealth into new while creating the necessary assets to satisfy the capitalist desires for portfolio balance.

To insure success for this process, certain other conditions are required. Perhaps the most crucial is the relationship between town and country. Initially the effective demand for manufacturing output must be provided by the large agrarian sector. Internal trade creation marks the post-war period as much as external trade did the pre-war years. The manufacturing sector depends on the agrarian to furnish food and certain raw materials so as to prevent the internal terms of trade from moving against industry. This economic balance between agriculture and industry is matched by a political one. Not only is there a cheap supply of labor to industry but the capitalist relies on the landlord to keep the peasants in line while generating an agricultural surplus. A portion of this surplus finds its way, one way or another, i.e., family or financial structure, into industry. In return, the landed elite shares political power with the emerging capitalist class. There is, as noted previously, a fusion of interests between the growing capitalist class and the landlords.

The growth of internal trade implies a wider division of labor and specialization throughout all sectors. As the internal market for commodity production expands, so does the market for labor and therefore capital. A point is reached where investment in agriculture is essential to provide a

growing supply of food and labor to the expanding urban areas. The compromise or fusion between industrial and landed elite comes under increasing pressure as capital tends to dominate both sectors thereby challenging much of the old agrarian social structure. In these latter stages of development, it would not be surprising to find new agri-businesses develop. Investments--fertilizers, irrigation, and farm equipment--would be directed to the agrarian sector usually to the benefit of the larger farms which have better access to credit and management techniques. The landlord becomes a capitalist farmer in his own right replacing the services of peasant labor with those of machines. The new technology of seed grains or what is known as the green revolution saves on labor enriching the larger farms and their owners and dispossessing numerous small farmers. In contrast to what occurred during the expansion of external trade (where peasant labor was tied to the soil), labor is now released by the technological enclosures of the 1970's. And the ranks of labor in the cities are swollen by individuals seeking employment.

The very success of this type of capitalist development breeds certain contradictions which, as previously noted, threaten the stability of the political structure.<sup>26</sup> The import-substitution policies lead to an initial concentration of investment in an organized and protected manufacturing sector where there is a rising capital labor ratio, productivity, and wages for a small group of workers. The import dependent industrial structure buys a foreign technology that is labor-saving and the imperfections in factor markets result in excessive investments in consumer goods industries to the neglect of intermediate and capital goods. An industrial structure emerges where the favored organized manufacturing sector co-exists with a large crafts and/or service sector where most of the urban people are employed. The uneven income distribution reflects the dualism of this industrialization.

This structure is a result of the endeavor of the state to serve the interests of one group, the national capitalist class, not so much at the expense of the landed elite but rather at the cost of peasant and non-privileged urban workers in general. Nonetheless, there is no reason to believe the story ends here. An argument was just presented where, at the latter stages of development, capital would be directed to agriculture for political as much as economic reasons. If the state is sophisticated enough to change its policy in such a way, then presumably it could also mobilize the excess labor in the urban areas for the production of capital and intermediate goods. In fact, given the above scenario of a strong state controlled by a relatively powerful elite, there are good political reasons why such a switch in policy could be expected. There are, however, external problems which may make such a change difficult to accomplish.

The change in government activities after the war, the emergence of an urban labor force, and the increased reliance on internal trade have produced an industrial rather than, as under colonialism, a raw material surplus. A basic political question emerges of who will control it--the national bourgeois class or the capitalists of the center? The latter are represented by large and powerful multinational corporations whose post-war interests have increasingly turned to manufacturing investments in the third world. At one level the national and foreign capitalist class have a similar objective: the continued growth of an industrial sector. At another level, however, their objectives differ for the capitalists of the center operate in an international environment where a given underdeveloped country can only expect to become a branch plant country in which national independence would be eroded.<sup>27</sup> Decisions over resource control, product mix and innovation, and corporate bureaucracy

would remain at the center. As with any ruling group, there is no reason to believe that corporate directors would vote themselves out of power allowing the planning, directing, and control of corporate decisions to be made on a local level by local businessmen.

The resolution of the conflict depends upon the relative bargaining power of the involved parties. One of the implications of the argument presented in this paper is that the national bourgeois would have the necessary strength to remain in control of the manufacturing surplus generated. If an underdeveloped country has experienced the particular development path so far described, then the government would be able to bargain effectively with foreign capitalists thereby resisting the pressures of the multinational corporation to penetrate the privileged position of the national bourgeois class. The continued development of this class would thus be assured, and the concentration of industrial wealth would not be diffused. Direction and control of resources would remain in local hands and the political coalition would continue to have the necessary means to try and keep the excluded groups in line.

If, however, the development of the national bourgeois were constrained by the economic and political penetration of multinational corporations, then a variety of possible political and corporate configurations could result: an alliance between foreign and domestic capital where different forms of joint ventures could be established; or foreign subsidiaries investing in key manufacturing industries such as agri-business complexes, pharmaceuticals, or electronics; or even a union of interests between the landed elite and the foreign capitalist to prevent the national bourgeois from gaining economic and political power. Whatever the form of social organization that might result and even though it may appear that a native business class was growing, the

relationship would be uneven and political dependence would be the rule. Since the domestic bourgeoisie would not have major control over the growing industrial surplus, it could not be assured of controlling the politics of the country, and over time, its internal and external bargaining power would be progressively eroded. Political decisions would tend to emanate from the center necessarily implying the existence of a relatively weak government in the hinterland.

This scenario assumes, however, that the multinational corporation is powerful enough and will continue to be so to make its presence felt in much of the economic and political life of the underdeveloped country. There is reason to believe that new forces in the center and in the international economy will create difficulties for the continued hegemony of these corporations. New sources of rivalry within the capitalist block, the emergence of the Common Market and Japan to challenge the American position, and the possibility of obtaining loans and protection from the socialist countries allow new degrees of maneuverability for the underdeveloped country. Once again, however, the establishment of a strong state would be required to adroitly balance the competing pressures from each of these blocks.

Where a government is strong enough to withstand the pressures from foreign capital, then presumably imported skills and technology could be used for the development of the country without running the danger that the country would be used for the benefit of a foreign class. These are good economic reasons why a developing country might buy the skills and expertise of a developed country. Foreign investments could play an appreciable role allowing the developing country to import the services of a foreign class. Nonetheless, for the purposes of this paper, the crucial question is not whether the country as a whole benefits or loses from foreign investment, but rather whether the national bourgeois class benefits or loses.

## Footnotes

<sup>1</sup>For an attempt to analyze the behavioral characteristics of a national bourgeois class with a view to understanding the problems involved in the accumulation of industrial assets, see S. Hymer and S. Resnick, "Capital and Wealth in the Development Process," Economic Growth Center Discussion Paper, April 1969.

<sup>2</sup>For further discussion of the colonial period, see S. Hymer and S. Resnick, "International Trade and Uneven Development" in J. Bhagwati, et al (eds.), Kindleberger Festschrift (forthcoming).

<sup>3</sup>K. Marx, Capital, Volume III, (Moscow: Foreign Languages Publishing House, 1962), pp. 318-331. For an illuminating discussion of these two routes and the historical role of merchant capital, see M. Dobb, Studies in the Development of Capitalism (International Publishers, 1963), Chapters Four and Five. Further discussion can be found in "The Transition from Feudalism to Capitalism," Science and Society, (New York: Fall 1952), especially in the article by H.K. Takahashi where a careful analysis of the "two ways" is presented and some comparison is provided between the "West European Way no. I (producer into merchant) and East European and Asia," Way no. II (merchant into manufacturer). A recent analysis of social development which contains some interesting comparisons to the two paths of Marx can be found in B. Moore, Jr., Social Origins of Dictatorship and Democracy, (Beacon Press, 1966). The question of how the agrarian problem was solved in England (path no. I) and in Japan (path no. II) influences the final political outcome, i.e., democracy in the former and fascism in the latter.

<sup>4</sup>Marx, Capital, Vol. III, p. 329. Takahashi has contrasted the two paths as follows:

...in both England and France that revolution had as its basis the class of free and independent peasants and the class

of small-and middle-scale commodity producers. The revolution was a strenuous struggle for the state power between a group of the middle class... and a group of the haute bourgeoisie originating in the feudal land aristocracy, the merchant and financial monopolists...; in the process of both revolutions, the former routed the latter. However, in Prussia and Japan it was quite the contrary... the erection of capitalism under the control and patronage of the feudal absolute state was in the cards from the very first.

Certainly, the way in which capitalism took form in every country was closely tied up with previous social structures, i.e., the internal intensity and organization of feudal economy there. In England and France, feudal land property and surfdom either disintegrated in the process of economic development, or were wiped out structurally and categorically in the bourgeois revolution. ...These revolutions in Western Europe, by the independence and the ascent of the petty commodity producers and their differentiation, set free from among them the forces making for the development of capitalist production; while in Prussia and Japan this 'emancipation' was carried out in the opposite sense. The organization of feudal land property remained intact and the classes of free and independent peasants and middle-class burghers were undeveloped. Since capitalism had to be erected on this kind of soil, on a basis of fusion rather than conflict with absolutism, the formation of capitalism took place in the opposite way to Western Europe, predominantly as a process of transformation of putting-out merchant capital into industrial capital. Science and Society, Fall 1952.

<sup>5</sup>Marx, Capital, Vol. III, p. 329.

<sup>6</sup>See S. Resnick, "The Decline of Rural Industry under Export Expansion: A Comparison Among Burma, Philippines and Thailand, 1870-1928," Journal of Economic History, March 1970.

<sup>7</sup>The Brazilian Northeast would be an example of this process. A useful comparison among slavery systems in the New World is found in E. Genovese, The World the Slaveholders Made, (New York: Pantheon Books, 1969).

<sup>8</sup>The economic development of the Philippines under American rule would be an example. The colonial experience of Indonesia under Dutch rule contains elements similar to both the Brazilian and Philippine case. A thorough analysis of Indonesian social development under colonial rule is given in

C. Geertz, Agricultural Involution (Berkeley: University of California Press, 1966).

<sup>9</sup>For general readings on the political effects of Spanish colonialism, see: O. D. Corpuz, The Bureaucracy in the Philippines (Manila: University of Philippines, 1957); O. D. Corpuz, The Philippines (Englewood Cliffs, N.J.: Prentice-Hall, 1965); J. LeRoy, Philippines Life in Town and Country (Manila: Filipinians Book Guild, 1968) especially Chapter VI; J. Phelan, The Hispanization of the Philippines (Madison: University of Wisconsin, 1967); E. Bourne, "Historical Introduction" in Blair and Robertson (eds.) The Philippine Islands 1493-1898, (Cleveland: Arthur Clark, 1903-1909).

The special role of the Chinese and the Mestizo (Chinese and Filipino) is analyzed in E. Wickburg, The Chinese in Philippine Life 1850-1898, (New Haven: Yale University Press, 1965).

<sup>10</sup>Phelan, The Hispanization of the Philippines, Chapters VII and VIII.

<sup>11</sup>One of the best summaries of the effects of foreign trade on the Philippine economy during this period can be found in B. Legarda, "Foreign Trade, Economic Change, and Entrepreneurship in the Nineteenth Century," (unpublished Ph.D. thesis, Harvard University, 1955).

<sup>12</sup>An excellent history of the Philippine elite under successive colonial regimes and its role in the political and economic life of the Islands is provided by D. Simbulan, "A Study of the Socio-economic Elite in Philippine Politics and Government, 1948-1968," (unpublished Ph.D. thesis, Canberra, 1966); other useful sources are: B. Salamanca, The Filipino Reaction to American Rule. 1901-1913 (Shoe String Press, 1968); Corpuz, The Philippines, pp. 65-66 and pp. 96-104; J. Grossholtz, Politics in the Philippines (Boston: Little Brown and Company, 1964), pp. 138-143.

<sup>13</sup>See Resnick, "The Decline of Rural Industry Under Export Expansion: A Comparison Among Burma, Philippines, and Thailand," for a general analysis of this period along with supporting data.

<sup>14</sup>Total net output per capita (population) in real terms grew at 3.9% from 1902 to 1918 and 1.6% from 1918 to 1938; between 1902 and 1938, it expanded at 2.6% per year and between 1910 and 1938, at 2.3% per year. Real value added per occupied person in the total agricultural sector grew at 3.9% per year between 1902 and 1918, and slightly less than 1% per year between 1918 and 1938. Real value added per occupied person in the total non-agricultural sector increased at an annual rate of 4.1% during the first period and 3.2% during the second. Macro data based on estimates in Resnick, Economic Development of the Philippines (in progress).

<sup>15</sup>See Simbulan, "A Study of the Socio-Economic Elite in Philippine Politics and Government, 1948-68."

<sup>16</sup>See Corpuz, The Bureaucracy in the Philippines, Chapters VIII and IX. During American colonial rule, government expenditures in real terms grew at an annual rate of about 6%.

<sup>17</sup>Organized manufacturing increased its relative share of the non-agricultural sector from only 12.6% in 1902 to 22% in 1938 which ranked it first in terms of contribution slightly exceeding that of the service sector (21.3%) and the commerce sector (19.2%). No doubt much of this growth was contributed by the expansion of rice and sugar milling-agrarian induced industries. However, there seems to have been some import-substitution carried on as the import content of supplies in the organized manufacturing sector (excluding food-processing) declined from 79.4% in 1902 to 51% in 1938. Much of this expansion was derived from the growth of the shoe, glass, cement, printed products, non-metallic, and chemical industries.

A rough estimate of whether there was a flow of savings out of agriculture to finance the expansion of other sectors reveals a more or less balance between the capital needs of agriculture and the savings originating in agriculture from 1902 to 1918, and a net savings flow out of agriculture into non-agriculture from 1918 to 1938.

Estimates are based on Resnick, Economic Development of the Philippines (in progress).

<sup>18</sup>The total agricultural sector contributed 50% to real net output in 1902, 48% in 1918, and 34% in 1938. Labor engaged in agriculture increased from 51% in 1902 to 61% in 1918 and 71% in 1938. Much of this increase was derived from females leaving household tasks and entering agriculture per se (the male ratio increased but only slightly compared to that of the female). If agrarian and an estimate of agrarian related tasks are included together, then the proportion of labor in the total agricultural sector showed a slight decline from 76% in 1902 to 74% in 1938.

<sup>19</sup>See Resnick, "Decline of Rural Industry...".

<sup>20</sup>For a theoretical model of how the government affects the private sector, see S. Hymer and S. Resnick, "Interactions between the Government and the Private Sector in Underdeveloped Countries," I. Stewart, ed., Economic Development and Cultural Change (Edinburgh: Edinburgh University Press, 1969).

<sup>21</sup>An industrial accumulation function for the capitalist class was derived in Hymer and Resnick, "Capital and Wealth in the Development Process." The level of real investment in industrial assets,  $I'$ , was related to the level of real capitalist consumption,  $C'$ , and the level of real investment in other assets,  $\dot{A}$ , where the real change in  $A$  is capitalist investment in other forms of wealth: gold, money, government securities, foreign assets, land, etc.

Assuming that capitalist holdings of non-industrial assets is some fixed proportions of its stock of industrial capital, K, according to capitalist desire for portfolio balance, a final equation for the rate of growth of capital was derived:  $K^* = \frac{s}{1+\lambda} (r_1 + \lambda r_2)$  where s is the capitalist propensity to save;  $\frac{1}{1+\lambda}$  the propensity to invest in industry;  $r_1$  and  $r_2$  are the rates of return on K and A respectively (including capital appreciation). Discussion in this paper is then focused on  $\lambda$ , the propensity to hold non-industrial assets.

M. Dobb, in his Studies in the Development of Capitalism, Chapter V, refers to two phases of capitalist accumulation in the Industrial Revolution: "a phase of acquisition and a phase of realization (or of transfer of bourgeois wealth into industrial investment)." The above paper and involved model by Hymer and Resnick is on the latter phase. However, the present paper argues that it was the very colonial process of primary accumulation that allowed the concentration of wealth in a few hands (land, rural and urban luxury housing, gold, etc.) and the deliberate policy of the state, once independence was gained, to induce the transfer of some of this wealth into industrial assets. Suppose, for example, the government is committed to a certain rate of industrial growth and prepared to provide the capitalist sector with whatever subsidization is necessary to achieve it. According to the above equation, the required profit rate  $r_1$ , and hence the required subsidy is a function of the target rate of growth and of  $\lambda$ .

<sup>22</sup>In the 1920's, American investment in sugar centrals was about 26% of the total investment in that industry; Spanish, about 24%; and 50% was in Filipino hands. See G. Fairchild, R. Corpus, F. Buencamino, (eds.), Facts and Statistics about the Philippine Sugar Industry (Manila, 1928). Approximately 70% of the assets in electric utilities were owned by Americans. Census of the Philippines, 1939, Vol. IV.

<sup>23</sup>In colonial Southeast Asia, the experience of Burma, in contrast to that of the Philippines, would be an appropriate example of foreign (English and Indian) domination.

<sup>24</sup>In the Philippines, the overvaluation of the Peso during the 1950's and early 1960's meant an implicit tax on agriculture as export prices in Pesos were less than what they would have been under an equilibrium exchange rate. One of the indirect effects of this was the reallocation to a certain degree of resources out of export agriculture into food crops, especially rice (and corn), which minimize pressure on the "rice wage" facing industry. Moreover, preferential arrangements for Philippine sugar in the United States market allowed the generation of non-negligible foreign exchange earnings while manufacturing industries were being protected within the Philippines. Government policy, then, in the Philippines and the United States, permitted increased investment in a growing industry (manufacturing) while minimizing the impact on a relatively declining industry (export agriculture). Foreign help, of one form or another, can be a useful instrument in serving the capitalist process.

<sup>25</sup>See Hymer and Resnick, "Capital and Wealth in the Development Process," and J. Gurley and E. Shaw, "Financial Aspects of Economic Development," American Economic Review, September 1955.

<sup>26</sup>See, for example, A MacEwan, "Contradictions in Capitalist Development: The Case of Pakistan," unpublished paper, July 1970; and P. Bell and S. Resnick, "Contradictions of Post-war Development in Southeast Asia," Journal of Contemporary Asia, Autumn 1970.

<sup>27</sup>For a thorough analysis of the political economy of the multinational corporation, see S. Hymer, "The Multinational Corporation and the Law of Uneven

Development," in J. Bhagwati, ed., Economics and World Order (New York: World Law Fund, 1970) and S. Hymer, "The Efficiency (Contradictions) of Multinational Corporations," American Economic Review, May 1970.