

AUTONOMOUS OR DEPENDENT CAPITALISM IN THE PHILIPPINES: A PERSPECTIVE FROM AGRIBUSINESS

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Introduction

No definition of dependency has been universally accepted by students of economic development. Nevertheless, elements of this imprecise concept continue to be used despite the severe attacks on its inadequacy as a general explanation of the past and its limitations for planning change. It is now used primarily as an expression to describe a situation where poorer countries appear unable to progress autonomously because they are said to depend on the advanced capitalist countries for investment capital, technology, and information to raise productivity. Several writers argue that the earlier "normal" growth of capitalism in Europe and North America generated imperialistic capitalism that has constrained more recent efforts at growth in poorer countries into a "dependent" form. Recent studies in Brazil and Colombia show that industrialization was begun by local entrepreneurs, most recently with participation by state-owned enterprises, but there nevertheless has been increasing dominance in certain economic sectors by foreign corporations, some of which have taken over local firms. Moreover, autonomous growth has been diluted by the reliance of both states on foreign loans for developmental investment.¹

In contrast to such views, J. Cypher refers to evidence from several countries that local capitalists and governments have more scope and achievement in the face of transnational competition than the dependency model allows, so instead of dependency, he prefers to talk of degrees of asymmetry of interdependence.² Cypher's argument is in line with others who assert that it is essential to identify the circumstance of accumulation in each country: that is, who controls resources, how surplus is produced and appropriated, who plays the entrepreneurial roles, and what sort of relations exist with foreign enterprises.

¹P. Evans, *Dependent Development: The Alliance of Multinational State and Local Capital in Brazil*, (Princeton: Princeton University Press, 1979) and R.A. Fernandez, "Imperialist Capitalism in the Third World: Theory and Evidence from Colombia," *Latin American Perspective*, 6, 1 (1979), pp. 38-64.

²J. Cypher, "The Internalization of Capital and the Transformation of Social Formations: A Critique of the Monthly Review School," *Review of Radical Political Economics*, 11, 4 (1979): pp. 33-49

In the case of the Philippines, S. Rensnick has suggested that merchant capitalism developing under colonial conditions became capable of establishing an independent capitalism.³ He traces the emergence under colonial authority of a native landed elite that was able to concentrate resources for production of export crops, while some used the proceeds to become urban merchants. During the nineteenth and the early twentieth centuries, some of these merchant capitalists invested in the processing of agricultural products and other industries with a location advantage, such as glass, construction goods, chemicals, and footwear. The capital came not only from international trading profits but also directly from the agricultural sector. Although not all capitalists subscribed to a nationalist ideology, the prospects for industrial capitalist development appeared to rise after independence when government introduced various measures to foster the growth of industries and of supportive financial institutions. Such encouragement did not necessarily alienate non-industrial capitalists because in the Philippines, as in many developing countries, most of the few scores of ruling families are represented in all sectors: land-owning families have branches that own financial and industrial enterprises.⁴ These linkages also spread into the organs of the state and into foreign enterprises either in joint ventures or through employment in such enterprises.

The measures to stimulate industrialization simultaneously encouraged a new wave of foreign investment in manufacturing. This raised the issue of whether emerging Philippine capitalism could enhance its autonomy, maintaining both economic and political power to accumulate capital and direct it into more complex industrial production, as well as into a capitalist transformation of agriculture. In the world context, it would clearly need a strong state to nurture local accumulation. Most observers would agree that despite the past decade of authoritarian government and increasing roles for state organizations, the Philippine state has failed to prevent the dilution of such a nationalist project even though the individual local capitalists may thrive with their individual and joint ventures. The most critical observers would assert that the state has gone out of its way to facilitate penetration by alien corporations by providing access to land, credit, financial incentives, and joint ventures with state bodies. Other critics would say that regardless of intentions, the state's scope for policy-making has been massively constrained by commitments to foreign lenders, especially the World Bank and International Monetary Fund.

³S. Rensnick, "The Second Path to Capitalism: A model of International Development." *Journal of Contemporary Asia*, 5, 3 (1973) pp. 133-148.

⁴J.F. Doherty, S.J., "Who Controls the Economy Some Need Not Try As Hard As Others," *Cronies and Enemies: The Current Philippine Scene*, ed. by Benigno A. Aquino, University of Hawaii Center for Asian and Pacific Studies, Philippine Studies Occasional Paper No. 5.

Evidence From The Philippine Banana Export Industry

The Philippine banana industry developed in the late 1960's in response to the opening of the Japanese market in 1963. It was a time when the import-substituting industrialization of the 1950's had been checked by the devaluation of the peso, the lifting of exchange controls and when many infant industries had closed doors or, in some cases, been bought out by foreign investors. In contrast, exporters and some commercial interests (domestic and foreign-owned) had benefited, and the Japanese banana market appeared a new source of profits for those with access to suitable land. There was scope for a purely Filipino development. The Philippines had a natural freight advantage over Latin American exporters to Japan.

A number of Filipino landholders quickly developed small plantations (usually below 20 hectares), selling to Japanese firms already importing from Taiwan. However, quality was poor, and sales for several years were only a few thousand dollars. Neither the Filipino nor their Japanese buyers possessed the production and packaging technology that had recently revived the profits of the American Transnational Corporations (TNCs). The Filipino firms failed to try to buy such technology independently, while the government's agricultural extension service offered outdated advice to prospective growers.

However, the TNC's were also keen to capture the Japanese market and recognize the locational advantage of a Philippine base. In 1962, United Fruit entered a joint venture with several Japanese firms to import bananas. In highly confidential negotiations with the Philippine government in 1963, United Fruit almost succeeded in leasing 8,000 hectares of a penal colony for a banana plantation, even though the colony's existing cash crops yielded an income more than double the proposed rent. A nationalist outcry prevented consummation.⁵ In the same year, government's National Development Company acquired 5,500 hectares occupied mostly by small-scale settlers and, in an act almost certainly unconstitutional, leased the land for 25 years (renewable) to Dole Philippines Incorporated, subsidiary of Castle and Cooke.

The Filipino partners were Manila businessmen and lawyers associated with the Rizal Commercial and Banking Corporation (RCBC) and included Geronimo Velasco (later Minister of Energy under President Marcos) and Juan Ponce Enrile (later Secretary of Justice and Minister of Defense).⁶ In 1964, Castle and Cooke took over the Standard Fruit and Steamship Company and soon afterwards set up Standard Philippine Fruit Corporation (Stanfilco) as a 66 percent owned joint venture with the House of Investments. Stanfilco made the first effective entry into the banana industry in 1966 by

⁵Lorenzo Tanada, *Nationalism: A Summons to Greatness*, (Quezon City: Phoenix Publishing House, 1965), pp. 59-61.

⁶Ibid.

setting up an independent growers' scheme under which it contracted to buy the output of growers to whom it would supply all necessary inputs, including advice and credit. The great majority of growers were owners of no more than 10 hectares. At the same time, the Manila and Hawaii-based owners set up three corporate subsidiaries of the House of Investments. By 1981, Castle and Cooke and its associates controlled the output of 6,770 hectares and held about one-third of the Japanese market.

Among the banana enterprises that preceded the entry of the giant transnationals was Hijo Plantation, owned by an American closely linked with a Japanese buyer, Fuji Fruits. The owner lacked financial resources and in 1966 sold almost all his stockholdings to a consortium comprising Fuji Fruits (28%) and the owners of a Manila bank, his main creditor, (65%).⁷ This consortium bought the neighboring American-owned Twin Rivers plantation, but lacked the knowledge to develop large-scale banana operations until 1968. Then, another transnational entered the global banana trade and began contracting local producers. This was Del Monte, already established in pineapple production in the Philippines through its subsidiary the Philippine Packing Corporation (PPC).

As a new entrant to the trade, it was vital for Del Monte to build its market share by taking part of the Japanese market. Its strategy was to contract with large-scale associate producers to achieve a supply base of at least 5,000 hectares. Del Monte did not set up a new local subsidiary like Stanfilco but used PPC to provide technical services to its growers and as a conduit for production loans. By 1972, eight Filipino corporations (five of which were owned by investor in Manila and Cebu City) had signed contracts with Del Monte. Several came to regret it. This was because of dissatisfaction with the level of returns compared with what Del Monte appeared to receive, and also with the cost and quality of technical services supplied by PPC.⁸ The owners of Hijo Plantation contracted only for the output of Hijo, while they used their newly acquired skills to develop their Twin Rivers plantation as an independent supplier to Fuji Fruits. Two other Del Monte growers likewise set up independent plantations to expand their output free of what they saw as the unfavorable terms of Del Monte's contracts. However, by 1982 Hijo had terminated its contract with del Monte, while four of the other corporations under contract had sold out to employees and associates of Del Monte. For two of them, the sales were a way out of financial difficulties, and for the other two, the funds were needed for reinvestment in other business.

Del Monte's first contractors, the owners of Hijo Plantation, recognized the scope for expansion of the industry. In 1969, it entered a joint venture with Sumitomo Shoji Kaisha, which needed to guarantee a supply for its import business to compete with the

⁷Data derived from confidential interviews and from amendments to Articles of Incorporation, on file at the Securities & Exchange Commission.

⁸Lorenzo Tanada, *Nationalism: A Summons To Greatness*, pp. 59-61.

American TNCs. A year earlier, United Fruit had signed a purchasing and technical advice agreement with Tagum Agricultural Development Company (Tadeco), a 1,024 hectare plantation contiguous with the penal colony that United Fruit had tried to lease in 1964. Tadeco is owned by Antonio Floirendo. The following year he entered a joint venture with the Department of Justice to use 3,000 hectares of the penal colony as a banana plantation. Nationalists criticised the project as a betrayal of national interest.⁹ It was presumably inspired by some questionable agreements with the United Fruit, which in contrast to the other TNCs, benefited from the economics of scale accruing to their sole supplier. The overhead costs of infrastructure were spread across the output from a single contiguous block of 8,000 hectares, easily the largest of the Philippine banana plantations.

United Fruit also benefited from their ownership of an importing firm in Japan. At the same time, it is important to note that Tadeco itself became the most profitable of all the producers from 1973-1982. Floirendo, previous owner of three or four modest provincial businesses, was able to establish a wide range of subsidiary companies in both the province and Manila. He acquired eight percent of Citibank's local subsidiary, FNCB-Finance. He invested as well in British real estate and bought, for \$11 million, a sugar refinery in the United States. Nationalists would no doubt prefer to see those agricultural profits invested in Philippine development. Nevertheless, it is clear that Floirendo has gone beyond the role of the average *comprador* — he is not merely a buying and selling agent for foreign traders.

The prospects for the banana industry in the early 1970s attracted many other individuals and corporations apart from those associated with the four TNCs mentioned. Three other Japanese trading companies, namely; (Mitsui-Noria Koisha, Toyo Menka, and Mac Trading Company), and one smaller company, the Nekano, sought Filipino partners for joint ventures. Two more companies, Ataka and Company and Sanko Trading Company, offered loans to Filipino commodity suppliers to set up plantations. By 1981, out of seven companies set up on these bases, four had collapsed: Desidal Fruit, Mabuhay Agricultural Corporation, Mt. Apo Fruit, and Napungas. Tadeco and SEI, Agricultural Development Corporation were taken over by bigger corporations. Only one, Sonano Fruits, survived in a marginal condition. Many factors including poor management and excessive debt-equity ratios were involved in these failures, but one contribution came from the intervention of the state.

Just after Martial Law was imposed in September 1972, the first and largest growers successfully urged the government to prevent over supply and price collapse by limiting

the area of production to 21,000 hectares distributed among nineteen companies with existing exports. This limit was imposed by letter of Instruction (LOI) No. 58 in 1973. Several late entrants nevertheless maintained or even enlarged their plantings but were unable to cope with problems of poorer land and inadequate scale. The restrictions were undoubtedly a sensible measure, but they were imposed precisely as devised by the larger corporations which stood to benefit most. At the same time, the government continued to allow corporations to register for tax benefits under the Export Incentives Act. Thirteen corporations out of a total of twenty-six registered, one as late as 1979. From 1975 to 1977 alone the total value of benefits was P107 million.¹⁰

Reference has been made to corporate entrepreneurs in the banana industry being based in Manila or the second biggest city, Cebu City, because the industry attracted some of the most financially powerful groups in the country. Not all of these committed themselves heavily. The industry was seen as just another area for profit because such groups had extremely diverse interests, centering on financial institutions, but spreading widely across primary, secondary and tertiary activities. To take one example, the dominant owners of the group of corporations associated with Hijo Plantation are mostly stockholders in the Far East Bank and Trust Company (FEBTC). About a quarter of the equity of this bank is held by Chemical Bank and Mitsui Bank.

In 1979, FEBTC had 161 director interlocks with 112 major companies, including the country's biggest investment house, 38 of the largest agribusiness enterprises. Much the same could be said of the base groups of several other banana corporations. Ten banking groups dominate the Philippine economy, and members of six of these had equity in banana corporations. The few corporations established by small entrepreneurs without connections failed.

Given the characteristics of many of the investors and of the prospects for the banana industry in its early years, it is not surprising that there were few problems of initial finance. As noted above, the TNCs provided loans to growers or guaranteed loans, borrowing from both foreign and domestic sources. Unfortunately, most details are confidential, but it is known that United Fruit guaranteed loans to Tadeco of at least US \$1 million from a Boston Bank. Del Monte had loaned over P30 million to local growers in 1975, of which an unknown proportion was borrowed from local banks. Castle and Cooke's loans to its subsidiary, Stanfilco, amounted to P50 million by 1978 (repayable in dollars). Stanfilco however had borrowed a further P63 million more from local banks.¹¹

Most of the Filipino corporations had no difficulty borrowing from local banks. In later years, however, those with poor records had to turn increasingly to dollar loans from

¹⁰Data from Research and Information Division, Board of Investments.

¹¹Data for Tadeco and Stanfilco were obtained from Corporate financial statements on file at SEC; for Del Monte, data was obtained from interview with a senior executive.

⁹"Action Sought on Davao Land Problem," *Manila Times*, 27 December 1971.

foreign and local banks. In a period of a deteriorating exchange rates, repayments compounded their crucial problems of cash-flow. This contributed to the take over of two of Del Monte's growers. The ease of credit and laxity of government supervision meant that some Filipino corporations were set up with what had, over the years, become acceptable financial practice of massive debt-equity ratios. For instance, one borrowed P12 million to augment a paid-up capital of only P50,000 and later collapsed with P23 million debts. On the other hand, the more responsible corporation quickly repaid debts to the TNCs using funds generated internally or borrowed from local banks to give themselves greater independence. These companies were able to survive and even make profits in the very tight market after 1978.

By 1981, seven corporations had failed or sold out without ever issuing dividends. In fact, two of these had stockholders' deficits exceeding P18 million, considerably more than the value of their assets. Owners of failing corporations seem to have suffered no penalty. They merely sold off their assets, sometimes leaving unpaid arrears of rents and taxes. Some had their debts condoned. This may have been because of the interlocking nature of the financial and social networks of the wealthy - that is, economic entities are interlinked by ties of kinship, or what Zeitlin and Ratchiff call 'kinecon groups' in Chile.¹²

While four corporations went out of business, six were taken over and others merely survived. There were a minority that flourished. Chief among these was Tadeco: its privileged access to government land at low rent enabled it to declare stock dividends of P26 million, 1973-1976. During this time, however, it did not distribute cash dividends.¹³ By 1982, its assets reached P290 million, and undoubtedly it was this major source of accumulation that financed Floirendo's emergence as a transnational entrepreneur. Two other groups also made the industry a source of accumulation. In the period 1973-1979, when profits were already declining, the three corporations associated with the Far East Bank and Trust Company declared, in total, dividends of P15 million cash and P13 million stock. Their combined assets reach P137 million.

However, in terms of the national economy, the benefit was diluted by the fact that the three corporations had 24, 27 and 40 per cent of their respective equities held by foreigners. The second group that was successful for many years was a joint venture of some of the owners of the Bank of the Philippine Islands and the Insular Bank of Asia and America, two of the biggest banks in the country. They established Lapanday plantation as a grower for Del Monte, but later used some of its retained earnings to set up

¹²M. Zeitlin and R.E. Ratcliff, "Research Methods For The Analysis of the Internal Structure of Dominant Classes: The Case of Landlords and Capitalists in Chile," *Latin American Research Review*, X, 3:5-61.

¹³See company statements on file at SEC.

another company selling directly to a Japanese buyer. Later still, they took over one of the ailing plantations in which Mitsui-Norin Kaisha had a 15 per cent interest. Lapanday was for long the most productive farm in the industry and yielded P24 million net profit in 1971-1978. It distributed P13 million stock dividends.

However, its performance declined in the late 1970's. In 1981, it terminated its contract after a dispute with Del Monte, but the burden of foreign costs caused heavy losses. In 1982, the group sold all three of its plantations to local employees of Del Monte, for an undisclosed price. A severe drought reduced banana supplies and basically increased the price earned by bananas in Japan. It was primarily the transnational marketers that benefited, rather than the Filipino growers of Del Monte.

A final point to make on the financial aspects of the corporations is that, as would be expected in a capitalist system, there was a trend to concentration of ownership. Sixteen separate groups entered the industry forming, with subsidiaries, twenty-five corporations. By 1981 the processes of failure and takeover reduced the total to nine groups, of which only two had a majority of provincial rather than metropolitan or foreign ownership.

Figure 1. *Corporate groups in the Philippines banana export industry, 1983*

Buyer	Grower	1983 Ownership linkages
Mindanao Fruit (United Bonds)	Tagum Agricultural Development Company (Tadeco)	
Castle & Cooke	Standard (Philippines) Fruit Corporation	
	Checkedred Farms	
	Diamond Farms	
	Golden Farms	
	Sarangani Cattle Company	
Del Monte	F. S. Dizon and Sons	
	Marsman Estate Plantation	
	Nova Vista Management Corp.	
	AM Soriano	
	Delta Farms	
	Evergreen Farms	
	Farmingtown Agro-Developers	
	Lapanday Agricultural Development Corp.	
	Hijo Plantation	
	Twin Rivers Plantation	
Davao Fruit Corporation		
SEI Agricultural Dev. Corp.		
Guihing Agricultural Dev. Corp.		
Calinan Agricultural Dev. Corp.		
Soriano Fruits Corp.		
Mt. Apo Fruit Enterprises	ceased operations	
Napungas Agricultural Dev. Corp.	ceased operations	
Ataka and Co.	Desidal Fruits Inc.	ceased operations
Mac Trading Co.	Mabuhay Agricultural Corp.	ceased operations

Analysis and Conclusion

The story of the industry as sketched above seems to indicate a failure of an independent attempt by Filipino capitalists to take advantage of a new opportunity. Rather than retaining control by merely hiring the needed skills in production and marketing, a new set of entrepreneurs compromised their autonomy by the nature of the contracts and other arrangements made with the dominant TNCs. These then left far less scope for later attempts at independent production and marketing. Financially, too, several Filipino Corporations found themselves stifled by becoming indebted to the foreign corporations, although there is no doubt that the industry could have been financed from Filipino sources.

Organizationally, Filipinos in the banana industry seem to have retained control of ventures that ended in bankruptcy. For instance, David and Tsuda concluded that the Filipino capitalist is often willing to surrender organizational control so long as he is assured share of the profits.¹⁴ In a situation where the opportunities for national capitalists are perceived as constrained, one might expect that state action could make a difference. As was shown, the main direct state intervention in the banana industry was to impose restrictions on planting. Although this had been requested by Filipinos themselves, they were all suppliers of or are in joint ventures with aliens. The independence might have retained a greater share of final value by selling directly to Japanese buyers, cutting out the TNC traders. This benefit, however, could only have followed if the independents had collaborated. TNCs benefited from their size and experience in trade, less directly, the

¹⁴R. S. David, and M. Tsuda, "The Politics of Major Japanese-Filipino Joint Ventures: A sociological View," *The Philippines in the Third World Papers*, 1978, No. 8.

state's export incentive were available to all banana corporations, with or without foreign participation. This was part of the government's drive for exports and for foreign investment. The state's incentive continues to favour TNC investment in food and agriculture so that recent years have seen rapid expansion in rubber, palm oil, pineapple, fisheries, and others.

At the same time, there has been increasing state participation and control in some major commodity areas, notably sugar, coconuts, crops, and rice. This is paralleled by a trend for the state to enter joint ventures with aliens and to take over ailing manufacturing and financial companies. To a degree this means the state is preempting part of the domain of local capitalists and broadening its scope for direct accumulation rather than through its fiscal processes. It has been suggested that the government is using its powers in these ways to counter the strength of the longer-established oligarchs. However, as Wurfel argues, "the occasional policy conflicts between industry and export agriculture... are... muted by the bridge of family ties between both sides."¹⁵

The increasing role of the state ought to enhance its position vis-a-vis foreign corporations. In practice this appears not to be so. Whether the highly centralized authority of the state imposed by the World Bank and IMF is arguable, it is clear that the economy is open to foreign capital. Apart from the example given of Floirendo, other Filipino investments include the government's Land Bank which finances agrarian reform. At least two private banking corporations and the state-administered Unicom have bought the largest copra mill in France. While financial dealings do not demonstrate any significant independent power for Filipino capitalists, they do qualify the image of total dependence. It might be more significant if the accumulated funds were invested in the country to generate exports with Filipino ownership and perhaps technology.

In summary, it may be said that Filipino capitalists probably have more scope for autonomous behavior than they or others recognize. However, they are usually unprepared for the challenges while the Kinecon networks present easier mechanisms of profit. The government on the other hand, facilitates continued penetration by TNCs in the name of structural adjustment through competition. As Fernandez concluded for Colombia, the more deeply foreign capitalism penetrates, the more disastrous will be any sudden attempt to reverse or eliminate it.¹⁶

¹⁵D. Wurfel, "Elites of Wealth and Elites of Power, the Changing Dynamic: A Philippine Case Study," *Southeast Asian Affairs*, 1979.

¹⁶R. A. Fernandez, "Imperialist Capitalism in the Third World: Theory and Evidence From Columbia", *Latin American Perspective*, (1979), 61:38-64.

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