2 Extractivism, nature, and wealth

Unequal specialization and the modernization of elite rule in Latin America

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Introduction

Extractivism is one of the most visible expressions of global uneven development and forms part of the most profound axis of global inequality. Many countries have historically specialized in exporting raw materials, while others consume these products and process raw materials in their industrial circuits. This global configuration, usually categorized as the North-South divide, is highly persistent and only a handful of cases show exit options for extractivist societies. Latin America is a primary example of this interconnection between international and domestic inequality.

Latin America finally entered the emerging capitalist world economy during the 19th century. During this *belle epoque*, it laid the groundwork for its structure of wealth. In its essence, this structure endures up to the present day. This period was also the founding moment of an unequal specialization in extractivism as its *sine qua non*. Elite rule was finally settled on its basis. Latin America became integrated into the world economy by exporting nature. This critical juncture impacted economic, political, and social structures creating a configuration of power around which societies were built.

Global uneven development and the domestic structure of power are intertwined. The international and the domestic are therefore linked. The role an economy maintains within the international division of labor is also entangled with the domestic articulation of inequality. The integration of Latin America into the capitalist world market and the rise of extractivism, therefore, also relates to the persistence of elite rule in different institutional settings. This passes by force and virtue simultaneously and is also the starting point of this chapter.

I describe the rise of extractivism and the evolution of inequality in Latin America as a double-edged process of ongoing unequal specialization. By unequal specialization, I refer to a configuration in which Ricardian differential rents incentivize specializing in product groups that generate high revenues internationally, but domestically inhibit auto-centric and equitable socioeconomic

DOI: 10.4324/9781003385721-4

development and growth (Warnecke-Berger and Ickler forthcoming). In other words, unequal specialization hinders sectoral change and structural transformation thereby reinforces rents. Rents, in turn, cement inequalities and elite rule since the distribution of power and money in rent-based societies usually follows political imperatives and generates vertical political relations instead of horizontal and democratic accountabilities among equal citizens (Warnecke-Berger 2021a).

By and large, Latin America has not yet escaped this pattern, even under the recent experience of progressive left-wing governments (Burchardt, Dietz, and Warnecke-Berger 2021). Rent theory provides the toolkit to establish the link between global forces and international economic flows, on the one hand, and domestic issues of (re)distribution and the persistence of inequalities and power asymmetries, on the other.

This chapter has two objectives: to empirically elaborate on the continuity and change of wealth concentration in Latin America since the beginning of modern globalization during the 19th century. It focuses on the founding period in which the concentration of wealth in the hands of the few became a predominant issue in Latin America. The chapter then explores periods of authoritarian reformism and oligarchic modernization following that concentration. These paths have persisted during the recent era of neo-extractivism; hence, there is a need to understand this deeper structure. The second objective of the chapter is theory-oriented: building on rent theory to compare these three previously mentioned development paths and point to both the causes for this deep structure and its drivers of change. I argue that the causes for the development and mechanisms of change in the current elite rule structure are found in unequal specialization processes that link world economic forces with domestic political struggles.

After a short overview of the discussion on inequality, the chapter has two subsequent sections on a theoretical model that allows for linking world market processes with domestic issues of inequality and elite rule. First, by elaborating on the emergence of rents and the following pattern of unequal specialization, then by drawing a bridge to domestic factors and illuminating the politics of rent appropriation and its influences on inequality and elite rule. The empirical sections which end the chapter consequently illustrate this theoretical idea. Rather than providing a thoroughly all-encompassing verification, this empirical section aims to draw attention to the underlying processes and illuminate the intersection between global processes within the international economy and domestic issues of power, authority, and inequality.

Inequality and wealth in Latin America: an overview

Many authors emphasize that Latin America is one of the most unequal regions in the world, not only today but also historically (Székely and Montes 2006).

This discussion has long been part of the debate on drivers for development and development theory. Modernization theorists saw inequality as a necessary evil in the development process or even an incentive for development actors (Kuznets 1955; Rostow 1960). The Latin American School of structuralists developed since the 1950s around CEPAL emphasized, in turn, exogenous roots of inequality (Prebisch 1962). Dependency theorists took it on and linked international inequalities within the world economy—mainly among capitalist economies in the North and dependent economies in the South—to domestic inequalities and authoritarian elite rule (Frank 1969; Nun 1969; Sunkel 1966). Many draw a direct link between the colonial past of Latin America, its role as a net bullion exporter, and the visible and harsh inequalities at the time of their writings (Galeano 1971). If this line of association between the colonial past and current inequality remained a central argument for a long time, the neoliberal school pushed the topic of inequality out of the textbooks altogether. If inequality was discussed in anyway, it was now an exclusively endogenous problem. When inequality and poverty again became a political problem at the turn of the century, even the World Bank rediscovered the problem of persistent inequality in the region (Ferranti et al. 2004). It provoked an intensive debate that endures to this day particularly in recent times through several fascinating texts.

This opened the floor to four different positions discussing the historical legacy of inequality and colonialism in Latin America, thereby producing rich insights into the persistence *and* the changes of inequality in the region (see Bértola, Prados de Escosura, and Williamson 2010 for an overview). The first body of literature focuses on the geography of factor endowments. It states that those societies and economies that have been experiencing "physical" comparative advantage due to their natural resource endowments specialized in exporting nature and consequently experienced considerably higher incidences of inequality (Engerman and Sokoloff 1997). The second body of literature focuses on institutional settings and states that the legacy of "extractive institutions" provoked higher inequality (Acemoglu and Robinson 2008, 2013). The third body of literature then contrasts these positions with a detailed comparison of the Spanish and the British colonial empires and elaborates on the path dependencies of the "identities of the colonizing nations" (Lange, Mahoney, and Hau 2006, p. 1413; Mahoney 2010). As Coatsworth (2008, p. 555) summarizes, these approaches to inequality suggest

> Latin Americans were expelled from the Garden of Developed Economies because of the original institutional sins of their European rulers and exploiters, and because of their subsequent failure to repent. This conclusion has considerable aesthetic—if not theological—appeal. Logic and evidence, however, make it problematic.

Therefore, even if some of the theoretical ideas are compelling, the empirical foundations of these arguments remain relatively weak.

In the meantime, a fourth body of literature has emerged (Bértola and Williamson 2017; Frankema 2009; Prados de Escosura 2007a; Williamson 2010, 2015) that empirically refutes the argument for the historical persistence of inequality in Latin America. As Williamson (2010, pp. 227–228) states, "historical persistence in Latin American inequality is a myth." The same literature also adds to our understanding of changing inequalities with more nuances. It forcefully shows that inequality prior to the mid-19th century and the beginning of the so-called *belle epoque*—the opening up of Latin America to the world market and the beginnings of "modern globalization" (Bayly 2002) —did not so much differ from Europe or the United States (Frankema 2009, p. 5; Williamson 2015, p. 331). Indeed, inequality increased tremendously with Latin America's integration into the world market and the pattern of export specialization the region established during this period. Inequality tended to decrease during the Great Depression of the 1930s and again began to increase after World War II. Finally, with the beginning of neoliberal globalization in the 1980s, inequality again exploded (Prados de Escosura 2007a, p. 297).

With these empirical and historiographical accounts of the evolution of inequality in Latin America, a nuanced picture now exists from which drivers of change can be derived. Unfortunately, this same empirical literature was rarely concerned with theory development. This still leaves open the question of how economic and political factors intertwine in such a way as to either increase or reduce inequality. In addition, the interconnection between international and domestic factors also remains under-researched since this recent literature tends to endogenize inequality. Finally, the literature did not build a bridge to actors and actor configurations to link structural variables to social action. Mainly through this fourth body of literature, the dynamics of inequality in Latin America are illuminated. However, theory work is demanded when it comes to the explanation of the rise, persistence, and change of these inequalities.

The world market, unequal specialization, and rents

Rent is a particular source of income that evolves due to political control within the economy, often linked to powerful actors. The world financial crisis and financialization, the rise of real estate prices in cities, the high levels of single companies with extreme market power, and the increasing use of industrial policies brought the concept of rent back on the scene (see for an overview, e.g., Warnecke-Berger 2021b). Rent can also be seen as a particular form of economic surplus. Generally, the political economy of rent illuminates the intersections between the political and economic realms. Rent theory, however, still faces three problems. First, the discussion on rents tends to attach rents to specific commodities, most commonly, oil. In this regard, the difference between the commodity's production, mainly the raw material, and its realization of the rent in monetary terms on international markets becomes blurred. Second, rent theory tends to derive the political behavior of crucial actors directly from the pure presence of rents. Rent theory runs the risk of falling back into monocausal explanations that link rents and natural resources directly to the politics of actors and mainly to elite actors. Third, and probably most relevant for the present chapter, the discussion so far fails to link the occurrence of rents with the international role of economies (i.e., patterns of specialization) and the intra-societal dynamics of inequality.

Here, the concept of unequal specialization fits in. Unequal specialization points to a cumulative process in which Ricardian rents favor the specialization of the production apparatus of an economy in products that generate high incomes at the international level but do not lead to domestic structural change. Unequal specialization is a macroeconomic reaction to the emergence of rents. I take rent as part of the economic surplus that cannot be captured, exploited, and redistributed through the market.[1] Rent, therefore, describes a particular form of economic surplus. If rents dominate the surplus structure of a society, I call this society a *rent-based society*. Rents become problematic if they are permanent, incentivizing political structures to proliferate that empower specific actors to appropriate future rents.

Unequal specialization signals that economies specialize on branches and product groups internationally in which Ricardian rents emerge. Once specialized in these rent-based branches, economies tend to profit well from this orientation because of their international position. However, at the same time, the same profit-making tends to repress technological capability-building, learning, and productivity increasing investment. In the end, unequal specialization would not allow the economy to overcome structural unemployment and favor learning and technological catching up. The orientation of production in this regard is crucial. If prices and income elasticities for products are low, and current exports generate high revenues, an increase in production and, consequently, higher export volumes will eventually lead to diminishing returns (Reinert 1996). This pattern of specialization is unequal: it generates rents and hence surplus available for additional investment at the domestic level, but at the same time, because of the actual high revenues, this pattern hinders sectoral change and structural transformation.

As I show elsewhere (Warnecke-Berger forthcoming), unequal specialization is the outcome of an uneven diffusion of technology on a global scale that goes hand-in-hand with persisting levels of structural unemployment in the Global South. Within this setting, *rents necessarily emerge*. Economies once experiencing unequal specialization can hardly escape from this pattern due to external and internal constraints. As already stated, externally, the

intensification of this pattern does not lead to higher revenues due to low-income elasticities of demand and the difficulty in abandoning Ricardian rents. Conversely, internally the labor surplus prevents rents from being neutralized through the democratization of consumption while also hindering structural transformation and sectoral change due to the problems of the technological learning process.

Domestic politics of rent and inequality

Unequal specialization and the persistence of rents have a direct link to inequality. This relationship, however, links the economic sphere with politics. The appearances of rents provoke a mode of distribution of surplus that is politically characterized by the struggle for access to rents and shapes entire societies.

As an illustration, I separate three social groups: producers, intermediaries, and workers. First, producers monopolize the means of production such as land. As their main exercise, they produce for exports through which they receive external revenue from the economy on international markets. Second, intermediaries provide law and order in the state. This second group provides an institutional setting to maintain production and receives salaries that are financed by taxes. Third, labor work for the producers and receive wages to finance their subsistence by buying the means of subsistence, e.g., food that they produce additionally for their wage labor on *minifundios*.

Suppose production orientation leads to the emergence of Ricardian rents in the world market. In that case, the distribution of this rent depends on each group's political strength. If intermediaries are weak, producers have an advantage to appropriate the rent in case of monopolizing production and exports. If intermediaries are strong, they can tax the producers and appropriate the rent through royalties, taxes, and levies. If workers are strong, they can appropriate rent through real wage growth above average productivity growth (Table 2.1).

Table 2.1 Schematic comparison of oligarchy and state class

	Oligarchy	*State class*
Appropriation of rent	Economic power and coercion	Position within the state
Institutional framework	Exclusion of the mass; institutional weakness; strong property rights	Co-optation of the mass; critical role of the state
Social conflicts	Outside existing institutions Vertical conflicts: Masses vs. oligarchic minority	Within existing institutions Horizontal conflicts: Group membership

Source: Own elaboration.

In all cases, these groups need to engage in coalition building in approaching surplus distribution. If the coalition is dominated by the producers, the setting is called *oligarchic*. For oligarchies, economic power, coercion, and the control of property rights secure access to the surplus. Usually, an oligarchic rule consists of organizing the monopolization of wealth without necessarily using the state (Winters 2011, p. 32). Oligarchies are exclusive as they do not depend on the clientelist co-optation of the subaltern class. On the contrary, for their social reproduction the oligarchy excludes the other groups from access to the surplus through coercion and the defense of wealth.

When the coalition is led by the intermediaries and access to surplus is guaranteed through the control of the state and state positions, this setting is called a *state class*. The "bureaucracy" in this sense constitutes a centralized class of its own. For its social reproduction, this class depends on the state. The state class depends on both conspicuous consumption and on redistribution for co-optation. To maintain its power and access to the surplus, a state class is "caught between self-privileging and the compulsion to legitimize" (Elsenhans 1996, p. 200). As a result, the state class is segmented and trapped in an "unending rivalry between the individual members of the state class for influence, prestige, and money" (ibid., p. 221).

In both oligarchic and state class scenarios, class alliances tend to be vertical and promote social closure, the starting point for inequality. Since loyalty has to be generated in order to organize access to rents, and as rents are usually not enough to be distributed among everyone equally, the access to rents can be translated into symbolic resources and group membership. This shapes the structure of social conflicts and favors clientelism. In the case of an oligarchy, the struggle over surplus is usually not channeled within existing institutional settings as the nature of the oligarchic rule is exclusive, hindering co-optive institutions, in essence democracy, from emerging. Meanwhile, state classes are characterized by an immanent struggle over rents. This struggle occurs inside existing institutional settings of rent (re)distribution. As the inclusion of the subaltern class usually involves money and goods that trickle down through various channels, such as family relations or party affiliation, conflicts appear at each stage of distribution (Warnecke-Berger 2018).

Unequal specialization and the rise and persistence of extractivism in Latin America

From this conceptual background, the drivers of change for inequality in Latin America can be retraced. Unfortunately, the analysis remains too general leading to generalizations. The analytical added value, however, is understanding the underlying processes and deciphering the interaction between unequal specialization and the change in elite rule.

When Latin American economies began to focus on large-scale export production for mass markets in Europe and North America, they entered a process of unequal specialization. The producers, because of their historical heritage and increasing power, were able to monopolize land and form oligarchies that appropriated rents, often independently from the state (Bulmer-Thomas 2003, p. 93). As soon as this model fell into crisis during the Great Depression of the 1930s, a process of de-oligarchization began and eventually led to the formation of state classes, particularly in the Cono Sur. This process went hand-in-hand with import substitution, industrialization, and a leveling of inequality (Bértola and Ocampo Gaviria 2012, pp. 138–140). The pendulum shifted in favor of the intermediaries that began to appropriate rents through the institutional setting of the emerging state. This was the period of authoritarian reformism (Collier 1979). This same setting again went into crisis and eventually was dismantled in the course of the neoliberal revolution when the pendulum shifted back to the oligarchic producers backed by international capital during the late 1980s, a process called oligarchic modernization. Again, inequality increased tremendously with a shift away from state control of increasing economic flows (Prados de Escosura 2007b, p. 17). During the period of "neo-extractivism" and the rise of progressive "pink tide" governments in Latin America by the early 2000s, the intermediaries again formed a leading coalition and gained access to rents (Burchardt and Dietz 2014; Weyland 2009). Their political and economic project was promising, and initially, inequality decreased due to the redistribution of rents in favor of the marginalized. However, it ultimately turned out to be a development failure as it could not overcome unequal specialization (Warnecke-Berger forthcoming). Therefore, the appropriation of rent is crucially intertwined with inequality in the region.

Oligarchies, the rise of extractivism, and entrenched inequality

Trade relations changed fundamentally during industrial capitalism in Western Europe, particularly throughout the 19th century. Latin America increasingly gained a comparative advantage in natural resource exports, first in agriculture and then in minerals. This was the rise of extractivism. At this time, world trade still consisted of primary commodity trade, and manufactured goods had been produced as non-tradeables. In 1913, food accounted for 29% of world exports, agricultural raw materials for 21%, and minerals for 14% (Yates 1959, pp. 222–223). Due to industrialization in Europe and the United States, these regions began to specialize in exporting industrially manufactured goods. However, this was also the process through which Latin America became locked in the unequal specialization. Rents emerged and persisted primarily because of *relative* productivity which kept Latin America lagging behind its Western counterparts.

A couple of factors cumulatively accounted for the emergence of rents. Transport costs during the 19th century fell tremendously, making the trans-Atlantic trade much cheaper and bringing Latin America into contact with

European and North American mass consumer markets (O'Brien 1997, p. 80). For example, by 1830, transporting one ton of goods from the Argentinean hinterland of Salta to Buenos Aires was still 13 times higher than transporting the same from Buenos Aires to Liverpool (Platt 1972, p. 67). Transportation costs diminished throughout the 19th century. While Latin America increased its share in world trade, European and North American economies increased their trade with each other much faster. By 1830, the share of primary production in non-Western (excluding non-Western settlement overseas territories) economies was around 92% of total exports, and exports were relatively small related to per capita production. The percentage of natural resource exports on total exports increased to around 98% in 1880. The integration of Latin America into the world economy therefore led to de-industrialization. At the same time, the share of imports from Latin America to Europe remained essentially stable from 1830 to 1950 and even decreased at the end of the 19th century (O'Brien 2005, p. 234). During the 19th century, Latin America was heavily focused on agricultural exports and only slightly began specializing in minerals (Bairoch 1993, p. 69). Between 1815 and 1914, the export composition of Latin America was only around 10% of fuels, ores, and precious metals such as gold and silver. More than 85% consisted of agricultural products (Bairoch and Etemad 1985, p. 30). During the same period, however, Europe was not dependent on raw material imports from the Global South (O'Brien 2005, p. 235). Core capitalist economies were self-sufficient in almost all industrial raw materials until 1913. The United States and the UK were even net exporters of raw materials (Bairoch 1993, p. 65; Barbier 2011, p. 379; David and Wright 1997; Wright 1990, p. 661).

However, at the end of the 19th century, natural resource deposits in the United States and Europe experienced increasing extraction costs. New technology was set in place to maintain production in these regions. The rise of real wages in Western Europe and North America created new demand for tropical agricultural goods, such as coffee and tea. With this increased volume of exports, demand for nonagricultural goods increased faster than for agricultural goods, with shifting relative prices due to changing consumption patterns. Conversely, agricultural exports from Latin America suffered from low-income elasticities of demand throughout the entire 19th and 20th centuries. Increasing real wages in the North translated into deteriorating terms of trade for Latin America (Blattman, Hwang, and Williamson 2007; Ocampo and Parra-Lancourt 2010; Williamson 2012).

As Figure 2.1 signals, there was only a minor change within Latin America's export composition by the turn of the century, with a decreasing share of agricultural exports and an increase in fuels, mainly due to oil. The main exports during colonial times, namely gold and silver, decreased even before independence in exports, as did mining as a share of GDP (Coatsworth 1989, p. 42). This signifies that due to the increasing specialization pattern of Europe and the United States

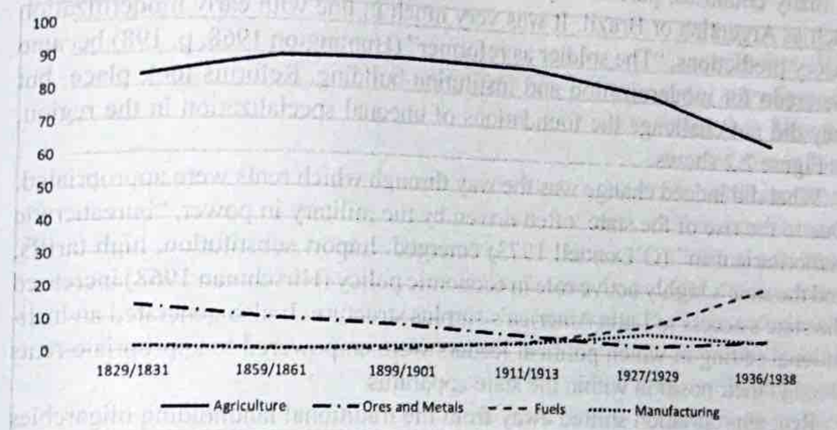

Figure 2.1 Latin America's export composition in percent, 1829–1938.
Source: Personal elaboration based on data in Bairoch and Etemad (1985).

and their comparative advantage in manufactured goods, Latin America became increasingly locked in unequal specialization in agricultural and later in mineral exports.

This allowed Latin American economies to appropriate rents, particularly in the agrarian and mining sectors. The production of these raw materials, both within agriculture and mining sectors, was comparatively productive in relation to non-raw material sectors within Latin America and compared to the raw material sectors in Europe and the United States (Williamson 2011, p. 57). However, Europe and the United States maintained production in their regions competing with Latin America. Marginal production price differences became crucial and led to a massive inflow of external revenues to Latin America. This pattern also signifies that an increase in production and export volumes does not translate into higher export revenues. It resulted in a favorable situation for landholding elites as their assets—land—became much more valuable. The rise of natural resource extractivism, and until the end of the 19th century this translated predominately into the emergence of agrarian extractivism, entrenched domestic inequalities between landholding producers and workers, and led to the rise of powerful landholding oligarchies (Centeno 2002; Clemens and Williamson 2012; Kaltwasser 2018).

Authoritarian reformism and state class rule

Social cleavages aggravated during the Great Depression and the World Wars challenged oligarchic rule in the entire region. The military gained momentum in many countries, particularly in the more prominent and southern countries such as Argentina or Brazil. It was very much in line with early modernization theory predictions. "The soldier as reformer" (Huntington 1968, p. 198) became the credo for modernization and institution-building. Reforms took place, but they did not challenge the foundations of unequal specialization in the region, as Figure 2.2 shows.

What did indeed change was the way through which rents were appropriated. Due to the rise of the state, often driven by the military in power, "bureaucratic authoritarianism" (O'Donnell 1973) emerged. Import substitution, high tariffs, and the state's highly active role in economic policy (Hirschman 1968) increased the state's access to Latin America's surplus structure. It also generated an institutional setting in which political leaders were empowered to appropriate rents through their position within the state apparatus.

Rent appropriation shifted away from the traditional landholding oligarchies in favor of the state. However, this did not automatically translate into the expression of political and economic voices of the poor. In contrast, decisions were made against the economic and political interests of the poor. Inequality increased again, but due to a different process, as Bulmer-Thomas (2003, p. 303) notes:

> It was not so much that the poor were getting poorer—although occasionally that did happen—for even the bottom decile usually enjoyed some increase in real income. The problem had much more to do with the unequal distribution of the benefits of growth.

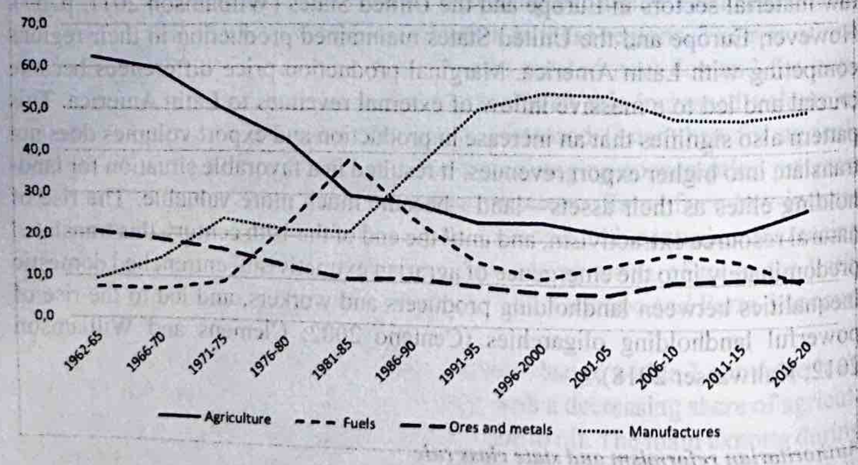

Figure 2.2 Latin America's export composition, 1962–2020, 5-year average, in percent.
Source: Personal elaboration based on data provided by World Development Indicators Database.

Re-oligarchization and the neoliberal turn

The rise of manufacturing that becomes visible in Figure 2.2 in the late 1980s is deceiving. If we exclude Mexico and Brazil from the data, manufacturing does not exceed 25% of total exports. Figure 2.3 demonstrates that Ricardian rents that emerged within the world market still did play a crucial role in Latin America. Due to the oil crisis price shock during the late 1970s, rents increased. By and large, rents rarely fell below the 20% threshold, including in countries such as Brazil and Mexico which had diversified most from a rent-based economy. With the neoliberal dismantling of the state, a new export-led growth model had been implemented. This was also a reaction to the 1980s lost decade's immense problem with international debt. The pendulum shifted back to the producers that entered a renewed coalition with transnational corporations and pushed for structural adjustment, privatization of state property, and deregulation (Mohan 2000).

Regarding inequality, neoliberal reforms have had more profound and long-lasting implications for income distribution than the preceding modes of rent appropriation (Morley 2001). The neoliberal market offensive did not destroy Ricardian rents rather it reorientated rent appropriation away from the state toward oligarchic segments. Often, state property was privatized and rich families were able to monopolize assets. This went hand-in-hand with a reopening of Latin America to the world market. Between 1975 and 2000, the ratio of exports to GDP in Latin America increased from 7% to more than 20%. Hence, Latin America became much more dependent on external factors (Ocampo and Martin 2003, p. 24).

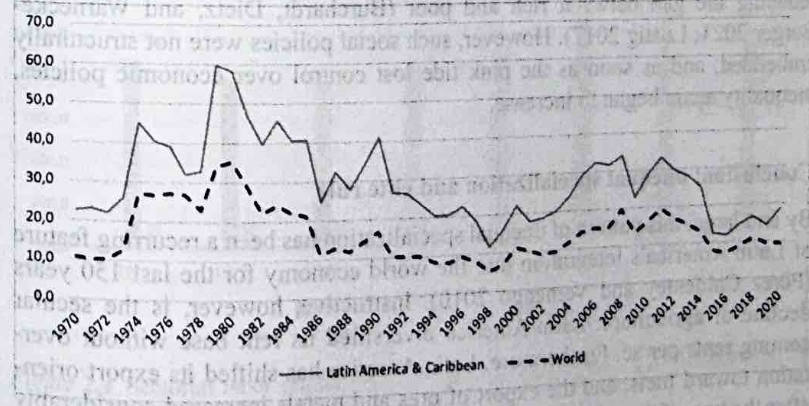

Figure 2.3 Ricardian rents as a share of Latin America's total exports, 1970–2020.
Source: Personal elaboration based on data provided by World Development Indicators Database.

Table 2.2 Revenues from natural resources as a share of general government revenue

5-year-average	*1990–1995*	*1995–2000*	*2000–2005*	*2005–2010*	*2010–2015*	*2015–2017**
Argentina	9.2	8.4	13.0	11.9	8.5	6.3
Bolivia	81.4	41.4	38.0	64.5	61.5	38.0
Brazil	0.0	1.5	9.9	9.1	7.0	5.5
Chile	15.3	8.3	11.0	29.1	14.7	4.5
Colombia	11.1	13.6	16.6	19.7	22.4	9.7
Ecuador	–	78.6	53.3	70.9	75.1	34.5
Peru	17.7	11.8	16.9	22.3	17.4	9.5
Venezuela	87.3	71.8	92.6	84.2	78.4	–

Notes: * Data only until 2017 available; personal elaboration based on data provided by CEPALStat and World Development Indicators Database.

Modernization of state class rule and neo-extractivism

With the new millennium, many Latin American economies embarked on neo-extractivism (Burchardt and Dietz 2014; Gudynas 2020; Svampa 2019). High prices for raw materials on international markets, mainly due to the economic growth of China and India, rendered Latin American commodity exports in high demand. At the same time, the political landscape changed, and many left-wing governments came to power, spearheaded by Venezuela, Bolivia, and Ecuador, with pledges to redistribute through an active state. Revenues from natural resources as a share of government revenues increased throughout the continent, most notably under the pink tide governments, as Table 2.2 shows. Once again, the state achieved control over rents, investing in social policy, education, and poverty reduction. This also affected inequality with slight tendencies toward reducing the gap between rich and poor (Burchardt, Dietz, and Warnecke-Berger 2021; Lustig 2017). However, such social policies were not structurally embedded, and as soon as the pink tide lost control over economic policies, inequality again began to increase.

Conclusion: unequal specialization and elite rule

By and large, this pattern of unequal specialization has been a recurring feature of Latin America's integration into the world economy for the last 150 years (Pérez Caldentey and Vernengo 2010). Instructive, however, is the secular decline of agriculture. Latin America diversified its rent base without overcoming rents per se. Furthermore, Latin America has shifted its export orientation toward fuels, and the export of ores and metals increased considerably after the turn of the millennium. Latin America found a new pattern of unequal specialization and developed into a new export sector serving the demand

for raw materials in the energy transition in Europe and the United States (Warnecke-Berger, Burchardt, and Ouaissa 2022). This new pattern, however, remains based on the persistence of rents, despite sources of rents diversifying (Fails and DuBuis 2015).

Overall, labor productivity in agriculture largely underperformed. The only sector that shows exorbitant high rates of labor productivity growth is mining, which is up to 12 times higher than average labor productivity. Rents that appear in this sector do not convert into the whole economy but are appropriated without being invested into overall productivity growth, as Figure 2.4 shows clearly. This scenario translates into a remarkable stability of the pattern of unequal specialization in Latin America.

Apart from the overall persistence of unequal specialization in raw material exports and the historically high rates of inequality in the region, the changing way rents have been appropriated is a driver for changing inequality. Over the last 150 years, the pendulum shifted back and forth from oligarchic control of economic surplus to state control. Overall, elite rule persisted. However, the composition of elites changed repeatedly, as did their access to rents, and consequently, the nature of inequality (Frankema 2009).

Therefore, theory development is required based on the ongoing fascinating research on inequality. A next step, therefore, should consist in rethinking the change and persistence of the political–economic foundations of elite rule in Latin America, as well as the detailed composition of elite networks and their access to rents.

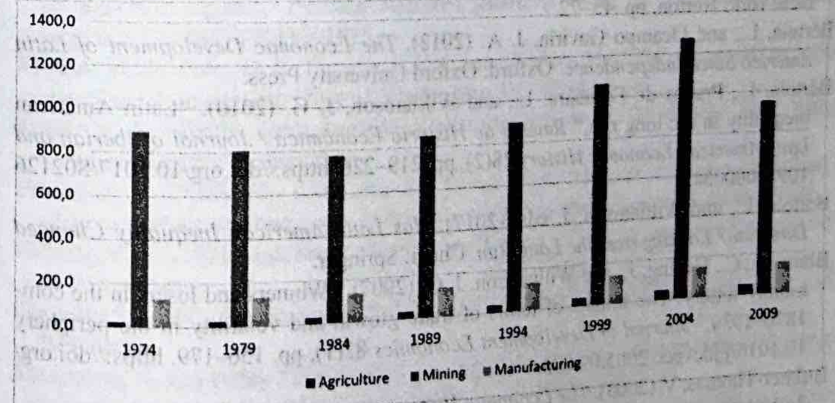

Figure 2.4 Sectorial labor productivity as percentage of average labor productivity in Latin America, 1970–2009, 5-year average.
Source: Personal elaboration based on data provided by Kruse et al. (2022).

Note

1 Rents can be defined as a surplus earned by a particular factor of production over and above the marginal earning necessary to employ this factor of production (Joan Robinson 1933, p. 102). In other words, rents appear because more than one producer puts their factors into production to meet global demand; there are productivity gaps between the producers, and finally, producers sell at the same prices on global markets. The producer with lower than marginal production costs receives a differential rent, meaning that marginal prices are crucial to fully grasping rents. However, the appearance of rents in itself is not a problem if offset by market adjustments, technological diffusion, and labor migration. In this case, a single producing economy would temporarily enjoy an extra profit and then lose the opportunity because competing economies adapt to the innovations and offset productivity gaps.

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