THE ECONOMIC HISTORY OF LATIN AMERICA SINCE INDEPENDENCE

SECOND EDITION

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Contents

1

Latin American economic development: an overview

The expression "Latin America," whose origin is still hotly disputed,[1] at first had little more than geographical significance – it referred to all those independent countries south of the Río Grande in which a language derived from Latin (e.g., Spanish, Portuguese, and French) was predominantly spoken. In this original meaning, the only characteristics common to the countries of Latin America were their location in the Western Hemisphere and the origins of their language. In many respects the differences between the countries were considered to be as important – if not more so – as what they shared.

These differences – whether of size, population, ethnicity, natural resources, climate, or level of development – are still very important, but it has also become clear that the republics are held together by much more than geography and language. The shared colonial experience, as divisions above all of the Spanish or Portuguese empires, was crucial in shaping the economic and political destinies of the new republics after independence. The pattern of development in the nineteenth century, based on the export of natural resources to the industrialized countries, reinforced this sense of a shared past.

Thus there is real meaning to the phrase "Latin America," and the factors in common are stronger than those that bind the countries of Africa, Asia, or Europe. Furthermore, the membership of the Latin American club has been fairly stable since independence, with relatively few additions or subtractions as a result of border changes, secession, or annexation (see Maps 2 and 3); indeed, the boundaries of Latin American states, although often the source of interstate conflict and still not entirely settled,[2] have changed much less in the past 150 years than have frontiers elsewhere.

1 According to some, it was the Colombian José María Torres Caicedo who first coined the term "Latin America" in 1856 (see Bushnell and Macaulay, 1988, p. 3). Others attribute it either to the French academic L. M. Tisserand or to the Chilean Francisco Bilbao at approximately the same time.

2 The main border disputes (including maritime boundaries) still outstanding are the following: Guatemala and Belize; Colombia and Venezuela; Venezuela and Guyana; Honduras and Nicaragua.

The countries of Latin America are the ten republics of South America (excluding the three Guianas), the six republics of Central America (including Panama but excluding Belize), Mexico, Cuba, the Dominican Republic, and Haiti – a grand total of twenty. Spanish is the main language in eighteen republics, whereas Portuguese is predominant in Brazil and French-derived *kréyol* in Haiti. Indian languages are still spoken by large pockets of the population in Mexico, Guatemala, Ecuador, Peru, Bolivia, and Paraguay, and English is the first language of numerous minorities throughout the region. Japanese can be heard on the streets of São Paulo, Brazil, where at least one million inhabitants are of Japanese descent, and there are important colonies of Chinese origin in many republics.

Puerto Rico, a Spanish colony until 1898, was annexed by and remains a commonwealth associated with the United States.[3] Although clearly part of Latin America in the nineteenth century, Puerto Rico has usually been excluded from the definition since then – a decision which many find harsh but which has been justified by its very different pattern of development as a result of its special relationship with the United States. Thus throughout this book Puerto Rico will appear in discussions of the nineteenth century, but with less frequency in subsequent analyses. By contrast, Panama was not listed as a Latin American country in the nineteenth century because it was still part of Colombia. Its secession in 1903, aided and abetted by President Theodore Roosevelt, led to independence. It is therefore included in the list of post-nineteenth century Latin American republics.[4]

The majority of Latin American countries won independence from their European rulers in the 1820s.[5] Contemporary accounts by Latin Americans and foreigners were filled with glowing reports of the prospects that could be achieved once Spain and Portugal were deprived of their commercial and other monopolies in the region. Standards of living were low, but not much lower than those of North America, probably on a par with those of much of central Europe, and perhaps higher than those of the newly discovered countries in the antipodes. All that was needed, it was thought, were capital and skilled labor to unlock the natural resources in Latin America's vast unexploited interior and unrestricted access to the wealthy markets of western Europe.

The long-standing territorial dispute between Argentina and the United Kingdom over the Falkland/Malvinas islands also remains unresolved.

3 On Puerto Rican history and its peculiar constitutional status, see Carr (1984). Its people's preference for commonwealth status was reconfirmed by a referendum in December 1998.

4 For the secession of Panama from Colombia and its creation as an independent republic, see Lafeber (1978).

5 The exceptions are as follows: Haiti won its independence from France in 1804, Uruguay was created in 1828 as a buffer state between Argentina and Brazil, the Dominican Republic secured independence from Haiti in 1844, Cuba won its independence from Spain in 1898, and the special case of Panama has already been mentioned (see note 4).

Map 2. Latin America, circa 1826.

Map 3. Latin America, 2000.

Nearly two centuries later, that dream has not been fulfilled. None of the twenty republics in Latin America can be classified as developed, and some remain extremely poor. Pockets of wealth can be found in all republics, but these cannot conceal the deprivation and hardship suffered by the region's poorest inhabitants. Although Latin America is not among the poorest regions in the world, it has now been overtaken by parts of Asia that almost certainly had much lower standards of living throughout the nineteenth century.[6] Latin America's achievements in the fields of literature, art, music, and popular culture rightly win admiration around the world, but this is only partial compensation for failure to bridge the enormous gap between the levels of economic development in the region and those in the developed countries.

Economic development is usually measured by a series of indicators, of which the most commonly used are gross domestic product (GDP) and gross national product (GNP) per person.[7] Other indicators are life expectancy at birth, carbon dioxide emissions per head, infant mortality, telephones per thousand people, and so on. Almost irrespective of the choice of indicators, Latin America comes out midway between the high-income countries of North America and Western Europe and the poorest countries of sub-Saharan Africa and South Asia (see Table 1.1). The World Bank classifies all the Latin American republics as "middle income," except Haiti and Nicaragua, which are classified as "low income"; but this cannot disguise the fact that GNP per head in the region was only 13 percent of the level found in the high-income countries at the begining in the 21st century.[8]

Lack of economic success has not meant stagnation. On the contrary, change has been rapid in Latin America, and this is nowhere more apparent than in the rate of urbanization. Population expansion has been centered on cities, in part as a result of international migration in the nineteenth century and rural–urban migration in the twentieth century. Thus, as Table 1.2 makes clear, Latin America is now predominantly urban, with 75 percent of its inhabitants living in towns or cities. Because the average rate of urbanization for all middle-income countries is 50 percent, this has led to the charge that Latin America is "prematurely mature." Indeed, the spectacular growth of the informal sector in Latin American cities is evidence of the

6 Examples are South Korea, Taiwan, Singapore, and Hong Kong (see World Bank, 2002, Table 1.1).

7 GDP refers to the net output generated by factors of production irrespective of whether they are resident; GNP adjusts the GDP figure for net factor income paid abroad. The difference can be important in a number of Latin American republics as a result, for example, of the presence of foreign-owned companies.

8 International GNP comparisons are very dependent on the choice of the exchange-rate. Other comparisons (based, for example, on purchasing power parities) suggest a smaller gap, though the difference still remains considerable. See World Bank (2002a).

Table 1.1. *Comparative development indicators for Latin America, circa 2000*

	GNP per head[a] (in US$)	Life expectancy (in years)	Infant mortality (per 1000)	Carbon dioxide emissions per head (in tons)
Low & Middle Income	1,230	64	85	5.1
South Asia	460	63	99	0.9
Sub-Saharan Africa	480	47	159	0.8
Latin America & Caribbean	3,680	70	38	2.6
High Income	27,510	78	6	12.6
United Kingdom	24,500	77	6	8.8
United States	34,260	77	8	19.4
Switzerland	38,120	80	5	6.1

[a] Economies in World Bank (2002) are divided among income groups according to 2000 Gross National Income per head, calculated using the World Bank Atlas method. The groups are as follows: low income, $755 or less; lower middle $756–2,995; upper middle income, $2,996–9,265; and high income, $9,266 or more.
Source: World Bank (2002), p. 233.

difficulty many new entrants to the urban labor market have in finding secure, productive jobs.[9]

Latin America includes some of the largest urban areas in the world: Mexico City and São Paulo, both of which have some 20 million inhabitants in their metropolitan areas, have all the problems of pollution associated with large conurbations in industrial countries. What is striking about Latin American urbanization, however, is the problem of primacy; that is, the disproportionately rapid growth of the principal city in each republic. Except in Brazil, Venezuela, and El Salvador, the proportion of the urban population living in the main conurbation is far above the world average. Thus the capital city is usually the leading industrial, commercial, financial, and cultural, as well as the administrative, center.[10]

The rate of population growth, as Table 1.2 makes clear, has been steadily declining. The demographic transition, under which birth rates start to fall in line with the earlier fall in death rates, is well under way, and some countries – notably Argentina, Cuba, and Uruguay – have already achieved very modest rates of population growth. Brazil and Mexico, the two most

9 Numerous definitions of the informal sector exist, but it is easiest to think of it as employing all those workers not absorbed by medium- or large-scale firms in the private and public sectors. By that definition the urban informal sector accounts for more than 50 percent of the labor force in many Latin American cities. See, for example, Thomas (1995).

10 The main exception is in Brazil, where the capital was moved from Rio de Janeiro to the newly created Brasília in the 1950s. The new capital, though an important city in its own right, is still overshadowed by Rio de Janeiro and São Paulo in almost all areas of private enterprise.

Table 1.2. *Demographic indicators*

Country	2000 population (in thousands)	Urbanization[a]	Population growth (% per year)			
			1961–70	1970–80	1980–90	1990–2000
Argentina	37,032	89.4	1.4	1.7	1.4	1.3
Bolivia	8,329	64.8	2.4	2.6	2.5	2.4
Brazil	170,406	81.3	2.8	2.4	2.1	1.4
Chile	15,211	84.6	2.3	1.6	1.7	1.5
Colombia	42,299	74.9	3.0	2.2	2.0	1.9
Costa Rica	3,811	51.9	3.4	2.8	2.9	2.0
Cuba	11,188	75.3	2.0	1.3	0.9	0.5
Dominican Republic	8,373	65.0	3.2	2.6	2.3	1.9
Ecuador	12,646	62.4	3.2	3.0	2.6	2.1
El Salvador	6,276	46.6	3.4	2.3	1.3	2.1
Guatemala	11,385	40.4	2.8	2.8	2.9	2.6
Haiti	7,959	35.7	2.0	1.7	1.9	2.1
Honduras	6,417	46.9	3.1	3.4	3.4	2.8
Mexico	97,966	74.4	3.3	2.9	2.3	1.6
Nicaragua	5,071	64.7	3.2	3.1	2.8	2.8
Panama	2,856	57.7	3.0	2.8	2.1	1.7
Paraguay	5,496	56.0	2.9	3.0	3.1	2.6
Peru	25,661	72.8	2.9	2.7	2.2	1.7
Uruguay	3,337	91.3	1.0	0.4	0.6	0.7
Venezuela	24,170	87.4	3.5	3.5	2.5	2.1
Latin America	**505,889**	**75.4**	**2.8**	**2.4**	**2.1**	**1.6**

[a] Defined as percentage of population living in urban areas. The population classified as urban follows national definitions.
Sources: The World Bank (2002), p. 232; The World Bank (2002a).

populous countries, had high rates of population growth, however, until the 1990s. Their share of the Latin American total – 53 percent in 2000 – can be expected to stabilize now that birth rates are falling.

In most less-developed countries (LDCs) a rapid rate of urbanization is consistent with an increasing rural population. Rural–urban migration is important, but the small size of the urban areas means that they cannot absorb all the increase in the rural population. The expanding populations must still find new work opportunities in rural areas. In many Latin American countries, however, urbanization has been pushed to the point where rural–urban migration leads to a fall in the rural population – not just in its rate of growth. Uruguay, for example, has seen its rural population decline by nearly 50 percent since 1960, and in the year 2000 only 5 percent of its labor force was classified as agricultural.

Table 1.3. *Exports of primary products as a percentage of the total*

Country	1980	1990	2000
Argentina	76.9	70.9	67.9
Bolivia	97.1	95.3	72.9
Brazil	62.9	48.1	42.0
Chile	88.7	89.1	84.0
Colombia	80.3	74.9	65.9
Costa Rica	70.2	72.6	34.5
Ecuador	97.0	97.7	89.9
El Salvador	64.6	64.5	51.6
Guatemala	75.6	75.5	68.0
Honduras	87.2	90.5	64.4
Mexico	87.9	56.7	16.5
Nicaragua	81.9	91.8	92.5
Panama	91.1	83.0	84.1
Paraguay	88.2	90.1	80.7
Peru	83.1	81.6	83.1
Uruguay	61.8	61.5	58.5
Venezuela	98.5	89.1	90.9
Latin America[a]	**80.0**	**77.2**	**66.4**

[a] Total excludes Cuba, Dominican Republic, and Haiti, for which data are not provided in source
Source: ECLAC (2001), pp. 518–21.

By contrast, Latin America's population in the 1820s – not much larger in total than Mexico City's is today – was overwhelmingly rural, with the labor force concentrated in agriculture and mining. The natural resources produced by these sectors provided the link with the rest of the world, and international flows of labor and capital were concerned directly or indirectly with increasing the exportable surplus. Some of the commodities for which Latin America is still famous, such as sugar, were already in place by the time of independence; many others, such as coffee, joined the list in the nineteenth century.

The importance of these primary commodities has been declining, but they still accounted for two-thirds of all exports in 2000 (see Table 1.3). Much of the decline, however, has been due to Mexico – Latin America's leading exporter – where goods for processing (*maquila*) have become very important. Furthermore, many of the nontraditional manufactured exports from Latin America – such as textiles, leather products, and furniture – are based on natural resources. Thus it is fair to say that primary commodities still provide the main link with the rest of the world. This statement is even more accurate if we include illegal drugs, such as cocaine and marijuana, in the export list. In the case of Colombia, where the impact of the drug trade is particularly important, the value of narcotics is estimated at 25 percent of exports and 3 percent of GDP.[11]

The exploitation of natural resources in Latin America, as in so many parts of the world, has been carried out with scant respect for the environment. The forest cover has been depleted, rivers and lakes have been polluted, and dangerous chemicals have entered the food chain. Local awareness of these problems has been slowly increasing, but Latin America faces the additional problem that the Amazon Basin – shared by Brazil, Colombia, Ecuador, Peru, Venezuela, and the Guianas – houses the world's largest and most important reserves of tropical rain forests. Their destruction is widely believed to be a major contributor to global warming and to the greenhouse effect, so Latin America finds itself under pressure from the outside world to adopt environmental standards considered appropriate by richer countries.[12]

The problem of environmental damage, however, is not limited to natural resources. Rapid urbanization in the larger republics has been accompanied by impressive industrial growth. Chemical plants, steel mills, cement factories, and automobile assembly lines have proliferated throughout the region as governments have adopted policies that favor industrialization. This process, which began toward the end of the nineteenth century in the major countries of the region, accelerated after 1930 as the Great Depression and the Second World War provided a stimulus for firms that were able to replace manufactured imports with local products. By 1955 the contribution of manufacturing to real GDP had overtaken agriculture,[13] and in 2000 its contribution had reached 21 percent, compared with 7 percent for agriculture (see Table 1.4).

Industrial growth was rapid for much of the twentieth century, but it was not notably efficient. Shielded by tariffs and other barriers to imports, industrial firms (including multinational companies, or MNCs) exploited the domestic market with high-priced, low-quality goods. Most firms were therefore unable to compete internationally, so foreign loans still had to be serviced with earnings from primary products. The rapid accumulation of external debts in the 1970s, in the wake of the two oil crises, left Latin America dangerously exposed, and primary product exports were unable to provide sufficient earnings to service external debts in the 1980s. As a result awareness of the need to make industry internationally competitive has grown, and firms have come under pressure from all sides to cut costs and improve quality.

11 Estimates of the value of narcotics exports from Latin America differ enormously. For a survey of the industry, see Joyce (1998); for Colombia, Steiner (1998).

12 For a good study of the environmental issues raised by the Amazon Basin, see Barbier (1989), Chapter 6. See also Jenkins (2000).

13 At 1970 prices and net factor cost. See CEPAL (1978), Table 5.

Table 1.4. *Sectoral contribution to GDP in 2000*

Country	Agriculture (value added as % of GDP)	Manufacturing (value added as % of GDP)	Country shares of total manufacturing (%)
Argentina	4.8	17.6	14.2
Bolivia	22.0	12.8	0.3
Brazil	7.4	24.0	33.3
Chile	10.5	15.9	3.2
Colombia	13.8	13.8	3.1
Costa Rica	9.4	24.4	1.1
Cuba	6.7	37.2	N/A
Dominican Republic	11.1	17.0	1.0
Ecuador	10.0	16.9	0.7
El Salvador	10.1	23.4	0.9
Guatemala	22.8	13.2	0.8
Haiti	28.0	7.0	0.1
Honduras	17.7	19.9	0.3
Mexico	4.4	20.7	32.2
Nicaragua	32.0	14.0	0.1
Panama	6.7	7.6	0.2
Paraguay	20.6	14.4	0.3
Peru	7.9	14.3	2.3
Uruguay	6.0	16.9	1.0
Venezuela	5.0	14.4	4.9
Latin America	**7.0**	**21.0**	**100.0**

Source: World Bank (2002a).

The extraction of natural resources in Latin America, and related investments in social infrastructure such as railways, attracted foreign capital. The principal investor in the nineteenth century, Great Britain, had, by 1930, been replaced in most countries by the United States. Subsequently, the state steadily increased its participation in economic activity, taking over public utilities, railways, and natural resources that had previously been controlled by foreigners. However, foreign capital remained important in a number of primary commodities, particularly non-oil minerals, and became attracted by the new opportunities in industry after the Second World War.

State participation in the economy, widely accepted in the 1960s and 1970s, failed to reverse the sharp inequality in income distribution found in most Latin American republics. This inequality, at first a product of the unequal distribution of land inherited from colonial times, has been reinforced by industrial and financial concentration in the twentieth century, giving Latin America one of the worst income distributions in the world. Indeed, as Table 1.5 makes clear, it is not uncommon to find the top 10 percent

Table 1.5. *Income distribution: percentage share of household income and Gini coefficient, circa 2000*

Country	Poorest 40%	Next 30%	20% below richest 10%	Richest 10%	Gini coefficient[a]
Argentina[b]	15.4	21.6	26.1	37.0	0.542
Bolivia	9.2	24.0	29.6	37.2	0.586
Brazil	10.1	17.3	25.5	47.1	0.64
Chile	13.8	20.8	25.1	40.3	0.559
Colombia	12.3	21.6	26.0	40.1	0.572
Costa Rica	15.3	25.7	29.7	29.4	0.473
Dominican	14.5	23.6	26.0	36.0	0.517
Republic	14.1	22.8	26.5	36.6	0.521
Ecuador[c]					
El Salvador	13.8	25.0	29.1	32.1	0.518
Guatemala	12.8	20.9	26.1	40.3	0.582
Honduras	11.8	22.9	28.9	36.5	0.564
Mexico	15.1	22.7	25.6	36.7	0.539
Nicaragua	10.4	22.1	27.1	40.5	0.584
Panama	12.9	22.4	27.7	37.1	0.557
Paraguay	13.1	23.0	27.8	36.2	0.565
Uruguay[c]	21.6	25.5	25.9	27.0	0.44
Venezuela	14.6	25.1	29.0	31.4	0.498

[a] The Gini coefficient measures income inequality and varies from 0 in the case of complete equality to 1 in the case of complete inequality.
[b] Greater Buenos Aires.
[c] Urban Total.
Source: CEPAL (2001), pp. 69 and 71.

of households receiving more than 40 percent of total household income, whereas the bottom 40 percent typically receives less than 15 percent. Similarly, the Gini coefficient (a widely used indicator of income inequality) is uniformly high in Latin America (see Table 1.5).

The differences within countries are mirrored to a lesser extent in the differences between countries. In 2000, GNP per head (see Table 1.6) varied from around $6000 to $7000 in the richest countries to around $500 in the poorest. This implies that the average Mexican, for example, is 12 times richer than the average Nicaraguan, whereas the average U.S. citizen (see Table 1.1) is ten times richer than the average Latin American. Thus an economic history of Latin America must explain not only the failure of Latin America as a whole to achieve the status of a developed region but also the differences in standards of living between individual countries within Latin America.

Most theories of economic development have tended to emphasize one side of the explanation at the expense of the other. Racial theories, for

Table 1.6. *GNP per head (in current US$): 1980, 1990, and 2000*

Country	1980	Rank	1990	Rank	2000	Rank
Argentina	2,739	4	4,346	1	7,695	1
Bolivia	519	19	741	17	994	17
Brazil	1,933	9	3,143	3	3,494	7
Chile	2,474	5	2,315	7	4,638	5
Colombia	1,174	13	1,152	12	1,922	13
Costa Rica	2,115	7	1,874	9	4,159	6
Cuba[a]	2,325	6	2,458	6	2,030	12
Dominican Republic	1,164	14	1,002	14	2,349	2
Ecuador	1,474	10	1,041	13	1,076	16
El Salvador	779	16	940	15	2,105	10
Guatemala	1,155	15	874	16	1,668	14
Haiti	273	20	461	19	509	19
Honduras	719	18	626	18	924	18
Mexico	3,308	3	3,157	2	5,864	3
Nicaragua	734	17	264	20	473	20
Panama	1,954	8	2,216	8	3,463	8
Paraguay	1,470	11	1,248	10	1,369	15
Peru	1,193	12	1,219	11	2,084	11
Uruguay	3,477	2	2,990	4	5,908	2
Venezuela	4,597	1	2,492	5	4,985	4
Latin America	**2,168**		**2,586**		**3,879**	

[a] The Cuban figure for 1980 is an estimate taken from Brundenius and Zimbalist (1989): the 1990 figure applies the growth rate between 1980 and 1990 in Thorp (1998), p. 353, to the 1980 figure; the 2000 figure applies the growth rate for GDP (adjusted for population increase) in ECLAC (2001), pp. 286–7, to the 1990 figure. The Cuban figures for 1990 and 2000 are not strictly comparable with the figures for other Latin American countries, as they are based on constant prices in pesos rather than current U.S. dollars.
Source: World Bank (2002a).

example,[14] now largely discredited, were used to explain the lowly position in terms of real income per head of Bolivia (with its predominantly Indian population) and Haiti (where the population is mainly of African origin) but could not explain the failure of countries with largely European populations, such as Costa Rica and Uruguay, to achieve developed country (DC) status. Racial theories were also hopelessly inadequate at accounting for the transformation of countries from success stories to failures (e.g., Argentina) or vice versa (e.g., Venezuela).[15]

14 See, for example, Bryce (1912) in Chapter 13.

15 Argentina was overtaken in terms of real GDP per head (1970 prices) by Venezuela in 1956 (see CEPAL, 1978, Table 2). Argentina had been the major success story in Latin America in the half-century before the 1920s; Venezuela had been one of the worst failures.

Some theories of economic development for Latin America have put considerable stress on the institutional and structural features of the region.[16] For example, the land-tenure system, which was inherited from the Iberian Peninsula, was seen as an obstacle to development; and the legal and administrative apparatus, which was inherited from the colonial powers, was seen as a barrier to private entrepreneurship and efficient decision making in the public sector. The superficial attractions of these theories should not be allowed to obscure their many deficiencies, however. The institutional and structural landscape inherited from the colonial period was not homogeneous and has changed significantly over time.

On the other hand, dependency theory, which emphasized the dichotomy between the "center" (the advanced countries) and the "periphery" (Latin America) and the unequal relations of exchange between the two regions, seemed at first to be a plausible explanation of the relative failure of Latin America to achieve the high standard of living found in the developed countries, but it was unable to offer much guidance as to why some Latin American countries performed so much better than others.[17] Furthermore, dependency theory was also unable to account for the transformation of a country such as Argentina from success to failure in a relatively short period of time.

Dependency theory is part of a long tradition of theoretical work that has seen the primary obstacle to Latin American economic development in the unequal relations with foreign powers. An abundance of circumstantial evidence illustrates the arrogant attitude toward Latin America on the part of a number of European powers (notably Great Britain and France) in the nineteenth century and of the United States in the twentieth century. It is impossible, however, to sustain the thesis that a negative relationship exists between the closeness of ties to a foreign power and the rate of economic development. Poor and backward countries (e.g., Bolivia) have never received the amount of attention that relatively rich countries have (e.g., Argentina, which, until as late as the 1940s, was often described as being an informal member of the British Empire).[18]

Orthodox theories have fared no better. Numerous theories of export-led growth have argued that countries with the highest levels of integration into the world economy would achieve the highest rates of economic growth and ultimately achieve DC status.[19] Yet some of the poorest Latin American republics, such as Honduras, have been among the most open economies

16 See, for example, Griffin (1969) and Frank (1969).

17 The classic statement of dependency theory in the Latin American context is Cardoso and Faletto (1979).

18 On contrasting views of informal empire and the Argentine situation, see Thompson (1992) and Hopkins (1994).

19 For a survey of the literature, see Giles (2000) and Giles (2000a); see also Gylfason (1999).

in the world, whereas the transformation of Brazil from one of the poorest countries in Latin America in the 1920s to one of the richest by the 1970s was achieved against a background of delinking from the world economy for much of that period.

An extreme version of orthodoxy, neoliberalism, has been much in vogue in recent years. It argues that Latin America was crippled by state intervention, which has distorted relative prices, prevented the emergence of a dynamic private sector, and forced many individuals into informal – often illegal – activities.[20] Critics were quick to point out the ahistorical nature of this argument, for state intervention in Latin America – as in many other regions of the world – had been in large part a response to market failure in an unregulated and "liberal" environment. Indeed, the half-century before 1930, which was dominated in Latin America by a liberal ideology, was marked by the modest role of the state and by the importance of private foreign investment. Even if state intervention was not always the appropriate response to market failure, it did not follow that the absence of state intervention would necessarily lead to a more efficient allocation of resources.

No single theory will explain both the intermediate position occupied by Latin America on the scale of world income per head and the differences that have emerged among Latin American countries over time. Yet a theoretical framework is essential if economic history is to be more than mere description. Throughout this book three basic ideas recur to account for the position of the region as a whole and of individual countries within the region: the commodity lottery, the mechanics of export-led growth, and the economic-policy environment.

Latin America's integration into the world economy took place through exports of primary products. As we have seen, this remains the single most important link with the rest of the world. Primary products are not homogeneous, however, and the phrase "commodity lottery" is intended to draw attention to the differences among commodities. Some products (e.g., cattle), lend themselves naturally to forward linkages through further processing before export, whereas others (e.g., bananas), offer little prospect. Commodities with forward linkages can act as a stimulus to industry and urbanization – the clearest example is meat in Argentina in the nineteenth century – but commodities also differ in terms of their demand for inputs (backward linkages). Commodities that are extracted from the ground using labor only (e.g., guano[21]) provide no stimulus to industries that supply

20 One of the most forceful statements of the argument can be found in De Soto (1987). For a good survey, see Stokes (2001). See also Gwynne (2000).

21 Guano, a natural fertilizer formed by bird droppings, was found in abundance off the coast of Peru and began to be exploited commercially in the nineteenth century.

inputs, whereas other commodities (e.g., nitrates) demand a range of inputs, including machinery, before they can be exploited profitably.

Commodities also differ in terms of their demand characteristics. Some, such as meat, have enjoyed and still enjoy relatively high income elasticities of demand, so that a 5 percent increase in real-world income brings an increase in demand for the commodity of more than 5 percent. Others, such as coffee, have seen income elasticities decline over time, as the commodity in question has moved from being a luxury good to being an article of basic consumption. Some commodities (e.g., gold) have no close substitute, whereas others (e.g., cotton) face competition from synthetic products, so that the price elasticity of demand is high. In some products (e.g., cocaine), Latin America has a monopoly of world supply; in others (e.g., sugar), international competition is fierce.

The geographical and geological diversity of Latin America meant that each republic had only a limited choice of commodities to export. Chile, a temperate country, could export wheat but not coffee; it has huge deposits of copper but little oil. The commodity lottery dictated that Chile would be integrated into the world economy on the basis of products that were very different from those of, say, Colombia, where the tropical climate and mountainous terrain make coffee production particularly appropriate. Inevitably, these differences among countries in terms of their commodity specialization carried with them important implications for long-run growth.

Commodity specialization led to rising labor productivity in the export sector, bringing with it the prospect of export-led growth. The mechanics of export-led growth, however, are crucial. A well-oiled machine can transfer productivity gains in the export sector to the rest of the economy, raising living standards and real income per head; a faulty machine will leave productivity gains concentrated in the export sector, often to be exploited by foreign companies rather than by domestic factors of production. The capitalist surplus made possible by export specialization is thus no guarantee of capital accumulation.

Three mechanisms are particularly important in the export-led growth machine: capital (including innovation and the transfer of technology), labor, and the state. Where these mechanisms fail to function efficiently, it is possible to have growth in the export sector and stagnation or even decline in the nonexport economy. The result will be rising exports per head and an increase in the share of real GDP accounted for by exports but no guarantee of rapidly rising living standards. Eventually, of course, as exports increase the rate of growth of real GDP must coincide with the rate of growth of exports, but by then export specialization will have reached the point at which the economy is extremely vulnerable to adverse conditions in world markets, and recession induced by cycles in world trade can be deep and long