

C.6: The History of Latin American Economic Development from a Political Economy Perspective¹

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Introduction

Latin America has suffered throughout its history from recurring economic development problems. On the macroeconomic side, these have included an inability to control inflation; severe imbalances in the current account; huge external debts that the region has a hard time repaying; and high and volatile interest rates. On the microeconomic side, the problems have included severe income, wealth, and property inequality; poorly functioning financial systems; limited ability to tax and limited accountability on government spending and institutions; weak infrastructure; and inefficient sectors, including agriculture and industry. Mainstream economists tend to look at these problems in isolation- if there is an inflationary problem, then one must tighten the money supply- which leads to a frustration and an inability to understand why sensible solutions are not implemented. Similarly, critiques of “neoliberal” economic policy often call for rejections of international debt or major redistributions, and wonder why the region seems to be stuck in the same rut. I would like to suggest that by combining political and economic analysis, we can arrive at a more satisfactory explanation of the conditions of Latin America’s misery and therefore more feasible avenues out.

The foundation of my own approach to explaining Latin American political economy lies in building my own decision-making framework upon the “historical-structural” approach laid out 30 some years ago by Fernando Henrique Cardoso and Enzo Faletto.² The basic idea behind this approach is to look at the importance of historical relationships and circumstances in constraining and promoting certain types of economic decisions. By structures, I refer here to sets of relationships among powerful political actors, as well as norms and ideas about acceptable behavior and shared goals that are embedded in a culture. “Structures” guide but do not determine behavior. Structures are multi-layered, and include actors, ideas, and norms at the international, regional, domestic, and/or local level. In short, structures are relationships between important entities that seem to have some lasting value.

Similarly, while the approach implies “path dependency,” in the sense that historical patterns tend to have a staying power, by no means does history determine decisions. If anything, I would argue that the array of choices always available is vastly underestimated because of the “semi-blindness” that the sway of a particularly strong set of ideas has in different historical periods. Perhaps a more concrete example will elucidate that point here. One example is the academic literature that arose in the 1960s surrounding “bureaucratic authoritarianism” in Latin America. This literature was created in the wake of a series of military takeovers of democratic governments throughout Latin America. In general, this literature linked the military takeovers to an

economic growth crisis in the region, partly by relating the need to suppress skilled wages in order to improve trade and savings balances. Both this and the related literature on authoritarianism that emerged at the time were strongly pessimistic about the chances for restoring democracy in the short-run. In fact, the literature on the need to suppress labor and some of the military governments on the need for economic order went hand in hand, even though the academic literature meant to be critical of the military. The revival of democracy in the region throughout the 1980s and 1990s was as surprising to many Latin American specialists and policymakers as the “fall” of the Soviet Union was to international relations theorists. The point is that the operating ideas about the region, which worked in synergy with the policies adopted and political developments, were much more controlling of the possibilities for action than was realized at the time. In fact, ideas and cultural values are perhaps the most underestimated factors in explaining economic decision making. They do not fit neatly into any economics model, yet they are transcendent in explaining not only why some policy choices are made at certain times, but also the general trajectory of policy choices over long periods of time. It is absolutely vital, therefore, to identify and understand them and how they relate to economic interests and policy making. After reviewing Latin American economic history in a thorough fashion, we will have a strong foundation to tackle the current issues of neoliberalism and globalization.

Latin American Economy History: A Political Economy Approach

In my book, *Ideas and Economic Policy in Latin America*, I suggest 4 basic factors that could help us to identify or mark distinct historical-ideological periods:

- 1-the way in which it sees the basic economic and political relationship between the First World and the Third World, as for example in its analysis of whether and what types of First World direct foreign investment is positive;
- 2-the general policy prescriptions which it provides for achieving development, such as whether and how the state should protect technologically advanced industries;
- 3-the short-term and long-term costs and benefits of development, and to whom they accrue, such as whether welfare subsidies are beneficial in building up human capital or whether they throw off the ability to reach balanced fiscal budgets and reduce the incentives to work;
- 4-which social groups are best able to lead the march to development, such as the degree to which the government should answer to popular opinion on economic decisions, and the degree to which economic and political “leaders” must be insulated from it.

I then traced the relationship between a certain network of politicians and economists and the development of an historical-ideological framework through several case studies from around the world. In applying this approach to Latin America, we find 6 general Latin American historical-ideological periods. While we must always remember the important national variations within these periods, ideas tend to spread and

create imitators. Thus, we can add that there is a demonstration, or “learning” effect, when one country seems to adopt a set of economic policies that seems to analyze and solve similar economic policy problems quite successfully. This can lead to the rise of similar coalitions in other countries, which might not have happened without the spread of ideas across borders. Thus, the neoliberal revolution spread from Chile not only to the rest of Latin America, but also back to the developed world where, for example, pension fund privatization, pioneered in Chile, is a current topic amid social security crises. Therefore, we see that the history of economic ideas and policies is quite regionalized.

1. Colonial Period (1500-1800)

The colonial period may be thought of as a period of economic imposition for Latin America, rather than one of national development. Nevertheless, there was a distinct and historically significant political economy that can be characterized along the same lines. The ultimate decision makers may have been across the ocean, but they were still responsive to coalitions partly in the Americas. The colonial economic system in Latin America was typical of European colonial arrangements throughout the world, which followed the precepts of mercantilism.³ Latin America suffered from the legal requirement of having to trade through the home country, whether Spain or Portugal, though the requirement was often circumvented.⁴ One result of this unidirectional trade is that intra-regional trade within Latin America was negligible.⁵ Moreover, the economies of these countries developed an outward trade orientation, which has been maintained. Of course, this outward orientation was also a result of the formidable geographic barriers between Latin American colonies.

While some Latin American colonies provided gold and silver, such as in Mexico and Peru, other colonies, such as Brazil, which lacked such ready sources of wealth, became more agriculturally-oriented, and attracted a more sedantary type of settler. Both Brazil and parts of the Caribbean had the unique feature of a large imported African population, which became slave tillers in the absence of a substantial indigenous population.

Latin American government was hierarchically arranged by viceroys in Spanish America. The viceroys were directly responsible to the Spanish monarchs. Much of the aristocracy was created by the monarchs from whom they received large land grants. The result was a configuration of large-scale estates, which often included allotments of Indian workers. Political power, nevertheless, was concentrated in the capitals, a configuration which would change in favor of rural landowners after independence.⁶ Another important characteristic which contrasted the Latin American with the English colonies was the importance of the Catholic Church. The Church had been an important part of the Portugese and Spanish heritage since the founding of the nation in the struggle against the Moslem Moors. In Latin America, the Church played an important moral role in underpinning the legitimacy of the colonial enterprise, with a few exceptions. The early intellectual activity of colonial America was, in good part, carried out by clergymen.⁷ Intellectual activity, moreover, tended to emphasize humanistic studies and

was characterized by a fear of innovation, which was in keeping with its association with the staid institutions of Church and monarchy.⁸

The ideas-interest group framework during colonial times was based upon the idea that a colony was an appendage of the home country, and so should provide resources for the interests of the empire as a whole. The coalition consisted of the primary agricultural and mining interests in the colonies, the colonial administration and the King, and, to a lesser extent, the Church. We also should note that the coalition did not depend upon any real economic policy experts in the same way we have postulated in our model. Still, Crown decisions depended upon advisors, however limited, who did have an important role to play. Similarly, public opinion *per se* did not have the importance then as it does now. Public opinion was much more limited to those of literate and wealthy backgrounds or with religious authority. The coalition to our eyes seems extremely exclusive and the concentration of wealth and corresponding exploitation of the natives and imported slaves excruciatingly unfair. However, we should remember, in terms of Model 3, that such practices were not only legitimate but normal at the time. The real crisis of legitimacy started to arise from the birth of new generations of elites in the colonies, who resented the long-distance decision making of the Crown from overseas, and the meddling and favoritism of the “peninsulares,” or Spanish/Portuguese at home.

1. View of relationship between 1st and 3rd Worlds	colonial mercantilism
2. General policy prescriptions for development	economic specialization within the colonial system
3. Costs and benefits, and their distribution	costs- creoles, African slaves, indigenous peoples; benefits to colonial rulers and peninsulares
4. Social groups to lead development	the Crown and peninsulares ⁹

2. Latin America in the Age of Liberalism and Independence (1800-1870)

Liberals versus Conservatives

Latin America’s development, from the beginning, then, was intimately tied to events in Europe. The development of liberal ideas in Europe and the liberal revolutions in the wake of the Napoleonic Wars were directly responsible for the political and economic trajectory of Latin America in the turbulent nineteenth century.

The creoles, elites who were born in the New World, were an instrumental group for liberal ideas because of their dissatisfaction with the colonial status quo. Creoles desired political equality with Spaniards, freer economic trade with Europe, and to institute the new liberal ideas of political rights, voting, and representation for the (upper) middle class, and for a separation of Church and State. Members of the upper and privileged class as well as some middle class creoles fought as conservatives against the liberal movement. This schism between liberals and conservatives continues to be a prominent feature of the Latin American political landscape, albeit in much modified form. To

elaborate, the issue of how inclusive the political system should be, though not directly addressed, is a continuing source of debate in Latin American countries due to the extreme separation of socioeconomic classes and the abject lack of education and skills of the lowest classes.

Although the Bourbon dynasty, which replaced the Hapsburgs in 1700 as rulers of Spain,¹⁰ made several administrative reforms, they did not adequately address growing Creole unhappiness with the colonial status quo.¹¹ The loosening of commercial and trade restrictions for trade within the Empire began in 1764, but occurred only gradually. In fact, the opening of free trade within the Spanish Empire was only slowly implemented, having been fully extended only by 1789. Trade, nevertheless, remained highly restricted, being subject to continuing licensing, regulation, and taxation throughout the colonial period.¹²

Inspiration from the Enlightenment

By the eighteenth century, the ideas of the Enlightenment had begun to seep into Spanish America. These ideas were spread by the constant interchange of people between Latin America and Europe.¹³ The Enlightenment essentially held reason as a guiding force for showing man how best to make decisions and form society. These ideas gradually worked their way into the elite discourse. Most importantly, valuing reason as a means to truth has a way of implicitly “leveling the playing field.” Thus, once adopted, the idea that the best mode of logic should carry the day can start to creep in on superiority on the basis of birthright, class, connections, swordsmanship, morality, etc. The net effect on societies has to slowly increase the legitimacy of the power of those who are decently educated, i.e., the middle class.

In the middle of the eighteenth century, a few disturbances in this direction by radical liberals for republican governments and elections fell largely on deaf ears,¹⁴ though the protests themselves may have spread the ideas of liberalism and independence. The early liberals were harshly dealt with by authorities, with little public outcry.¹⁵ In fact, most creoles in the eighteenth century were more concerned with the need for greater economic freedoms than political independence.¹⁶

However, the French Revolution and the subsequent Napoleonic Wars were the catalyst for the new independence movements in Latin America, beginning with Haiti in 1789. Napoleon forced Spain to ally with France, thus placing an enduring burden on Spain for resources in the ensuing wars. This burden, for example, led directly to the seizure of Church property.¹⁷ More importantly, Napoleonic rule led to the default of local decision-making by creoles in Latin America while Spain was occupied. In Brazil, the effect of these events was equally epochal. The Portuguese King fled to Brazil when the country was taken over by the French puppets of Napoleon. Thus, the monarchy was actually strengthened in Brazil as a result of the relocation. When the King was able to return to Portugal, his son, Pedro, declared independence, but continued to be monarch in Brazil.

The Early Years of Independence

The acceptance of liberal enlightenment values by the early 1800s meant a change in political system. Republican governments were everywhere set up, and nobility was abolished.¹⁸ At the same time, however, economic power continued to be concentrated in the hands of a small wealthy class, who were allied with the newly formed military in resisting social change. Nevertheless, with economic growth, a middle class, albeit one imitative and subservient to the upper landowning classes, began to appear.¹⁹ As the new governments faltered under open political challenges, an era of *caudillismo* spread across Spanish America. Unlike Brazil, which had a continuous monarchy until 1889, the vacuum of colonial power in Spanish America was filled by military leaders and their clients. Before too long, many of the liberal constitutions were amended to allow for military seizure of power in the event of a crisis. Military caudillos in the capital often shared power with regional counterparts, given the inadequacy of transportation during this period.²⁰ The polarization of the rural and urban areas was largely won in the early years by the large landowners who were against centralization.

The political axis of conservatism and liberalism became more defined. The issues dividing them were Conservative opposition to broad enfranchisement, free speech, decentralized government, and general education; Conservative support for a political role for the church; and Liberal support for greater tariff reduction and less government activity in the economy.²¹ Both liberals and conservatives supported a low-level of government involvement in the economy by modern standards, however. Few large landholders were taxed on their property. Most government revenue centered on trade taxes, thus leading to unstable levies. By the late nineteenth century, as exports yielded sizable revenues, development projects of considerable size were first implemented, including infrastructure projects.²² Exports were generally concentrated in agricultural products, and led to the development of related industries, such as financial houses for export loans, railways, and shipping. Other sectors of the economy, including manufacturing, were very slow to develop, with export industries dominating economic policies, such as maintaining low tariffs as well as continuing capital flight. The result was a lack of protection for infant industries and an inadequately developed local financial system.²³ In sum, the system of liberal economic policies was set up to benefit the large landowners.²⁴

Thus, we see the early years of independence as characterized by the gradual formation of two distinct ideas coalitions seeking to create their own view of what the political economy should entail. The liberal coalition, backing federalist decentralization, minimalist government, and a primary export policy, was dominant immediately after independence. After a series of civil conflicts throughout Spanish America in the latter 18th century, however, the conservatives gradually won the battle for political centralization.²⁵ The conservative platform of the centralization of authority would continue to grow until the debt crisis of the 1980s.

Despite political independence, the nineteenth century is also correctly perceived as an age of imperial intervention in Latin America. The European powers as well as the United States protected and expanded their economic interests through military intervention on numerous occasions during this period.²⁶ While Britain and France, to a lesser extent, dominated Latin American economies in the early nineteenth century, by the latter part of the century, the United States had substantial economic interests in the region.

Intellectual life during the latter part of the nineteenth century was, again, dominated by European developments. The Latin American upper class frequented European countries for study, especially France. In the latter part of the nineteenth century, the ideas of positivism and progress began to creep into Latin America, reinforcing the earlier ideas of the superiority of reason of the Enlightenment.²⁷

Summary of 19th century political economy

This period of Latin American political economy is best characterized as one of conflict between liberals and conservatives. The nineteenth century consisted of the consolidation of nations, with the central authority gradually winning against regionalist *caudillos*. The Conservative agenda prevailed in the centralization of government. Centralization was a natural outcome of extinguishing regional *caudillos* and the inability to create lasting liberal democratic government.

Nevertheless, by the end of the century, some important liberal economic values were beginning to predominate as well. Liberalism's success by the late nineteenth century would mean the beginning of the end of overt Church involvement in politics, including land ownership; the institution of laissez-faire economic policies; and the invitation of foreign investment in key economic sectors. *In sum, there is no clear historical-ideological period(s) for the early independence period*, which was characterized by conflict between the conservatives and the liberals. It is a curious that the ultimate outcome was a *mélange* of values both camps, as reflected in the table below.

1. Relationship between 1st and 3rd Worlds	neo-colonialism- concentration on export of primary products, in exchange for manufactures
2. General policy prescriptions for development	political independence and, for liberals, free markets and federalism, for conservatives, free markets with a modicum of government intervention and control of resources
3. Costs and benefits, and their distribution	costs- would-be industrialists, agrarian workers; benefits- large agricultural landowners
4. Social groups to lead development	Creoles but, continuous conflict between liberals and conservative factions

C. Export Boom and Early National Development, 1870-1930: Latin America's First Age of Liberal Economics

Introduction

The beginnings of this century were marked by the steady development of a politically active middle class and labor unions that would become important factors by the 1930s. Liberalism continued its ascent over conservatism. While centralization had won out over liberal-supported federalism, and the military still played a political role; suffrage increased, and states moved increasingly to rejection of a rule for the Church.²⁸ The state also began to play an active role in the economy, with officials for the first time creating visions of how to develop their countries.

The early period of this century was also one of economic boom for many of the countries, who, invested to increase their production of and reducing the transportation costs of their exports. Foreign investors were the major suppliers of capital for this period, and so owners of much of the important economic stock, such as the railways.²⁹ The period was the first one in which population increased rapidly, along with increasing urbanization. The population increase, along with the increasing earnings from exports, led to the creation of a viable middle class for the first time.³⁰ The middle class tended, in typical fashion, to identify with the upper class, rather than with the other emerging social actor- the urban lower class. The first significant middle-class parties, such as the Radical party in Argentina, appeared at this time. The elite-ruled system continued to predominate, nevertheless, especially in rural areas, where large landholdings continued to be the rule. Only in Mexico, after its seven year revolution, was there any significant land reform.

The role of the government in society increased dramatically in this era, partly out necessity, given the increasingly complex economic interactions of the age, and partly to deliver new social and economic goods to the emerging middle class. For example, literacy rates in most countries shot up as the state took on the role of primary educator.³¹ The beginnings of a role for the bureaucracy also developed. The public role in the economy was limited, of course, by the continuing predominance of primary product exports in the economies, and dependence on unreliable and insufficient trade taxes as the primary sources of revenue.³² Economic policy therefore remained primarily of laissez-faire orientation, despite growing resentment at foreign investors. The period reached a crashing end as the world economic market collapsed, in the throes of the Great Depression. This shock from outside would completely and forever change Latin American political economy.

Summary of early 20th century political economy

This early period marked the ascendancy of liberal doctrines and resulted in national prosperity through exports of primary products. The First World, with its extensive foreign investment and monopolization of trade, was seen as a benefactor to

Latin American economies. At the same time, foreign control of Latin American economies continued to increase along with their growth in size. Liberal economic policies would be the order of the day, with foreign companies and investors, and national capitalists in primary production, mostly mining and agriculture, being the primary beneficiaries of the policies. Infrastructure increased impressively, but was generally controlled by foreigners. Nascent industries were unable to compete with foreign products, and, in general, the state remained a weak economic force. While many of the countries experienced an economic boom, the benefits of it were extremely unevenly distributed, with the majority of the public sharing few of the profits. Finally, the beneficiaries of the policy worked in tandem with the liberally-inspired and sometimes democratically elected leaders of the day, such as Sarmiento in Argentina, Juarez in Mexico, Pedro II in Brazil, and Montt in Chile. The beginnings of a middle class, amidst a general boom in population, including the start of an organized labor force would portend great changes with the shock of the Great Depression. Along with the emergence of the mass public, there was, in some cases, that of epistemic economic communities, such as the *cientificos* of the Diaz regime in Mexico, which will now be examined in greater detail.

1. View of Relationship with the 1st World	beneficial source of investment and trade
2. General policy prescriptions for development	<i>laissez-faire</i> - free trade
3. Costs and benefits, and their distribution	costs to nascent industries, agrarian workers; benefits to primary product owners
4. Social groups to lead development	large agricultural and mining interests

Intellectual Approaches to Economic Policy Emerge in the Early 20th Century

With the enlargement of the university system, these institutions began to acquire their increasingly political character. The establishment of university ‘autonomy,’ or freedom from outside interference, was extremely important in this regard. Latin America’s close ties to Europe meant importation of European ideas, of course. Social Darwinism, positivism, fascism, anarchism, socialism, and, by 1920, even Communism, all made their appearance in Latin America, though only the first three, which appealed to the ruling class, had much concrete political impact.³³ Positivism made a deep impression on the Latin American militaries, who later used the lack of scientific knowledge to justify their own political actions.³⁴ According to Albert O. Hirschman, the period from independence to the First World War was marked intellectually by a series of self-recriminations and references to inherent character flaws as the reason for Latin America’s backwardness, rampant in Latin American literature at the time.³⁵ These trends echoed with the ideas of social Darwinism and later, with 1950s and early 1960s modernization theories which saw developing societies as culturally backward. The next subsections will exam an early case in which an epistemic economic community, affected by these general intellectual currents, clearly guided economic policies. Diaz’s *cientificos*

Diaz's Cientificos: Quasi Neo-Liberal Economics in the early twentieth century

The Diaz regime, which began in 1876, is one of the most interesting periods to study for Latin American political economy, because of the extremity of the economic ideology in use; the degree of political involvement of the epistemic community; and the striking similarities with the Salinas' reforms (1980s), legitimation, and accompanying problems. While hardly liberal politically, Diaz's Mexico may be the most extreme case of economic liberalism in history.¹ Diaz followed laissez-faire economic policies very closely during his thirty year reign. As a result of the massive amounts of foreign investment in the period, infrastructure in Mexico, particularly in railways and mining, dramatically improved. Especially important was revocation of state ownership of the subsoil rights, which opened up the way for foreign ownership of mines.¹ While the regime was ideologically supported by superficial claims to be creating a synthesis of its Indian and Spanish heritages, the more interesting ideological claims were in the economic realm.¹ The *cientificos*, or scientists,¹ were a small elite, closely related to the government, who, believing strongly in the ideas of positivism and social evolution, laid out plans for Mexico's economic development.¹ Nineteenth century Latin American positivists, in general, believed in an elitist system of governance, with they being the most "naturally fit" for rule, and in their own dreams an plans for progress. The most prominent of the group was Jose Ives Limantour, minister of finance in the early 1890s, who increased federal revenues ten-fold. The regime followed an orthodox liberal policy of balanced budgets, courtship of foreign capital, and encouragement of trade. Infrastructure, which was dominated by foreign investors, also increased dramatically during the Porfiriato.¹

Although the *cientificos* had plans for political activity as a party, they were never able to organize themselves well enough to gain political power in their own right, in part due to Diaz's own suspicions of the group.¹ The *cientificos* nevertheless had strong support from economic sectors which benefitted their policies, such as financiers, landowners, and the bureaucracy. Diaz, nevertheless, chose a member of the group, Ramon Corral, to be his nominal candidate for the 1910 election.¹ Several rebellions against Diaz led to a *cientifico* compromise with one of the rebels, Madero, in 1911, by which Diaz was forced to leave the country. The *cientificos* agreed to support the newly elected President, Madero, in return for his help with other Diaz regime rivals and cabinet positions. Madero was, nevertheless, unable to pacify the country, with the Zapatista rebellion continuing to inflame the southern Mexico. When Madero turned against the *cientificos* in 1912, they attempted a failed *coup d'etat*, with Diaz's nephew, Felix at the head, later that year. Another coup attempt, in February 1913, this time with a *cientifico*-sponsored general at the head, also failed, after much bloodshed. Amid the chaos, regime general Huerta was able to seize power. With the backing of the army, which opposed a new petroleum tax, Huerta took power, assassinating the Madero brothers. Huerta declared himself president, and selected several *cientificos* for his cabinet. Rebellions continued, however, throughout Mexico. In a bid to increase his own personal power base, Huerta purged the remaining *cientificos* by the Fall of 1913, ending their political role forever. Huerta would not last much longer.¹

are the first clearly discernable group of economic advisors in Latin American history to have an active and independent political agenda. They were well ahead of their time in this sense.

D. The Age of National Populism amid a Changing World Economy: The Beginnings of National Industry Through Import Substitution, 1930-55

The export-led era was forcibly ended when world trade abruptly shut down with the commencement of the Great Depression and, subsequently, World War II. Besides losing export markets, and their main source of wealth, Latin American economies also lost their sources of finished goods, necessitating domestic industrial production. Latin

American governments became increasingly active in the economy in promoting the cause of industrialization, as well as attempting to take advantage of the huge world demand created during the World Wars. This period of early industrialization probably accelerated an inevitable, but necessary shift in Latin American economies due to the changing nature of the world economy.³⁶ Following Engel's law, as European incomes increased, and families became smaller, European demand for primary goods declined. At the same time, supply markets became more competitive, which was heightened by the high tariff barriers which agricultural exports faced in developed countries. These trends would continue, generally, over the course of the century. The parallel trend, of course, was skyrocketing demand for manufactured goods.³⁷

The period has been described as the first phase of import substituting industrialization (ISI1), during which consumer goods begin to be manufactured domestically.³⁸ ISI1 typically began with consumer products, such as processed food and textiles, with few technological requirements, and extended next to light electrical industry, relying in the latter phase on foreign capital which had been received before the Crash of 1929. World War II brought the beginnings of the second phase of import substitution- the move towards production of heavy industry, capital goods, and consumer durables. Unfortunately, the lack of available capital equipment and investment on the world market meant that Latin American industries emerged from the war period as mere infants. Moreover, the sudden move to industrialization created a new level of conflict between the old regional centers of export production and the rapidly growing urban jungles.³⁹ This new economic configuration was reflected by a shift in the relative national power of political interest groups- from a dominant rural oligarchy toward the state, urban industrializers, and, to a lesser extent, organized labor. Government involvement in economic activity would increase steadily until the debt crisis of the 1980s. The goal of economic development, latent in Latin American history, now were openly adopted by the state.⁴⁰ As Oppenheim discusses in her book on Chile, the subsequent history was one of conflicts over which development models to adopt, given the frequent failure of the ensuing economic experiments.⁴¹

Politically, with few exceptions, this period of Latin American history can be described as one of populist dictatorships. They attempted to legitimize themselves to a wider constituency for the first time, using mass communication. The new nationalist populism correspondingly justified government actions which asserted economic independence. National populism tended to be personified. The new popular dictators took pains to cultivate a broad following, in contrast to the back room oligarchical politics of the past. Leaders such as Vargas in Brazil, Peron in Argentina, and Cardenas in Mexico not only organized the labor sectors of their economies, but began the first serious programs which promoted domestic industry. The first steps in their plans generally included nationalization of foreign-owned industries, such as petroleum in Mexico. Ultimately, these dictators were able to create two parts of Cardoso's "triple alliance"- the state and organized industrial capitalists and workers. Foreign companies would form the third side of the triangle in a later period.

The period was also one in which not only the mass public, but also leftist parties and bureaucracies, which generally had taken shape in the beginning of the century, began to wield real influence over economic policy. In Chile, for example, as in other Latin American countries, an urban working class, urban capitalist, and state coalition began its consolidation of power, squeezing agriculture through its economic policies. The primary product surplus from exports, especially in agriculture, was thereby gradually eliminated until incentives became so reversed that Chile became a net food *importer* by the 1970s. The strategy of using agricultural surplus was not inherently wrong, but the capital which was invested in industry did not pay off. The industries which were developed were inefficient and dependent upon state protection for the most part, and much of the capital surplus actually went abroad in capital flight.⁴²

Summary of the Age of Populist Nationalism

This period of Latin American economic history, while being marked ostensibly by region-wide changes in economic policy after the Great Depression, actually was the culmination of many different trends which had begun much earlier. On the technological side, the development of mass communications led to both the ability and the necessity of national leaders to legitimize their offices to a wider audience. That wider audience, in political terms, increasingly included a growing middle class of consumers. Perhaps the most well-organized sector of the middle class was organized labor, which, at this time, worked in alliance with national capitalists and, increasingly, the state to support the initial import protecting policies. The growing strength of the state, and particularly the state bureaucracies, would lead to new coalitions and policies in later periods. In a sense, the economic shock of the closure of world markets seems to have opened the way for these trends to finally manifest themselves in the Latin American political economy.

Many of the countries in the region enjoyed regular elections, with the military serving only as a guarantor of peace for civilian rule. With the rise of the communist menace, and economic faltering on the part of many of the civilian regimes by the late 1950s, the military took over the reins in many cases, on, at times, an explicitly technocratic platform of stability and prosperity, as shall be seen in the next section. The First World, and particularly direct foreign investment, was seen as a negative influence in Latin American economies, leading to widespread nationalizations. In line with this economic nationalism, the liberal economic policies of the previous period were reversed, leading to protectionist policies and increasing state intervention in the economy. The new policies benefitted new groups, namely national industry, industrial labor, and the state bureaucracy, with the rural landed elite now becoming losers in the new formulation. Lastly, these same three beneficiaries became the new social leaders of development.

1. View of Relationship with the 1st World	negative, need for seizing national assets
2. General policy prescriptions for	control of foreign investment, protection of

development	“easy” industrialization and development of domestic market
3. Costs and benefits, and their distribution	costs- to primary product owners; benefits to easy industrializers and their labor force
4. Social groups to lead development	populist dicators, industrialists, and organized labor

Batlle brings the Social Welfare State to Latin America

Perhaps the most interesting economic experiment during this period was that of the Batlle regime in Uruguay, which lasted from 1903 until his death in 1929. Although the Battle regime chronologically belongs to the export era, like the post-revolutionary Mexican government, the degree of government involvement, the attitude towards foreign investment, and the inclusion of middle class concerns in economic policy puts it more securely in the era of national populism. Batlle ended the rivalry between the two national Uruguayan parties, the *Blancos*, and the *Colorados*, by winning a brief, eight month, civil war for the latter party. Batlle’s insistence on complete victory meant political hegemony for the *Colorado* party and his benign patronage system for the next thirty years.¹

Amid export prosperity, Batlle began a nationalistic effort to change Uruguay’s economy, moving it towards greater national control through government intervention. He nationalized and otherwise restricted foreign infrastructure projects. His government had the beginnings of a modern industrial policy in being involved in chemical production, managing the port of Montevideo, and setting up a meat-packing plant which smoothed out the prices paid to ranchers. He also converted the main Bank of the Republic into a state enterprise, and set up a State Mortgage and Insurance Bank, which competed against private industry, albeit with tax advantages. Equally dramatic was Batlle’s transformation of Uruguayan society, with strong efforts at education bringing literacy levels up dramatically to fifty five percent by 1907. He also protected and cultivated organized labor, a most unique policy, even when compared to Northern economies. Labor enjoyed workers’ compensation policies, pensions, and eight-day work weeks by the 1930s.¹

As in other states, Uruguay’s great experiment began to crack with the onset of the World Depression in the 1930s and Batlle’s death. Nevertheless, aspects of the social welfare system endured through the 1960s, when the economy virtually collapse. By that time, the state’s subsidization programs, including the employment of one quarter of all workers, along with the decline of export earnings, and the rise of armed leftist groups, ended the experiment permanently.¹

E. The Communist Menace, ISI2, and the Rise of Economic Advisors, 1955-80

Introduction

About the middle of the 1950s, a new age of leftist political operations set in motion a cycle of military rule repressing the left, and centrist rule attempting to compromise with it. The cycle ended, in general, by the end of the 1960s with harsh military dictatorships constructed across Latin America for the express purpose of preventing Communist revolutions, such as the Cuban Revolution of 1959. The Cuban Revolution brought to the forefront anti-United States feelings which had been present in Latin America for some time. At the same time, Latin American regimes were strongly influenced by American advice and resources for economic medication to the radical threat. The result was an attempt, and failure, in most cases, at moderate economic

reform, which pleased neither of the polarized political extremes. The polarization was ended by crushing repression from conservative elements and the military throughout Latin America by the mid-1970s. Given this common enemy, United States policy, and that of international institutions, such as the United Nations, turned increasingly to development planning. The prevailing wisdom by the 1960s was that economic development would undercut the lower class bases for Communism. In some cases, such as Guatemala in 1954 and the Dominican Republic in 1965, the U.S. directly intervened to prevent leftist governments from taking power, but in most cases, the influence was indirect through economically-administered incentives and punishments.

The period was understood by some Latin American analysts as bureaucratic-authoritarianism. Guillermo O'Donnell, who coined the phrase explained that Latin American militaries overturned the populist governments of the previous era in order to reduce the wage pressures which organized labor had put on the economies. Those wage pressures prevented the ability to move to second stage import substitution, which required a higher rate of reinvestment. In hindsight, it is not at all clear that the military-technocratic governments were inevitable. Moreover, the Communist threat probably was a more important source of military government than was the requirements of secondary import substitution. Furthermore, with the major exceptions of Brazil and Mexico, most countries in this period failed to record the economic growth rates which were thought necessary to reinforce the middle class. The period was one of frequent macroeconomic instability, which carried over in good part to the 1970s, when the solution of greater government intervention became ever more frequent. The turn to greater intervention in the 1960s similarly belies the inevitability theme which runs through most writings about the neoliberal revolution of the 1980s.

Some analysts, with good reason, believe that the move towards a second stage of import-substituting industrialization was inherently doomed to failure by several (in hindsight, anyway) obvious economic factors.⁴³ These include the continuation of balance of trade problems, since the need to import finished manufactures was now replaced by the need to import the capital goods to make them, particularly given continuing technological advances by developed countries' industries. In line with this problem was the need to have heavy foreign involvement in the initial stages to finance, set up, and run the capital goods producing factories. Secondly, the limited domestic markets meant inefficient scales of production. The result was the typical developing country dualistic economy of small pocket of highly developed industries, few local owners, heavy state and foreign participation, surrounded by a sea of poverty and restiveness. In economic policy terms, there are three basic movements to this period. A brief period of democratic and neo-liberal experimentation was followed by a long period of military consolidation of power and an accompanying intervention in the economy. As military governments began to seriously diminish the leftist threat a period of high government expenditures took place until the debt crisis of the 1980s.

Democratic Interlude, 1955-65

In the late 1950s and early 1960s, many Latin American governments attempted moderate economic reform under centrist civilian presidents, such as Kubitschek in Brazil and Belaunde in Peru. None succeeded in reaching the economic stability and growth hoped for, nor in satisfying the increasingly polarized demands of the left and right.⁴⁴ The democratic interlude lasted until about the mid-1960s, with a few exceptions, such as Chile and Uruguay, where the military took over in the early 1970s.

The Military Takes Over, 1965-80

By the end of the 1960s, the left had begun open shows of political defiance and continuing guerrilla activity amid widespread economic dissatisfaction. In general, the military stepped in to crush these activities and had its own plans for restoring economic growth. The military governments during the period, interestingly enough, following the lead of the Brazilian military, began to take on the goals of national development directly. Economic policy became the lead pillar of their legitimacy as the Communist threat gradually diminished. Among their actions was crushing the strength of organized labor and renouncing any drastic furtherance of economic nationalism by renewing ties with developed country investors and companies. The failure to achieve sustainable growth rates, however, doomed them to abdicating amid loss of legitimacy when they failed by their own standards by the 1970s.

Examples of Groups with Clear Economic Ideologies in the ISI2 Period

The Brazilian Military Develops Economic Legitimacy for Latin American Governments

Perhaps the most inspiring economic development was the Brazilian military's early economic success. After taking over in 1964, the military adopted a monetarist reform program, with inflation indexing of wages, rents, interest, taxes, and other economic transactions, encouraging foreign capital, and procuring more aid. Wages were indexed, however, so that real wages actually declined. The monetarist correction was popular with the United States, the World Bank, and the International Monetary Fund, as was a new found anti-leftist vigor, which certainly helped Brazil to obtain more aid from them. At the same time, the Brazilian state increased its fiscal policy interventions, undertaking large-scale and high-risk projects in several areas, leading to state domination of the oil, steel, energy, and some parts of the transportation industries. The state mollified private capitalists' displeasure with the policies by spreading around private contracts. The policies worked spectacularly in terms of gross national product growth, but began to fall apart in 1974, in the wake of the world oil price hikes. At that point, inflation soared, government deficits went out of control, and the state, responding by borrowing on world capital markets, began to accumulate a huge foreign debt.¹

Nevertheless, the Brazilian military, which began to justify its continuation in power by the economic miracle during the 1960s, did succeed in diversifying exports somewhat for the long-run and in developing several manufacturing industries for export, such as arms. The second phase of import substitution of industrial production, capital goods, and finished industrial products, such as automobiles, therefore began in Brazil in this period. The Brazilian military's economic activism, more importantly, inspired other Latin American militaries to adopt similarly economic agendas, which they also used to legitimize their rule, such as that which took power in Peru in 1968.

Marxist Experiments in Latin America: The Cuban and Nicaraguan Revolutions

Cuba's Communist experiment was all but politically impossible to repeat in most places. Not only did domestic conservative forces, including the military and the United States rally to defeat such ventures, such as Allende's ill-fated presidency in 1970, but Castro's success in stabilizing the political economy relied on several unique factors. These included the wholesale emigration, both voluntary and forced, of opponents of the regime to the United States, including large portions of the upper and middle classes; the United States' reluctance to move overtly against Castro after the Bay of Pigs fiasco; the massive subsidization of the economy by the Soviet Union; and the reluctance of the Soviet Union to overextend its economic and military resources, especially after the brinkmanship of the Cuban missile crisis.

While a number of Marxist guerrilla movements spread throughout Latin America, not until 1979 did one succeed. The Sandinista regime in Nicaragua, however, suffered economic collapse under the continuing civil war and international embargoes, which were financed and directed in good part by the United States. With the collapse of Soviet financing in the late 1980s, the Sandinistas sued for peace, giving up most overt control, while maintaining control of the army and organized labor for continuing political involvement.

The Influence of Raul Prebisch and ECLA

The Economic Commission for Latin America (ECLA), known in Spanish as CEPAL, was founded in 1948, as part of the United Nations. Raul Prebisch, who had been the director-general of the Central Bank of Argentina, became the most influential person in Latin American economics for the next several decades.¹ His diagnoses of long-term LA problems and his suggestions for them are the foundation of any understanding of Latin American economic development.

The Golden Age of Government Spending, and the Pinochet Experiment, 1970-80

By the 1970s, there were military governments in much of Latin America using heavy repression of leftists. Several of the military governments also attempted to legitimize their rule, imitating Brazil, through economic gains. By the end of the 1970s, however, it was apparent that the military rulers were as or more incompetent in economic matters than their civilian counterparts, and that the leftist threat had been contained.

The boom in oil prices during the 1970s helped Latin American countries which produced petroleum, such as Venezuela and Mexico, to directly finance government spending, while others relied more heavily on the vastly increased private capital markets to borrow at low but flexible interest rates for the same purposes. As previously discussed, the Brazilian military government had adopted an increasingly active state policy for the second phase of import substitution. By the 1970s, most countries in the region, in attempting to gain the foreign exchange needed for the new sky-high oil prices and in adopting similarly policies of state-led growth, borrowed heavily from the emerging world capital market. The Mexican government, which actually enjoyed the benefits of higher oil prices, still borrowed heavily while engaging in high cost and low productive efficiency state development projects and social spending.

Summary of the ISI2 Period of Latin American History

This period of Latin American political economy is best characterized as the peak of state intervention in the economy and the beginning of the demise of organized labor. In terms of the thinking in development theory, throughout academia, a consensus was reached that careful economic planning could lead a country to development. Moreover, the Alliance for Progress program of the United States' ensured a steady flow of aid, and technical advisors. In the early years of the period, amid a booming world economy, the economic community began to speak of the 'Brazilian' and 'Mexican' miracles. By the 1970s, with the rise in oil prices, the heavy state involvement continued to increase, relying now on borrowed petrodollars. With the huge increases in world interest rates in the early 1980s, the boondoggles of the era of state intervention became apparent. The liquidity crisis created a window of opportunity ripe for the return of liberal economic doctrines.

The First World, during this period, was seen as a partner in national industrialization. In effect, Latin American states expected to rely upon imports of First World technologies, capital goods imports, and intermediate goods, only temporarily, until their import substitution phase was complete. Secondary import substitution policies meant protection of those same industries which the military governments had decided to champion, through a continuing effective taxation on agriculture. Overvalued exchange rates, borrowing heavily on world capital markets, and price subsidies which benefited urban workers were typical of this scheme. The costs to primary product

Chile: Political Crisis and Pinochet’s Economic Innovation in Neoliberalism

The military took over in September, 1973, ending the widespread chaos of the Allende years.¹ The military erected a highly repressive political regime, while maintaining a few of the economic gains of the Allende administration, including the nationalization of copper, and, to a lesser degree, land reforms.¹ The most important economic aspect of this period, however, is the neo-liberal economic program which began in this period. These policies began a new regional development paradigm for Latin America, which involved the shrinking of the state from an active role in industrialization, a return to emphasizing primary exports, the opening of the economy to foreign investment and trade, and tight monetary and fiscal controls. The Pinochet regime also marked the rise of an overt group of technocrats who made economic decisions and openly vied for political support of their economic programs, for the first time since Diaz’s *cientificos* formed their own political party. The “Chicago Boys” in Chile soon inspired counterparts in other countries of Latin America.

producers was by now very heavy, and continuing nationalizations within the region led to a decline in activity and export earnings in these sectors. Pressures for social reform were held in check by nominal attempts at reform; co-optation of agitators through selective social spending; and, above all, repression of radical movements by the military. The military governments not only took on the mantle of champion of stability and anti-communist leaders, but, in most cases, that of economic experts. With this new legitimacy of economics, authoritarian regimes, such as that of Brazil and Mexico, built strong bases of support among the middle and upper classes presiding in urban areas. The change in the world economic conditions and the economic crises of the 1980s would lead to middle-class rejection of these regimes, ironically, with the faltering of this legitimating pillar.

The table below contains the general outlines of the political economy period for most countries, the prominent exception being, of course, Marxist Cuba.

1. View of 1st World	beneficial if conditional, i.e., 1 st world provides finance and capital goods for industrialization, but protection from 1 st world imports is needed
2. General policy prescriptions for development	state-led development, directing protected industrialization
3. Costs and benefits, and their distribution	costs-primary product owners; labor; foreign owners and manufacturers of finished goods; organized labor; benefits-foreign investors and exporters of capital goods; the state, including technocrats, owners of industry
4. Social groups to lead development	state politicians, economists, and barons of industry

E. The Debt Crisis and the Regional Move to Neoliberalism, 1980-?

The golden age of government spending for social stability came to a screeching halt with the sudden increases in interest rates, partly reflecting the new United States' monetary policy, in the early 1980s. Given the huge debt burdens incurred, and a steady deterioration of commodity prices, most Latin American countries, and the military regimes in charge of them, found themselves in severe economic and political crisis. The solution for the military regimes was simple: to abdicate responsibility for the economic mess by handing over the reins of government to democratic regimes. More importantly, the threat of Communism had faded from the societies, and the left had moderated its political position, opening the way for a more peaceful and acceptable centrist rule. As mentioned before, the 1980s marked the rise and acceptance of technocrats throughout Latin America to make economic decisions, particularly in instituting the monetarist policies needed to survive the debt-induced austerity of the period. Many of the new politicians in the period had distinctively technical degrees. For example, Miguel del la Madrid, who began a monetarist and fiscal tightening upon election to the presidency of Mexico in 1982, was a graduate of Harvard Business School. His successor, Carlos Salinas de Gortari, also emphasized his technical rather than political abilities, which, to some, echoed the *científicos* of the Diaz regime. Certainly, the fervor for technocracy only increased throughout the continent, symbolized by the election of Fujimori in Peru on a technocratic platform based on economic competence.⁴⁵ Latin American analysts can not explain unknown Fujimori's election over a favored and well-known politician in conventional terms because they miss the importance of the rise of economic issues and of economic advisory groups.

Democratic Transitions and the New Regional Paradigm of Neoliberalism, 1990-5

By the 1990s, with the inability to utilize fiscal policy given debt burdens, Latin American nations shopped for a new economic policy framework which would be able to finally overcome the Hobson's choice of economic growth or reducing inequity through social spending, being acceptable to international creditors, the elite, and the enlarged but poor middle class. By this time, the "East Asian miracle" of fantastic and sustained economic growth rates could no longer be ignored. The miracle was widely ascribed to following sound macroeconomic policies, particularly by international organizations.*cite The rise of Latin American economists trained at United States' universities to political power and the success of the monetarist policies of Chile were additional factors in laying out the basis for a new political economy. Given the failure of Communism, the Left was also by now largely persuaded of the need for a capitalistic system, although, there was great objection as to the degree to which government spending on social services should decline. In Argentina, for example, a leader from the leftist Peronist Party, Menem, was the first to succeed in cementing the new monetarism.

From Mexico to Brazil, businessmen and economists have risen to power as leaders on expressly economic platforms. Carlos Salinas set the precedent for courting international capital by setting tight monetary policies for Mexico. In each case, strong

Structural Adjustment Programmes

One of the most reviled aspects of recent economic policy is the need to accommodate IMF demands for economic reforms, which play into the deep-seated hatred of imperialism or outside interference by Latin Americans. The general structural adjustment package includes tax increases, spending cutbacks, restricting imports and encouraging traditional exports, and a tight monetary policy in order to ensure debt repayments. The leverage the IMF wields is not so much control of its own capital, but the fact that it operates as a gatekeeper for private finance, giving a seal of approval or condemnation which international investors follow. Private capital far exceeds public lending. Obviously, such a recipe, as former insider Joseph Stiglitz points out, inevitably leads to a deep recession in the country. The result is a political disaster for the implementing government. However, the IMF does have a very important point. That is, that the roots of the debt lie in the sick nature of Latin American financial systems. Latin American states, even under IMF pressure, are simply unable to get their wealthy citizens to pay taxes. By most accounts, necessarily informal, the amount of capital flight from Latin America's wealthy citizens far exceeds any borrowing from abroad. Moreover, small and large businesses as well as ordinary consumers find themselves unable to gain access to credit at reasonable charges. The end result is an inflationary-debt cycle, with deep political roots that neither the IMF's naïve economic or the host governments naïve anti-imperialistic diagnosis can touch on.

personalities came to the forefront on monetary policy, such as Foxley in Chile, Aspe in Mexico, and Cavallo in Argentina. In Peru the economic formula was applied by the popular dictator, Fujimori. The economic policymakers are following the same recipe. In many cases, the leaders who first applied the policies, such as Salinas and Alfonsín, have become, in part, scapegoats for the heavy costs of transforming fiscal policy.

Summary of the Debt Crisis, the Democratic Transition, and the Revival of Liberal Economic Policies

Interestingly enough, the anti-foreign sentiments which were reflected by much of the trajectory of Latin American political economy, not to mention intellectual and cultural currents, seemed to have run their course with the rise of a new, and more technocratic leadership. Certainly, Latin America had few economic choices given the harsh liquidity situation of the early 1980s. Still, given the history recounted herewith, the return to an embrace of foreign investment, including ownership of industries, a reliance on primary product exports, and the retreat of the state from economic and social activism, must remain a surprising twist of circumstances indeed. The attitude towards the First World, was one of restrained invitation, as Latin America sought to relieve its capital crunch through a renewal of foreign investment. The policies concentrated on monetary and fiscal restraint, which, of course, added to the slowdown in the economies, although restoring some semblance of stability to the investment climate. The slowdown in economic growth and the accompanying cuts in fiscal subsidization were and are being felt particularly by the middle and lower classes. While foreign investors and local industrialists gained from an improved investment climate, the breaking down of state revenues could only the decline in state involvement in the economy. The state

bureaucracy as a whole, declined precipitously in importance. At the same time, a new appreciation seemed to grow for the need for ‘insulation’ of economic advisors. In some cases, the economic advisors, such as Foxley and Cavallo, became almost as important and well-known in the wider political arena as their leaders in selling economic policies to the wider public. The new leadership of Latin America is increasingly filled with ‘technopols, that is elected politicians who were also economists.’⁴⁶ It remains to be seen, of course, whether that stability will translate into a higher long-run plane of economic development. Certainly, the current economic quagmire in Mexico is raising some warning flags.

1. View of 1st World	beneficial-1 st world provides financial and direct investment and export earnings for development
2. General policy prescriptions for development	capital accumulation through exports; neo-liberalism
3. Costs and benefits, and their distribution	costs-because of massive reductions in govt. spending: protected industries; fiscal policy economists, most state bureaucrats, labor, middle class beneficiaries, Leftist parties; benefits- to macro-policy economists, primary product and industrial exporters; international and domestic finance
4. Social groups to lead development	money supply economists, politicians, local finance and industrial capitalists

Salinas adopts the neo-liberal model for Mexico

Carlos Salinas de Gortari began his term in office as Mexican president in 1988 under siege. First, the National Action Party, PAN, had organized protests against the ruling party's, PRI, electoral infractions. Second, Cuauhtemoc Cardenas, son of hero Lazaro Cardenas, had split from the PRI, and presented himself as a nationalist candidate who opposed repayment of the national debt as well as joining PAN in protesting the national elections. Third, and most importantly, predecessor de la Madrid had embarked upon a very painful economic austerity program, with real wages declining precipitously, an earthquake striking in 1985, and severe cuts in public spending and imports of consumption goods.¹ The adjustment which oil revenues had allowed Echeverria and Lopez Portillo to avoid, through both revenues and as collateral for more borrowing from abroad, was now an inevitability passed on from de la Madrid to Salinas.

Salinas, nevertheless, handled both his political and economic cards well in the early years of his term. First, he used a tight monetary policy to curb inflation. He also reduced trade barriers. Then, he proceeded farther in privatizing key state enterprises, including the banking industry, which Lopez Portillo had nationalized just some ten years before. He privatized the defunct communal agricultural system, the *ejidos*. He also engaged in popular shows of fighting corruption- a kind of anti-Prista, prista campaign. He arrested Hernandez Galicia, the notoriously corrupt head of the petroleum workers' union in January 1989, in a shootout. In January 1990, he temporarily turned around the economic outlook, by concluding a debt-relief back, under the U.S. Brady Plan. He also began the process of entering into a free trade agreement with the United States and Canada.¹ Salinas, whom many in the party had opposed as being the fourth in a line of technocrats chosen,¹ had managed to fashion a populist image, which succeeded beyond both predecessors Echeverria and Lopez Portillo's attempts. Salinas was able to take some of the attention away from the pain of his economic plans through the expectations created by the North American Free Trade Agreement (NAFTA), the inflow of capital, especially into the new Mexican stock exchange, and his grass roots pork barrel program, *El Programa Nacional de Solidaridad* (Pronasol).¹ As a reflection that even neoliberals can't escape the patterns of history, Salinas ended up pushed out office (not unlike Menem in Argentina) on corruption charges. However, neoliberalism has continued strong in Mexico and Argentina as a guiding doctrine for economic policy.

Conclusion: Recurring Patterns In Latin American Economic Policy

The dominant views of development as laid out above for each period are crucial to explaining the adoption of certain policies at certain times. Theories of political economy are not powerless, serving only to reflect interests. The changes in theories accompany new configurations of interests because they both enable and constrain the policymakers who hold them. For example, the rising economic nationalism marked by Cardenas' seizure of Mexican oil fields occurred throughout the continent, allowing for an increase in state involvement in the economy. At the same time, most states experienced profound crises of legitimacy when economies failed, such as in the early 1980s with the debt crisis. The states, to be sure, had some hand, along with international forces, in these failures, but the point is that ideas about the state's ability to lead economic development had raised political expectations. The crisis of the state in the 1980s opened the way for the neoliberal ideas which have since guided economic policies. We have seen that both modernization and dependency theories have merits in their arguments- absolute living standards have progressed while relative inequality has remained a problem. The real question is, why haven't new ideas about Latin American political economy surfaced? In the next and final chapter, we will look at the "new" challenges and responses to globalization.

Key terms: economics; political economy; path dependency; ideas and interests; interest groups; elite; historical-ideological period; import substituting industrialization (ISI), ISI1, ISI2; national populism; capital; social welfare; Marxist; legitimacy; bureaucratic-authoritarian; neo-liberalism; OPEC oil crisis; Debt Crisis; monetary policy; fiscal policy; structural adjustment

Discussion Questions:

-What do you think motivates policy more, ideas or interests? What does the historical record show? What are the implications for Marxist and neoliberal approaches to society? Do you think that reason or passion prevails in decision-making? Do you think that there are clear patterns to history? Do you believe in scientific approaches to understanding economics?

-Do you think elites or masses control decision-making? What determines the relative power of each group? How are collective or national goals constructed by individuals? What are some of the problems with constructing collective goals? What happens when you have different groups or regions with different goals or priorities?

-Are economic growth and equity compatible? Should one be prioritized?

-What disadvantages does a developing country have in terms of economic improvement?

-Why did ISI fail? Has neoliberalism failed? What are the ways to measure success and failure of economic policies?

Suggested Exercises

Students of the social science tend to be economics and statistics-phobic, in part because of the way these subjects are taught. It is important to point out the usefulness of using economic and political statistics as a means to further nuance arguments and get beyond simple arguments of interpretation. Walking them through a brief example of how to use economic and political data can be very enlightening- cepal and IADB, listed below provide ready sources of economic statistics on Latin America. A good free source of voting statistics is Georgetown University's Political Database of the Americas. It is vital that students understand the complex interactions of economics and politics. Current stories, eg Chavez's cautious fiscal policy, or the Argentine financial crisis, can provide good sources of conversations.

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² Fernando Henrique Cardoso and Ernesto Faletto *Dependency and Development in Latin America*, trans. by Marjory Mattingly Urquidi, Berkeley: University of California Press, 1979

³ The intentions of the colonizing country were to procure raw materials and primary products for home consumption, wealth accumulation, and trade with other developed countries. In return, the home country provided government, trading facilities, and finished products for consumption in the colonies. international political economy perspectives, see George T. Crane and Abla Amawi, editors, The Theoretical Evolution of International Political Economy: A Reader, (NY:Oxford University Press, 1991).

⁴ Robert Jones Shafer, A History of Latin America, (Lexington, MA:D.C. Heath and Company, 1978), pp.180-2.

⁵ John A. Crow, The Epic of Latin America, 4th ed., (L.A.:University of California Press, 1992), p.363.

⁶ Tulio Halperin Donghi, The Contemporary History of Latin America, John Charles Chasteen, ed. and trans., (Durham: Duke University Press, 1993), p.78.

⁷ Shafer, p.68.

⁸ Shafer, p.120.

⁹ "Peninsulares," were elites born in Spain, as opposed to creoles, who were elites born in America.

¹⁰ There was a change in ideology with the change in dynasties, with the Bourbons being influenced by the ideas of the Enlightenment. For a background on Spanish economic ideologies, see Marjori Grice-Hutchinson, Early Economic Thought in Spain: 1177-1740, (Boston:George Allen and Unwin, 1978). The Bourbons also initiated administrative, political, and military reforms in Spanish America in the nineteenth century, but these reforms were equally inadequate. For example, the intendency system was introduced in 1764, placing new officials on a municipal level. The effect, however, was to increase resentment by the local creole population of monarchic interference. The increases in taxing efficiency and the expropriation of Church property, in 1752 and 1804, respectively, were also unpopular. In the latter case, while liberal creoles supported civil supremacy, they also suffered the loss of several large loans borrowed from the Church, which were liquidated by the Crown. See Shafer, pp.286-7.

¹¹ Shafer, pp.81 & 286.

¹² Shafer, pp.188-9.

¹³ Shafer, pp.284-5.

¹⁴ Shafer, p.291.

¹⁵ Many were inspired by the ideals of the French Revolution, such as Antonio Narino in Bogota and Francisco Miranda in Venezuela. See Shafer, pp.292-3. The American Revolution was equally important for inspiring Latin American creoles, such as Bolivar. While the United States failed to provide material, as well as ideological, support, both the United States and Britain served as havens for creole exiles. The British were somewhat more forthcoming in supporting the early efforts by creole activists. See John A. Crow, The Epic of Latin America, 4th ed., (L.A.: University of California Press, 1992), pp.414-421.

¹⁶ Shafer, pp.293-5.

¹⁷ Shafer, pp.299-300.

¹⁸ Shafer, pp.357.

¹⁹ Shafer, pp.357-8.

²⁰ Shafer, pp.359-61.

²¹ Shafer, p.363.

²² Shafer, p.364.

²³ Shafer, pp.373-6.

²⁴ Donghi, p.118.

²⁵ Shafer, p.365.

²⁶ Shafer, p.368-9.

²⁷ Shafer, pp.379-80.

²⁸ Shafer, pp.503-4.

²⁹ Shafer, pp.496-9.

³⁰ In Argentina, for example, the middle class was considered to be one third of the population by 1930.

³¹ Shafer, p.502.

³² Shafer, pp.505-6.

³³ Shafer, pp.502-4.

³⁴ For example, the military in Brazil was, in fact, led by an intellectual, Benjamin Constant, to overturn the monarchy in 1889. Constant was inspired by the Federalists of the United States, such as Hamilton, Jefferson, and Madison, and was a member of one of the numerous national Republican clubs which began to appear around 1870 in Brazil. Crow, pp.553-58.

³⁵ Albert O. Hirschman, "Ideologies of Economic Development in Latin America," in A Bias for Hope: Essays on Development and Latin America, (New Haven: Yale U. Press, 1971), pp.271-6.

³⁶ Clearly, industrialization began long before the Great Depression period. Stimulation from the export boom at the turn of the century had already led, notes Bulmer-Thomas, to the beginnings of import substitution. With the First World War, however, primary commodities became much more valuable to the warring industrial powers. The Great Depression led to the first conscious efforts at industrialization and self-sufficiency in manufactures. Victor Bulmer-Thomas, "The Latin American economies, 1929-39," in Bethell, v.VI, Latin America since 1930: Economy, Society and Politics: Part I Economy and Society, 1994, pp.65-115.

³⁷ Edwin Williamson, The Penguin History of Latin America, (NY:Allan Lane The Penguin Press, 1992), pp.319-21)

³⁸ See Stephan Haggard, Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries, (Ithaca: Cornell University Press, 1990).

³⁹ Donghi, pp.212-4.

⁴⁰ While economic goals were a part of political groups' ambitions throughout Latin American history, an active state role, even in Mexico, which had undergone a socioeconomic revolution, came in fact only after the first World War. See Donghi, pp.274-6.

⁴¹ Lois Hecht Oppenheim, "An Overview of Chilean Politics," in Democracy, Authoritarianism, and the Search for Development, (San Francisco: Westview Press), pp.3-32.

⁴² See especially Markos J. Mamlakis, The Growth and Structure of the Chilean Economy: From Independence to Allende (New Haven: Yale University Press, 1976), on this point.

⁴³ Thomas E. Skidmore and Peter H. Smith, Modern Latin America, (NY: Oxford University Press, 1989), pp.56-7.

⁴⁴ Shafer, pp.682-3 & 760-1.

⁴⁵ Donghi, see above section for discussion of Diaz regime, pp.372-3.

⁴⁶ See my paper for the Western Political Science Association, March 1996, for further documentation and analysis on this phenomenon.